How companies can create a winning site selection process

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ABSTRACT

This paper discusses the strategic impetus for companies seeking new locations, summarises the common core disciplines at the heart of best practices for the site selection process, and explores the different approaches that well-run companies are taking in setting location strategy, and in resourcing and organising the process of finding the optimal site to support that strategy.

Keywords: corporate real estate, site selection, incentives, location strategy

INTRODUCTION

Companies confront the need to select a new site for their business operations under many different circumstances, ranging from needing new facilities to fuel growth and meet rising market demand, to consolidating multiple locations into a smaller overall footprint in fewer or even a single more efficient operation in a new location due to retrenchment. Increasingly, companies undertake the site selection process in pursuit of both growth *and* more productive operations, to achieve a lower cost structure and/or more diverse and sustainable sources of talent.

Industrial companies are seeking simplified and more nimble supply chains for production and distribution operations. Another less frequent but important motivation is to promote culture change, such as in the case of a corporate headquarters following a merger or to implement new strategic priorities, requiring a new location to reboot, rebrand and propel the organisation forward with fresh sources of talent and creative energy. The internal process for determining that a new project is needed varies with the impetus for the project and the materiality of the strategic implications and investment required. Projects that add to production capacity are often driven by detailed analytics of market demand and competitive opportunities and disciplined by

analysis of the marginal cost of production based on advanced manufacturing technologies. Companies also are increasing capacity to manage business operations — eg 'capabilities centres' or 'centres of excellence' in selected corporate functions — which may entail establishing redundant capacity to perform a portfolio of functions on a global basis, providing organisational flexibility and resilience. The decision to green-light such projects often entails organisational studies of processing volumes and quality metrics that document the need for additional capacity.[1]

From this brief but diverse sampling of potential business themes that trigger the need for a new site, it is clear that the priorities for site searches also vary. These priorities range from a focus on specialised talent for technology-centric and knowledge-driven businesses, to critical infrastructure, such as power, water and sewer capacity for many heavy industrial operations. While purpose and priorities vary, the process and core disciplines required for a successful site selection project are similar.

The acquisition and retention of talent merits special attention from the outset. Finding and retaining skilled workers is mission-critical for most business operations, with increasing focus on ever more specialised skills and training as the content of work processes becomes more technology-enabled and driven. This is the one of the highest priorities for most companies and typically lies at the heart of most site selection initiatives. It is worth noting that this was an overarching priority even before the COVID-19 pandemic turned how work gets done on its head. Even before March 2020, the unemployment rate had penetrated well below the 4 per cent 'full employment' market benchmark, and the supply and competitive conditions were already in critically short supply for many specialised skills and in many markets in the US and globally. Immigration policies in the US artificially exacerbated the challenges, especially in many technology fields, in domestic markets.

Now supply/demand imbalances are even more pronounced in connection with evolving employee work/life evaluations and choices, and companies are needing to consider alternative work process and workplace models to remain both competitive as employers and productive overall. The periodic surge of new COVID-19 variants and potential long-haul economic impacts of the pandemic continue to challenge markets as labour participation rates remain stubbornly below pre-pandemic levels, creating continuing uncertainties for locating and staffing new projects. How choice of location figures into this all-important business priority is a cutting-edge and potentially long-term issue in the site selection process.

KEY THEMES AND CHALLENGES

To facilitate this discussion, it is useful to identify a number of common themes and challenges that arise in virtually all site selection projects, and around which decisions and well-designed processes are required.

- *Strategic grounding and reality testing*: The site selection process only starts once strategic direction is set, establishing the goals, priorities and benchmarks for which a new location is merely one among many initiatives that enable and activate strategy. A critical step in this process — that is, before site selection truly gets started — is the business case analysis to test the extent to which location alternative scenarios actually will promote business goals and the cost entailed, in money as well as in less quantifiable other organisational resources and distraction. From the outset, the impetus for undertaking a new project may range from the need for additional production capacity to the desire to pursue a new corporate culture. This business case process examines the many

cost and operational advantages that can be enabled through alternative location strategies against the costs of implementation. Especially for relocations and consolidations, these costs can include significant one-time severance and relocation costs, write-offs and required capital expenditures, which can be daunting.

Even for projects involving new capacity, expanding in-place in existing facilities is often the base case, and new locations — especially when new construction is required — must be demonstrably superior to justify what may be perceived to be a heavier organisational lift. Lower labour and operating costs most often deliver the tipping point advantage that warrant higher up-front investment, based on compelling return-on-investment (ROI) and a short-term payback period. In contrast, for the relatively rare headquarters relocations, a financial ROI is even more rarely the motivation — often these projects do not deliver meaningful net savings, such that 'culture change' typically weighs in the balance.

- *Time sensitivity*: Internal analyses and debates over strategy tend to consume a considerable amount of time before companies are ready to galvanise their motivations into action. This practical internal organisational dynamic confronts another market reality: the urgency of the competitive markets and impatience of capital markets awaiting results of strategic initiatives. This challenge is felt in diverse situations, ranging from the time-to-market urgency for important new therapies for which patients are waiting and 'time is money' in the context of limited-life patents, to a similar sense of urgency felt by managers of a new consumer product seeking an early advantage in placement on retail store shelves. For companies initiating culture change, speed in launching on a positive new path is essential to avoid the debilitating negativity of uncertainty for employees and other stakeholders. And, of course, for start-ups in ramp-up mode, urgency is intrinsic to their 'scale or fail' reality.

  Suffice to say that accelerated planning and execution of the site selection process fosters success. As such, site selection teams know that by the time corporate strategy has been set and they are authorised to get started, the game clock has been ticking down and the last period may already have started. These dynamics create challenges for the site selection teams to maintain both rigour and pace while sometimes also needing to manage impatience to make decisions and announcements. Yet, experience also teaches that the site selection process should not be launched before its objectives and priorities have been clearly defined, without which valuable time will be wasted in retracing steps due to mismatches between evolving project goals and the locations being evaluated;
- *Competitive process*: Site selection is fundamentally a procurement process — that is, the procurement of place, in which all location-differentiating considerations, including the all-in costs of locating in one place or another (often dominated by payroll costs), as well as many operating considerations, the availability of specialised talent, regulatory environment, and others, as well as execution and operating risk factors, are weighted and evaluated to rank and ultimately choose the optimal location scenario. Best practices applied to procurement generally must prevail here also, subject to the inherently more subjective considerations, which may not fit as well into standard procurement procedures, including business environment factors such as the political and fiscal stability of alternative locations, and increasing concerns over social policy issues that could affect a company's brand

and/or its ability to attract and retain knowledge workers.

In addition, financial incentives provided by state and local municipalities to make their locations more cost-competitive can, for most— although not all — projects, be meaningful to both comparative costs of candidate locations as well as an important indicator of the business climate in each location. Most valuable incentives programmes require, in turn, that the site selection process be genuinely competitive and that the incentives be, in fact, a material factor in the location decision, further confirming the importance of a competitive process.

Most site selection teams manage confidential request for proposal (RFP) processes to establish a disciplined framework for evaluating information on and from various locations and to maintain project schedules and governance.

- *Confidentiality*: The infamous Amazon HQ2 episode[2] notwithstanding, most companies feel strongly that a confidential strategic and site selection process fosters a more thorough and objective review of all viable alternatives, unconstrained by the limitations and distractions of having to conduct this process in the public eye, with various real or perceived stakeholders asserting their interests or biases that can short-circuit or prolong an orderly process. Perhaps, more importantly, site selection can have impacts on various corporate stakeholders, either real or perceived. Consequently, communication with investors, governmental agencies, employees and partners needs to be carefully managed. Remaining confidential until the process is complete allows the corporation to manage and control the communication and the overall messaging.
- *Interdisciplinary teams*: The advantages of multidisciplinary teams working collaboratively have been well documented, and diverse organisations are applying more agile, less siloed approaches to ever-broader areas of their business activities. Again, once grounded in corporate strategy, the site selection process must engage and be guided by the appropriate corporate subject matter experts and responsible parties, enabling those parties to contribute. The site selection team should include these parties at the appropriate time in the process, such as:

  - Key internal affected business unit(s), which may include manufacturing, technical operations and/or logistics;
  - Corporate strategy;
  - Corporate real estate (CRE);
  - Human resources (HR);
  - Finance;
  - Tax;
  - Legal;
  - Procurement;
  - Government relations;
  - Corporate communications.

  Each of these corporate staff groups are generally fully employed in their day jobs and do not have surplus time to devote to the intensive, campaign-like effort required by the site selection process. Even the largest global companies typically do not have standing teams organised to internally manage the site selection process on an ongoing basis. Moreover, most executive leaders understand that the objectivity of the site selection process is critical to its success, and this elusive quality may be difficult to assure if some of the in-house staff, even unknowingly, bring certain predispositions to the key questions — whether to relocate, and where — especially if their jobs or their staff may be affected. As such, organising and adequately resourcing such teams is a key challenge.

As will be discussed more fully below, there are alternative models for how best to make

these choices, and at least one approach has been employed by Eli Lilly in selecting sites for its various business units. As context for consideration of how to properly staff the site selection process, it is useful to summarise the key steps in this substantially linear process (see Figure 1).

As shown in Figure 1, the process of identifying, vetting and ultimately securing the right site is a linear progression of disciplined steps and is fundamentally a process of elimination. As a starting point, the company needs to clearly understand and articulate the strategy that the new project will advance, and the key location characteristics and priorities that will define success. The company's project leadership then puts its team together, which can follow a number of models, discussed in more detail below.

Once the team is assembled and its project management and communications protocols are set, the first order of business is to translate the project's strategic goals into location and site specifications and project timeline, with strict milestones denoting interim progress. This will guide the progressively telescoping process of evaluating markets, sub-markets, communities and ultimately specific buildings and/or sites.

The next step requires a comprehensive but thoughtfully selective process of identifying candidate locations in key markets — that is, comprehensive enough to assure that no strong locations are overlooked but screened through carefully constructed criteria to produce an efficient and realistic number of candidates for more detailed analysis. The search criteria will reflect the critical 'must have' needs of the project, given the nature of the operation or process. Such gating criteria could include, for example, high thresholds for water/sewer and power capacity for aqueous production processes, such as certain biologics manufacturing operations, or access to rail for certain production operations that rely on in-bound

Figure 1: Phases of the site selection process

bulk raw materials. For staff-intensive office-dwelling operations, primary criteria tend to be talent-related. In fact, in recent past and for the foreseeable future, for both office-dwelling and production projects, the most heavily weighted criteria are focused on access to labour. This process of defining the initial candidate locations at the wide end of the site selection funnel will, for obvious reasons, focus on the established clusters of comparable activities in which company peers and competitors have already established strong market fundamentals in terms of the supply of talent and supporting industry resources that create a positive operating environment.

Site selection experts also caution, however, that the established clusters can evolve into intensely competitive markets, together with associated challenges in recruiting and retaining talent — a double-edged sword, in that the same characteristics that define a market's strengths may also define its weaknesses. For this reason, site selection professionals also recommend that companies undertaking large projects that can create enough scale to be a magnet for talent and supporting resources, and that are able to establish strong brands as employers-of-choice, consider secondary or tertiary markets with emerging but not yet overcooked clusters of the relevant business activities where they can establish a preferred market position that may deter multiple competitors from overstressing the market.

Once the long list of candidate markets is identified, these locations are then subjected to a rigorous analytic scoring and ranking based, in some cases, on hundreds of location-differentiating variables, including multiple more granular data on the existing labour market and both the inflow of new talent — ie variables ranging from population in-migration and net growth to the output of the universities in the targeted academic disciplines — and the dynamic demand-side activity of new employers moving in or growing versus those downsizing or leaving. All other variables relevant to the costs or other factors important to the quality of the location for the specific project's needs are thoroughly analysed. This process feeds the development of a weighted scoring tool, which requires all candidate locations to be ranked based on a prioritised weighting of all decision variables. This tool is extremely effective in facilitating consensus among company management teams on the right priorities among the many variables that should guide the site selection process going forward.

At a strategic point in this process, the project team may issue a RFP to state and/or regional economic development organisations (EDOs) to elicit additional information on markets and real estate inventory, as well as to formally kick off the competitive process which supports both the real estate and incentives procurement. This process of elimination yields a shortlist of three to five locations, which at this point might be sub-markets characterised by certain essential strengths, and might span three to five states. The analysis will also focus on supply of suitable real estate, which for large projects increasingly means well-located and equipped sites appropriate for new construction. At this point we are generally most concerned about the availability of a competitive supply of appropriate sites, as opposed to looking for the 'unicorn' — that perfect site or building that should immediately become the sole objective of the project team. This process typically concludes with a more selective list of locations, together with specific properties that merit more specific evaluation.

The project team also is developing detailed pro forma financial projections that capture both the projected capital investment required and the ongoing operating costs in each competing market. Many costs vary based on location, including ongoing staff payroll, utility and tax costs, as well as

the upfront construction costs, which may vary by region and by site in that different sites may entail different infrastructure, site prep and other cost differentials that can make a material difference. This pro forma cost analysis continues all through the subsequent stages of the process, becoming increasingly more precise and detailed as the process progresses (see Figure 2).

The next step in the process — in-market investigation — requires a different and deeper commitment of time and resources, including teams of engineers and other professionals to assess the on-the-ground

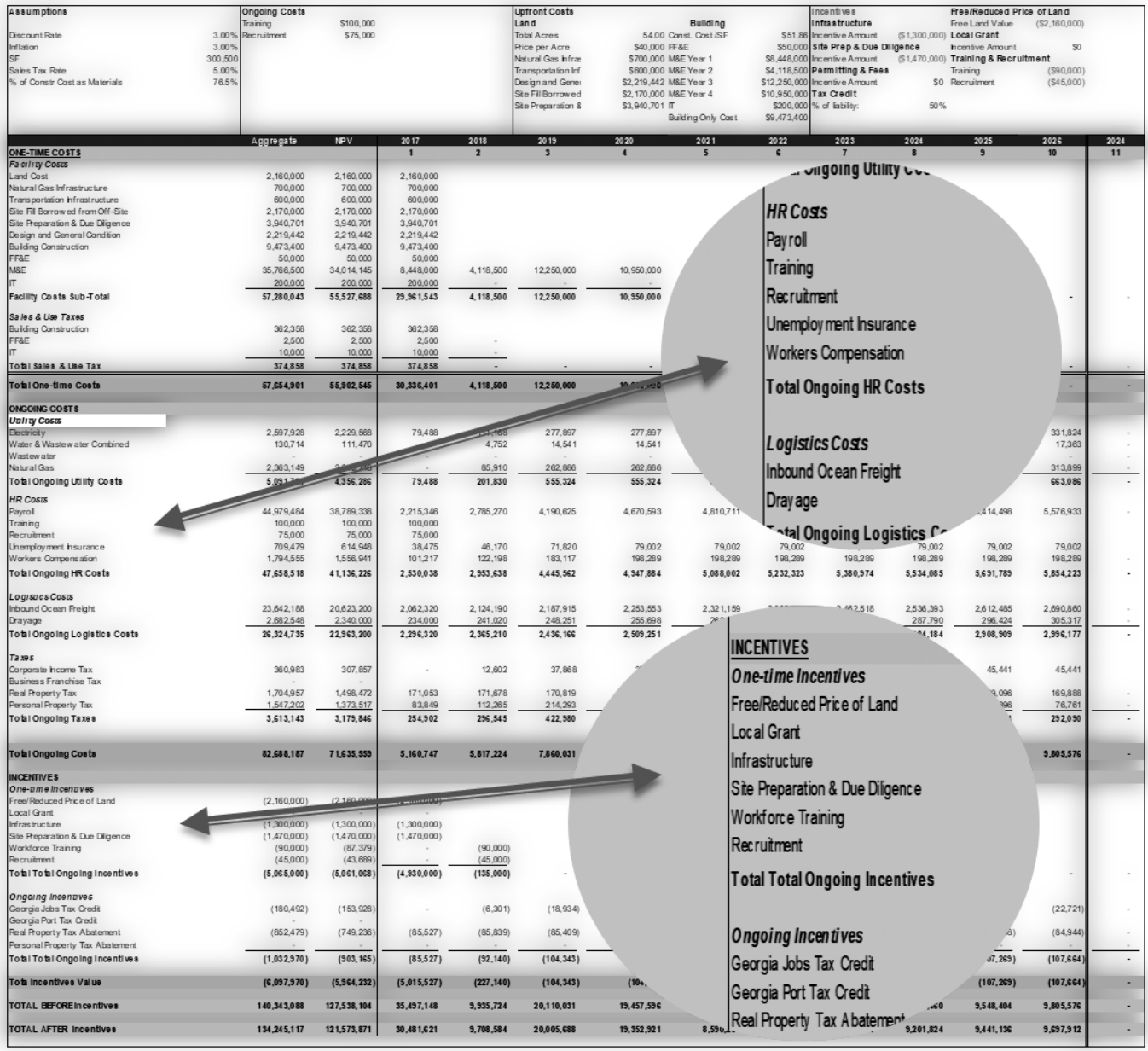

Figure 2: Pro forma cost analysis

physical conditions, as well as to evaluate the local market conditions and intelligence relating to talent acquisition, the potential for local partnerships with universities and other workforce development pipelines, and other local characteristics. This stage sometimes also entails senior management making discreet visits to get a sense of the candidate locations.

Building on the analytical strength and consensus-building foundations established by the previous work, the following steps become more transactional. It is timely for a real estate broker on the team to issue the next stage of RFP to property owners to elicit specific financial terms for lease or purchase of the targeted list of properties. The site selection team will also take preliminary incentives discussions into more detailed negotiations with finalist states and localities. Figure 3 illustrates the relentless funnelling of locations and sites through their paces to identify the optimal location.

The final steps entail continued close synchronisation between the real estate and incentives negotiations and documentation. The incentives process merits additional discussion because it proceeds within a

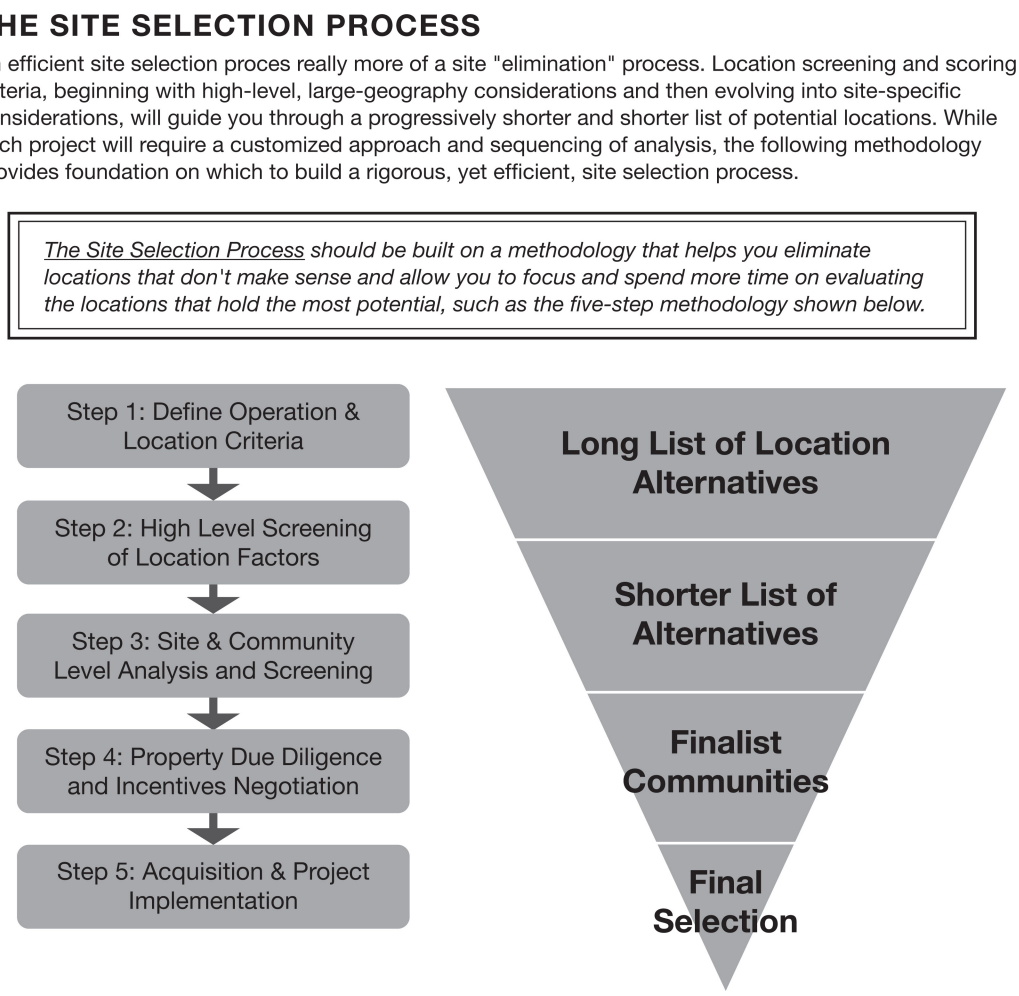

Figure 3: The site selection process

highly regulated and politically intensive environment as the project progresses from a confidential code-named project to the inevitable public disclosure of the company and its project as required by the statutory conditions of the incentives approvals process. In preparation for this step in the process, the company's corporate communications and government relations teams, which have been counselling the project team on the nuances of their spheres of interest, now take centre stage to manage the synchronisation of communications with employees and other stakeholders (including the investment community), government officials (both in the successful locations and the other locations that were under consideration) and myriad other communications tasks that need to be managed according to a strict order and protocol.

This brief summary of the site selection process provides context for the team of professionals required for its planning and execution, which are often required to be undertaken in extreme secrecy and to a demanding schedule.

CHOOSING THE RIGHT TEAM FOR THE SITE SELECTION PROCESS

After confirming corporate strategy, objectives and priorities, the first action step is to establish the internal team that will, to varying degrees, dedicate considerable time, in addition to their routine responsibilities, to the intensive and sensitive work ahead. The internal team is typically designed with a steering committee of principals charged with primary responsibility for planning and executing the site selection process — that is, the systematic evaluation of location options and delivery to senior management of well-documented consensus recommendations and implementation plan, schedule and budget (see Figure 4). The key group is typically lead by a CRE professional or

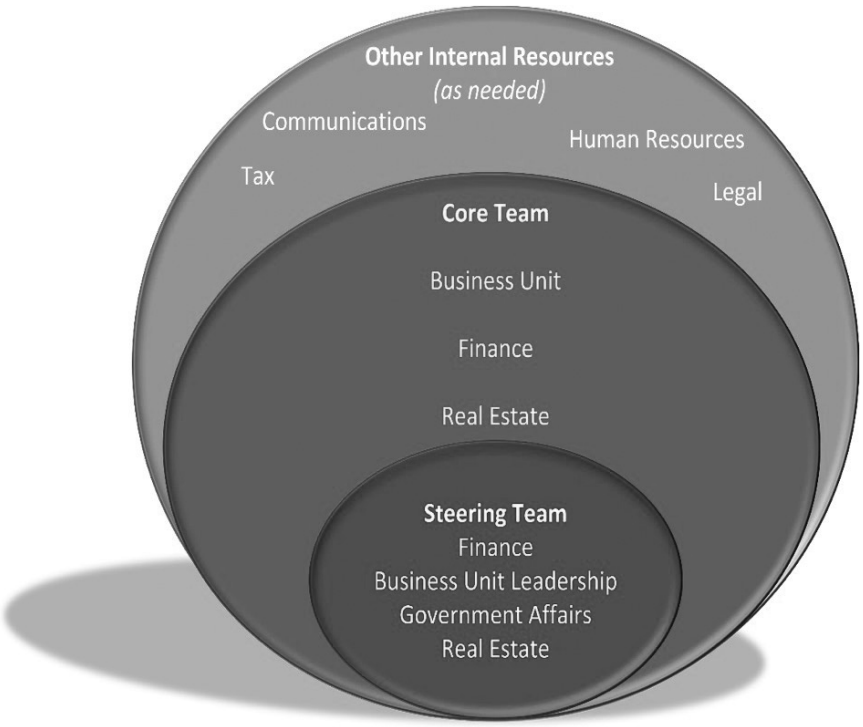

Figure 4: Site selection team — internal corporate team members

designated point person on staff of the chief operations officer (COO), chief administrative officer (CAO) or chief financial officer (CFO) (often that designee is the head of CRE, depending on the reporting lines in each company).

The core team provides staff support for all of the financial and operating subject matter to be evaluated. The business unit is the internal client — ie the leadership of the business activity for which the location analysis is being performed.

In some cases, such as the Roche project at the Alexandria Life Sciences Center in New York and the Bristol-Myers-Squibb project in Tampa, the companies brought previously disparate functions that previously had not been co-located under one roof in a new location in order to promote more coordinated end-to-end functionality. In these and similar cases, the internal client was senior management, who had decided this novel organisational design was needed to enhance effectiveness and flexibility.[3]

For Eli Lilly's projects, the core team provides the day-to-day management of the process with significant time commitments from the business unit (eg manufacturing), finance and real estate. The steering team, which provides overall guidance and direction, includes members from the company's relevant business unit, as well as designated representatives from the internal finance and real estate teams, along with government relations. Other internal resources that may be required to make significant contributions include representatives from the tax, HR and corporate communications departments.

As the internal team is being assembled, the company also needs to make key choices as to how it will source the more specialised tasks that typically are not maintained in-house, since this high degree of specialisation and expertise is not required on a continuous basis, even in the largest global companies. This includes both analytic and strategic fields, such as labour market analytics, logistics/supply chain optimisation, site engineering and infrastructure assessment, as well as transactional activities, such as real estate procurement and economic development incentives. These and other specialised areas of expertise are typically sourced from consultants with deep experience, state-of-the art techniques and strong track records in the respective fields, and who engage in these activities on a continuous basis. Another reason for sourcing some of the needs through external resources is to foster the all-important level of objectivity and independent professional viewpoint to diversify and enrich the perspectives brought to the overall project team.

Figure 5 illustrates how the external and internal team members are integrated into a seamless process in which the external consultants act as extensions of the internal team, participating in regular meetings, providing analysis, advice and deliverables.

Consultants offer a broad range of experience and access to various resources required in the site selection process that often are not practical to maintain internally on an ongoing basis.

More specifically, the consultants' skills and experience required for site selections may include:

Analytic

- Labour/talent analytics:
  - Existing supply for specific skill sets available to each location;
  - Actual experience of hiring managers of companies actively recruiting in candidate markets;
  - Workforce development resources, including university and community college graduate pipeline, and other training resources;
- Comparative cost analysis and comparison:
  - Capital investment — differentiated by site conditions and regional cost differences;

    - Payroll costs differentials — 'labour arbitrage';
    - Tax differentials;
    - Utility costs;
    - Logistics costs;
    - Availability of economic development incentives;
    - Other operating costs.
- Regulatory environment/evaluation of business climate;
- Tax and fiscal environment evaluation;
- Utility infrastructure evaluation of capacity and costs:
    - Power (electric and gas, as well as sustainable power sources);
    - Water/sewer;
    - Telecom.
- Transportation access and costs;
- Permitting time and reliability/schedule risks;
- Other considerations, such as environmental, social policy issues and fiscal governance.

Figure 6 illustrates of some of the consultants' work products.

Transactional

- Real estate brokerage:
    - Identify all suitable buildings and/or sites;
    - Assist with property due diligence;
    - Manage competitive real estate procurement;
    - Represent client in property negotiations;
    - Lease or purchase agreements.
- Incentives:
    - Strategic/competitive positioning for incentives;
    - Evaluation of potential programmes — value and commitments required;
    - Represent client in incentives negotiations;
    - Applications and public approval processes;
    - Incentives documentation.

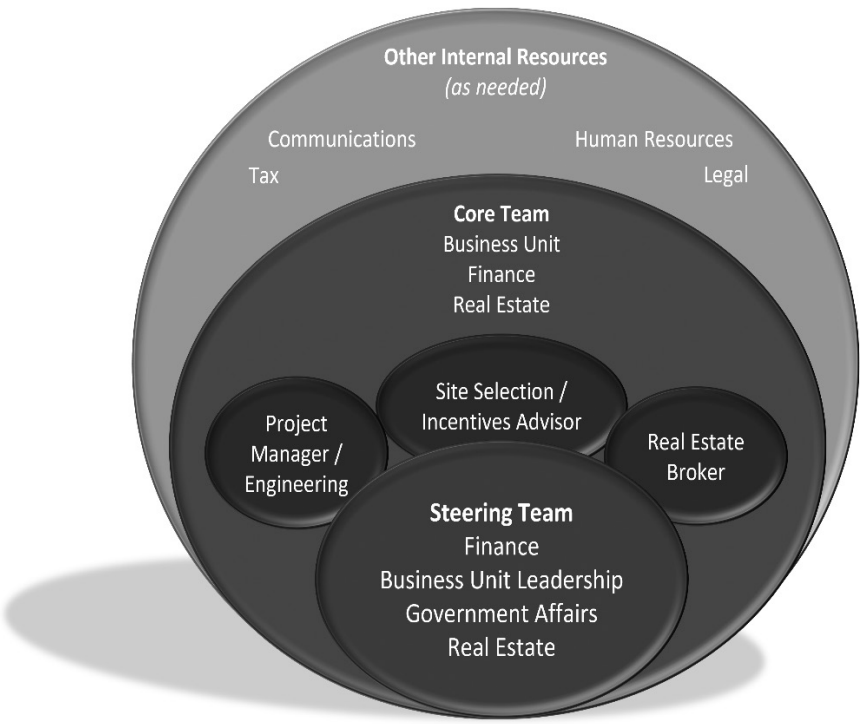

Figure 5: The site selection team — internal and external members

In addition, the project team will typically also engage local legal counsel to assist with the real estate negotiation and documentation and, to the extent warranted, speciality land use counsel as needed for evaluation and support on zoning and permitting matters.

When considering how best to source this diverse range of skills and experience, companies have a range of options given the diversity of the market for service providers. The market options include omni-service firms, such as the largest real estate service firms and engineering firms, that provide most of the disciplines described above, and may provide a substantially one-stop alternative for coordination of these services into an integrated project work plan. A notable exception is that the traditional real estate brokerage transaction role is undertaken by licensed brokerage firms, whereas engineering firms often perform a similar role but on an informal basis.

Alternatively, there are a number of well-established site selection consultancies that provide all or most of the analytic functions described above, and many also provide incentives advisory services. It is important that the incentives process be carefully synchronised with the location and site evaluation process to assure that a competitive procurement process is maintained on both the real estate and incentives negotiations. This diversity of service providers also allows companies to assemble their own teams of specialists with expertise in these disciplines, both to be deliberate about the specific resources, track record and specialised expertise their project requires, so as to bring diversity of perspectives into the project team, and to maintain a planned separation and independence

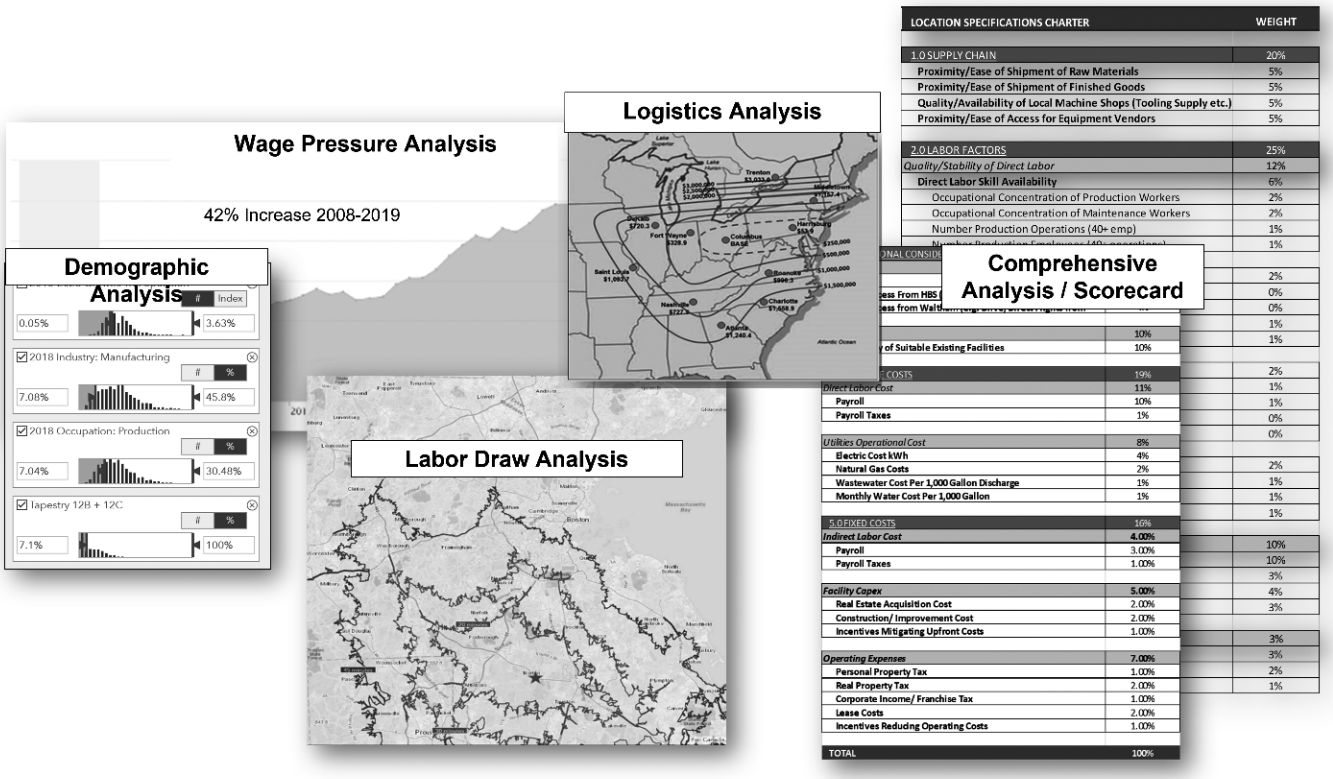

Figure 6: Site selection — sample work products

between certain functions to assure checks and balances and avoidance of conflicts — eg separating location analysis and incentives procurement, which are typically compensated on a negotiated professional fee basis, from the real estate transaction brokerage role, which is compensated on a commission basis.

The Eli Lilly corporate real estate team has pursued this more customised approach for the reasons stated above, having assembled and managed successful teams in implementing multiple projects throughout the US, Europe and Asia. In choosing locations, Eli Lilly project teams research and analyse several sites that are closely aligned with the company's business requirements, talent recruiting strategy and other criteria. Eli Lilly's site selection team is typically comprised of both internal and external members. The internal team includes all of the stakeholders and subject matter experts described in Figures 4 and 5, as well as external experts in site selection and incentives, Biggins Lacy Shapiro, LLC and real estate brokerage, CBRE. This team has also collaborated on many projects, both for Eli Lilly and other companies pursuing global site selection initiatives. Their respective workstreams are seamlessly coordinated, effectively delivering comparable levels of coordination relative to using a single service provider, while affording the client the opportunity to mix and match teams in pursuit of specific sources of expertise.

CONCLUSION

Selecting a site for a large-scale project that advances important corporate priorities is a complex undertaking requiring a diverse mix of skills to be harnessed and managed, typically having to be executed on a confidential basis and under intense time pressure. Such projects also often entail long-term commitments of large amounts of capital and have real or perceived impacts on multiple stakeholders. Relatively little study has, however, been given to the alternative approaches to planning and managing such projects. This paper has sought to present and discuss the issues confronting executives as they consider how best to organise this important process and the alternative approaches they take and why. No opinion is asserted here as to the 'best' way, but rather to assist corporate decision makers in considering the optimal approach for their companies and projects.

NOTES

(1) Before deciding to undertake a new project, many companies first evaluate the 'make or buy' decision — ie whether contract out an activity or process as opposed to establishing a new or expanded operation staffed by company managers and employees. This is an important threshold decision but given that the focus of this paper is on the corporate site selection process, this analysis is outside its scope.

(2) Sydney Franklin, S., Amazon reveals first rendering of its HQ2 in Arlington, Virginia, available at (2019) https://www.archpaper.com/2019/05/amazon-arlington-virginia-crystal-city-hq2-zgf (last accessed 6th December 2021).

(3) Biggins Lacy Shapiro & Company, LLC served as consultant to the companies in these projects.