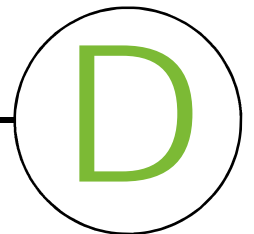


appendix



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Understanding Business Location Decision-Making

April 30, 2004

## ***Understanding Business Location Decision Making***

Location choices are made by many modern businesses using geographic software analysis that compares labor costs, housing prices, transportation access, specialized services and tax structures. In response to this, it is important for Fayetteville to understand its relative position and aggressively market itself to likely businesses.

The governing factors of location selection depend on the type of industry and needs of operation. Manufacturing will locate where labor cost is advantageous, often in foreign countries today. Some manufacturing must balance the cost of transporting resources to the end markets; for example, it is cheaper to locate a lumber mill close to the forest than it is to ship trees across the country.

The functions of a company may be divided and separated geographically creating a division of labor. One city may house the corporate office, the suburbs may be home to the back-office functions and an outlying city may be home to the manufacturing and warehouse or distribution functions. Back office operations look for an educated, articulate work force in an area (often suburban) where labor costs are still low. Executive management leans toward major metropolitan locations with professional support services, major airports and attractive lifestyle amenities. Similarly, research and development require highly educated and innovative thinkers who cluster in urban areas, often with large universities.

The "life cycle" of a product influences the locational demands. Products in the research and development phase require the talent of urban labor markets while more mature products may take advantage of production at locations that provide lower labor and real estate costs such as outlying cities or foreign countries.

Location can serve a company in strategic positioning, by moving to a suburban location where employees are under more careful watch, preventing job-hopping or dissemination of company secrets, or moving to a new office to combine duplicate functions of merged companies or locate closer to clients.

Industries tend to cluster around each other. Software companies tend to the urban centers that offer amenities for their young, well-educated

workforce and where they can interact with similar companies; pharmaceutical companies tend to prefer a campus setting, but still locate close to one another, often along "technology/research corridors". In this sense, the nature of the business again factors into location decision-making: companies that need "face time" with clients or partners will locate in more urban locations that facilitate such interaction. However, companies that are more cost sensitive and require less face-to-face interaction such as call centers and back office support will favor peripheral cities with lower real estate and labor costs.

### **Location vs. Site**

Location refers to the general region and includes:

- Skill and level of suitability of the labor market
- Availability and cost of housing
- Adequacy of transportation systems
- Access to suppliers and contractors
- Proximity to natural resources
- Presence of competitors
- Positioning within the market for the company's product
- General taxation levels and state tax policies
- Workers' compensation costs

After a location is deemed to suit a company's geographic needs, available sites are evaluated by:

- Transportation access
- Tax liens
- Title complexities (risk)
- Cost and availability of utilities
- Telecommunications capacity
- Possible environmental remediation

Governments that can articulate their community's position on the cost and resource spectrum help decision makers and instill confidence with investors. Managers will ultimately choose the location that offers the company a competitive edge in their industry.

## ***Top reasons for choosing a city***

### **Education**

"Cities whose public officials have focused on their education and training systems are attractive to growth sector companies on the move." There are two sides to this. First, a good location offers employers the kind of skilled labor they require for their business. This is often the most important resource a city can offer. Second, "A company cannot expect people to relocate to a place that is undesirable. Desirability includes a good elementary and secondary school system for the employee's children (and future employees) as well as resources that support continuing adult education and training."

### **Speed of the permitting process and simplicity of bureaucracy**

Product life cycles are increasingly shorter and consequently companies are under greater pressure to select locations and quickly move into production. Companies now expect facilities to be zoned, built and fully wired with high-speed capacity within six to nine months of the decision to locate. If a municipality cannot accommodate this, or if bureaucratic procedure is perceived as a potential risk or obstacle, other locations will be chosen.

City leaders must analyze where the community stands on the cost resources spectrum compared to competing locations. Based on this, they can direct their efforts and avoid spending time and money on businesses that are not likely to relocate here.