



# Contemporary Corporate Site Selection

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For the past few years, politicians, corporate real estate professionals, economists, and economic developers have been speculating on the effects of the North American Free Trade Agreement on the migration of jobs and businesses between Canada, Mexico, and the United States. Theories and predictions abound regarding the long-term effects of the agreement on each of these economies, and will likely continue to proliferate until time has passed, data is collected, and results can be measured. What is certain today is that the agreement has already changed the nature of economic development marketing, and exposed each country to new competitors whose approaches are as different as the areas they represent. Canadian economic developers can benefit from increasing their understanding of the nature of this competition to strengthen both their recruitment and retention programs.

## SITE SELECTION AND NAFTA

Corporate site selection has been described as essentially a process of elimination. The corporation rarely looks for a reason to accept an area; rather, it looks for reasons to eliminate candidate locations based on their inability to satisfy financial or operating condition criteria. Prior to NAFTA, cost penalties associated with trade barriers were often enough to eliminate whole countries from consideration. Today, with these hurdles removed, movement from country to country is not inevitable, as many have stated, but it is certainly more possible than ever before, causing decision makers to conduct more detailed analyses of a wide range of alternatives. As recently as three years ago, the majority of PHH Fantus' location projects began with a search area that consisted of a single country, or part

of a country. Today, it is equally common to see projects that start with a global search area, and only gradually narrow their focus to a single country and community. The list of final candidates for a Confederation Life claims processing centre, for example, included communities in the Caribbean, Ireland, and Canada.



key target market for many U.S. economic developers at the state and community level. Toronto-based businesses are approached through costly advertising, direct mail campaigns, and person-to-person sales calls on a daily basis. In some cases the goal of these efforts is to attract projects away from Toronto itself, while in other cases, the objective is to influence the course of future investment. In any case, if these efforts are successful, Toronto may at best lose future growth opportunities, and at worst lose existing jobs and investment.

This trend is certainly not unique to Toronto; major U.S. cities such as New York, Los Angeles, and Chicago have been subject to these "raiding parties" for years from lower cost locations with different, and perhaps more favorable operating conditions. Recently, many factors

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The trade barriers being removed by the North American Free Trade Agreement essentially help equalize one group of comparative operating costs, those related to federally imposed taxes. As these barriers are removed, more location options are feasible for corporations. Aggressive economic developers are responding by becoming more protective of their existing business base, and at the same time, increasing the scope of their proactive marketing efforts.

## ATTRACTING PROJECTS

Toronto, for example, has become a

have combined to make Toronto, and Ontario generally, higher profile targets. The media coverage associated with the Free Trade Agreement has made U.S. developers more aware of the business environment in Canada, and more aware of the competitive disadvantages and points of dissatisfaction that can be targeted in marketing campaigns. Although operating cost differentials are nothing new, they take on greater importance during tough economic times. Ontario Based businesses are also voicing dissatisfaction with the level of government taxation, and the unpredictability of govern-

ment policies, as well as periodic labor unrest and the lack of flexibility in labor-management relations. Last year's simultaneous strikes by several of Toronto's public service employees were a significant factor in raising the frustration level of Canadian-based businesses and opening doors for U.S. competitors to present their case.

### **PRIVATE COMPANY INVOLVEMENT IN ECONOMIC DEVELOPMENT IN THE U.S.**

There are several key differences between economic development as practiced in the United States versus Canada, many of which tend to favor the United States.

In many instances the focus of this competition both within the United States and between the United States and Canada has been attributed to incentives offered to companies to influence their location decisions. There is no doubt that incentives are an important sales tool and are unlikely to disappear any time soon. Often when all other factors are equal, or close to equal, they can make the crucial difference. Corporations now recognize the positive economic impact that their jobs and investment can bring to a community, and view the incentives granted to them as gainsharing, rather than giveaways. At the same time, they are sophisticated enough to recognize that no amount of incentives are likely turn the wrong place into the right place. Economic developers at every level, therefore, must be prepared to address the issue of incentives, but must be equally ready to implement a well executed marketing plan. One of the most critical and effective elements of U.S. economic development programs, which are not common today in Canada, are the involvement of the private sector in all aspects of the program, from funding to sales efforts, the partnering and packaging of adjacent areas into single economic development entities, and the emphasis on making government assistance programs user friendly.

Private companies have a tradition of being very heavily involved in economic development entities. Utilities, which for the most part are regulated private enterprises in the United States have long been strong players in economic development, both to generate users of their services and

to fulfil an informal obligation to return investment to the communities in their service territory. In some parts of the United States, they are the key marketing representatives to the outside world, as well as to existing employers. In recent years, they have diversified their approach from an industrially focused program to one that works with all types of businesses, and the telephone companies have joined the power companies as strong participants. Georgia Power, Illinois Power, and Public Services of Indiana are just a few of the stronger organizations. It is interesting to note that while these utilities all maintain significant economic development staffs and marketing programs of their own, they also financially support the programs of their home states and service territories. They, along with other private sector funders, give U.S. communities consolidated financial funding that is hard for comparably sized Canadian organizations to match. In many areas, economic development is handled through public-private corporations which receive 50 percent of their funding from stockholders in the private sector, including utilities, real estate developers and brokers, construction companies, and major employers.

In addition to providing funding, these private sector partners add credibility to the overall marketing program by being highly visible in sales efforts. They represent businesses that are operating successfully and enjoying the advantages of their home areas, and provide compelling testimonials through advertising and direct corporate calls on a regular basis.

A more recent trend in the United States has been the complete "privatization" of economic development marketing. Although this term implies that government no longer has a role, in fact most privatized programs still receive significant portions of their revenue from the government. The difference is that their boards of directors have heavy representation from the private sector and, by and large, their staffs consist of professional economic developers; as such they are not career path opportunities for employees from other parts of government. Privatized organizations such as those operating in Utah, Wisconsin, and Washington,

and forming in Florida, Kentucky, and Indiana, generally handle proactive marketing activity, leaving community development work to the State Departments of Commerce. One tremendous benefit of this trend has been to help insulate these areas somewhat from politicization of economic development programs and to provide long term consistency. Since the time frame for decision making has lengthened considerably, it is important that the players and the posture of an organization not change in mid-stream, which can be the case when the top economic development officer is a political appointee.

### **ECONOMIC DEVELOPMENT PROFESSIONALS CHALLENGE**

One of the greatest challenges for economic developers is to match their understanding of what constitutes a community with their customers' perceptions and preferences. Conventionally, an economic development area has corresponded to political jurisdictions or subdivisions, be they cities, municipalities, counties, states or provinces. The perceptions of users, however, don't stop at these borders. In the United States, some of the most successful areas have united the efforts of neighboring areas so that the outside world perceives a single, coordinated unit. In Dallas, Texas, for example, although each community in the metropolitan statistical area may maintain its own individual program, jointly they support the Dallas Partnership<sup>1</sup>, recognizing that prospects view Dallas as a consolidated metropolitan area, not as individual cities. The decision of which suburb to locate in comes at the end of the location process, and if the image of an area is fragmented from the start, its strengths are dissipated. "Packaging" areas together also allows for better use of funding through cooperative advertising programs, trade show programs, and corporate calling programs. In some cases, such as Kansas City Kansas/Missouri, several communities and two states have come together, recognizing that the outside world sees a single metropolitan area. In rare instances, there are also proposals to share revenue from industrial parks in one county with the adjoining county which provides much of the labor for park users.

*1 The necessity for such a partnership stems from the fragmented municipal governments in the U.S. In contrast to the U.S. few Canadian local governments are as much fragmented, but due to their competitive slant, cities and towns within a single regional or metropolitan structure often create separate Economic Development Departments and carry out their own marketing programs (Ed.)*

## CONCLUSIONS

Finally, in response to a worldwide perception of business and consumers that government services everywhere are fragmented and unfriendly, a great deal of emphasis has been placed on centralizing economic development activity in one department, including research, community development, infrastructure development, and target industry marketing. In many states and communities, ombudsmen are provided that can handle "one-stop" permitting for business users, and every effort is made to provide a prospect with a single point of contact from their first inquiry through final implementation. Services are not effective if they are not user-friendly, and since location selection is often a process of elimination, those programs that are not proactively and comprehensively presented are generally assumed to be absent.

Corporation decision makers in many countries are finding these approaches very attractive, and in a buyers' market, their preferences quickly become requirements. "We don't do things that way" is not an acceptable approach in their own businesses, and is not an approach they are likely to accept in others. Along with the changes in location factors that NAFTA may bring about, there will be changes in economic development marketing, and indications are that the patterns for many of those changes are to be found south of the Canadian border.

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