

## How Business Size Factors in the Expansion or Re-location Process

**The site selection needs of medium and small-size firms differ from those of larger firms so a singular approach to the facility location process will not fit all.**

Mark Crawford (Q1 / Winter 2013)



“Small manufacturers are not little versions of major manufacturers,” says Michael P. Collins, president of MPC Management, a consulting company in Fairview, Ore., that focuses exclusively on the problems and challenges of small and mid-size manufacturers (SMM).

Because different-sized companies vary greatly in their knowledge, resources, and needs, a single solution rarely fits all and any “suggested solutions and strategies must be tailored to the type of SMM,” says Collins. This also holds true for site selection requirements.

“Site selection is not ‘cookie-cutter’ process,” confirms Larry Gigerich, managing director for Ginovus in Indianapolis, Ind. “The smaller the company, the more likely that it’s list of key criteria will be narrower. Smaller organizations will typically focus on a handful of key drivers prior to making a site selection decision, such as labor cost and quality, tax structure, real estate costs, and incentives.”

Medium-size companies, notes Gigerich, look at more variables because they have multiple existing locations, more flexibility in terms of where to site new facilities, and have been through the site selection process before and want to incorporate more factors as a result of the previous experience. Other considerations will likely be transportation costs, proximity to customers, regulatory environment, and geographic diversity.

“Large companies will consider all the same factors small and medium-size companies do, but will also add redundancy, quality of life, cost of living, direct flights, diversity, and healthcare cost and quality,” adds Gigerich. Factors of scale also figure prominently in the location decision for larger companies.

Take, for example, the availability of labor.

“A small company can generally compete in almost any labor market, provided that it offers competitive wages and an attractive work environment,” explains Andrew Shapiro, managing director for Biggins Lacy Shapiro & Company in Princeton, N.J. “However, launching and sustaining a larger operation often requires access to a very large pool of talented labor, both for initial supply and ongoing replenishment.”

Similarly, he notes, smaller projects are likely to have fewer facility constraints, while companies with sizeable building needs may find very little available inventory — meaning that a build-to-suit might be required, adding many months or possibly years to the project timeline. “We are experiencing just this sort of challenge right now during site selection on behalf of large warehouse/distribution center clients in certain hot markets,” says Shapiro.

### **Services, Incentives, Taxes**

Because it’s uncommon for small companies to have all the resources and experience they need to successfully manage site selection, they tend to place higher value on the level of service and support that can be provided by local and state economic development agencies, especially since smaller firms are less likely to use site selection consultants.

“Medium-size firms may be particularly interested in assistance with accessing debt and equity capital markets, or in state and local incentives in the form of low-interest or forgivable loans or cash grants to help finance a project,” says Shapiro. Therefore small and mid-size companies place more emphasis on incentives at the beginning of the site selection process. By comparison, most large corporations don’t seriously consider incentives until a short list of qualified communities has been identified.

“There are several reasons why incentives have disproportionate influence on siting decisions by small companies,” says Dennis J. Donovan, a principal with WDG Consulting in Bridgewater, N.J. “Due to a lesser revenue base, incentives can seem to be more important for the bottom line. Smaller companies can also be underfinanced; hence incentives are deemed to be more influential. Executive management of smaller firms may also not have much experience in site selection and can be influenced by press announcements of new facilities, which tend to highlight incentives and their importance.”

John H. Boyd, a principal with the Boyd Company in Princeton, N.J., indicates that for his smaller-company clients, state taxation issues are quite important, especially for entrepreneurial start-up firms.

“We look very closely at how states tax ‘S’ corporations,” says Boyd. “The ‘S’ corporation is a popular form of incorporation for many of our smaller-size and start-up clients. Under this form of incorporation, profits of the company are passed on and taxed at the personal level, not the corporate one. While most states treat ‘S’ corporations the same way the federal government does, many exceptions exist.”

Some states, for example, don’t recognize ‘S’ corporations and treat them like ‘C’ corporations. “The District of Columbia, New Hampshire, and Tennessee fall into this category,” says Boyd. “Some states tax

'S' corporations on part of their income, even though they do recognize the 'S' corporation. For example, Massachusetts taxes 'S' corporations on their profits when the profits rise above a specified limit," he notes.

A few states, including Michigan, California, New Jersey, and New York, tax both the 'S' corporation's profit and the shareholder's proportional shares of the 'S' corporation's profits. "This is a distinct negative for our clients, as it means that, in a sense, the 'S' corporation is double-taxed in a manner similar to a 'C' corporation that distributes all of its profits as dividends," Boyd indicates.

### **Real Estate and Housing**

Small companies, because they often have lower cash flows or are under-funded, or are just starting up, tend to want to move into existing facilities. Larger Fortune 500 or Fortune 1000 companies, however, usually maintain their own in-house real estate department, and "the client site selection teams that we report to invariably include members from this department," says Boyd.

Although it may sound counterintuitive, Boyd notes that these projects may require more real estate support than might be expected — the reason being that in-house real estate departments tend to focus too much on the individual site that meets their real estate objectives, such as an existing building or greenfield property, rather than other key factors, such as labor market, logistics considerations, or other business climate issues.

"The challenge with these real estate-heavy projects is putting these real estate requirements in the proper perspective," says Boyd. "The reality is that finding a good building or piece of real estate for new construction is relatively easy; making sure the site is in the right community, with the right labor market and the right state tax and regulatory climate, is the real challenge. "Larger companies also tend to be more concerned about housing, spousal employment possibilities, and overall quality of life because their relocations tend to have a significant number of transferees. "These projects have us dealing with the various relocation policies of our clients and working closely at the local level with residential real estate professionals supporting our client's move," Boyd explains.

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