

# WOODSTOCK TIMES

## Big business builds

By Geddy Sveikauskas on Apr 7, 2015



*Geddy Sveikauskas*

How do large companies decide where to locate or relocate? They usually hire management consultants to give them advice. Imagine how useful it might be for local economic development people to tune in on the advice that the businesses they're trying to attract are getting from the people hired to provide the advice. Too often the locals don't know how to do that.

Last Tuesday morning I met with one of these professional advice-givers in the lobby of the Marriott Courtyard in Poughkeepsie. He wouldn't tell me who his client was or give me a complete copy of the advice he was providing. But the twelve pages that John Boyd Jr. of the eponymous Princeton-based The Boyd Company, Inc. shared gave insight into what folks like him get paid to do.

Boyd compared the operating costs of a new 500,000-square-foot distribution center employing 150 workers at "the 25 most logistics-friendly U.S. cities."

"That's what this study does," he explained. "These are 25 places our clients are asking us to look at." Costs calculated for each of the 25 areas included labor, electric power, property and sales taxes, shipping and amortization (repayment of building and equipment debt). In terms of operating costs, the projected distribution centers varied from a high annual cost of \$15,018,230 at Stoughton, Mass. to a low cost of \$11,351,461 at Ritzville, Washington. Newburgh, the Hudson Valley contender, came in at somewhere in the upper part of the middle range at \$13,669,758.

Boyd's narrative discussed shifts in comparative advantage for the markets along the West, Gulf and East coasts. The selected cities, Boyd wrote, "are consistent with site selection trends favoring cities with linkages to the global marketplace and access to increasingly important intermodal and deep-water port transportation services."

Ritzville, the top city in the West, “is poised to benefit from growing trade with China and Southeast Asia fueled by that region’s booming middle class and its growing appetite for fresh American agricultural products and U.S.-branded processed food items.” The top Gulf Coast city on the list, Humble, Texas, “is positioned to attract new distribution centers to serve increased port traffic in Houston expected to be generated by new trade with Cuba.” And “Hudson Valley’s Newburgh area, along with top-ranked East Coast city of Chesterfield, Virginia, are set to benefit from growing port traffic in New York and Norfolk as a result of the major expansion of the Panama Canal set to open next year.”

The costs of operating a distribution center in Newburgh were considerable. The total labor cost of the Virginia site off Chesapeake Bay was \$400,000 a year lower than in Newburgh. Electric power was about \$60,000 cheaper annually in Virginia, taxes \$200,000 lower, and amortization costs \$700,000 or so less. Shipping costs would be about \$100,000 less in Newburgh.

Boyd noted his clients’ growing interest in low-cost green energy. Washington State’s power supplier, Big Bend Electric Cooperative, provides hydro power at the lowest cost in the study, \$392,736, about half of the Hudson Valley’s figures.

Since modern warehouses are much more complex than the material-handling storage facilities of yesteryear, the Hudson Valley would have an edge in workforce capability. Will that and excellent location be sufficient incentive to win the day? What else might the state throw in?

Though cash may be king, not everything can be exactly calculated in dollars. Generally, Eastern cities are more expensive to operate in than Western cities. That disadvantage is offset at least in part, however, by other factors. “While costs in the Hudson Valley are in the upper range,” Boyd wrote, “its access to Northeast megamarkets like New York City and Boston is a compelling advantage for new warehouse operations.” He noted Newburgh’s central location in the Northeast Corridor, its closeness to the Port of New York (66 miles), and its superior road access.

In our discussion, Boyd talked about another factor not specifically mentioned in his firm’s written advice but germane to his client’s evaluation of Newburgh: Stewart Airport. It was Boyd’s view that governor Andrew Cuomo’s policy initiative of last year intending to transfer considerable air freight activity from JFK to Stewart would succeed. If Boyd’s expectation proves correct, Newburgh’s competitive position would be considerably enhanced, especially given the increased emphasis in the logistics industry on same-day freight delivery.

In January, the governor said that he planned more land around Stewart as a state tax-free zone, an added incentive for cargo companies to locate in and near the airport. Consultants being useful to their clients for a variety of purposes, one is being chosen to elucidate the governor’s complex airport freight proposal. Cuomo has initiated a \$500,000 master-plan design competition for JFK and LaGuardia airports.

Not everyone is on board with the Cuomo plan. His proposal, politely described by one journalist as “audacious,” has caused a huge stir in the air freight transport business. Some logistics

providers caution that splitting capacity between belly freight at JFK and dedicated freighters at Stewart would damage New York's status as a cargo hub.

If asked, most Americans would unhesitatingly agree that small business will decide the economic future of the nation. After all, new small enterprises are popping up all over the place, and young entrepreneurs seem to be setting up shop everywhere you look.

But most Americans would be wrong. It's not that simple. Though small businesses (one to 49 workers) employ about 44 per cent of American workers and middle-sized business (50 to 499) employ an additional 39 per cent, businesses above that size have continued to be a disproportionate contributor to job growth for at least the past two decades. Though less than 17 per cent of total private employment, according to Bureau of Labor Statistics data, was in firms with 500 or more employees, that segment was responsible for more than 46 per cent of the net new employees added to American payrolls during 2014. The large businesses on The Boyd Company's client list include such firms as Pepsico, Hewlett-Packard, JP Morgan Chase, Dell and Pratt & Whitney.

Federal data shows that small companies created more than twice as many American jobs (3,119,000) as the largest (1,488,000) companies in 2014. But the small companies as a class lost more than twice as many jobs (2,838,000) than did America's largest companies (1,187,000). The net effect was that the largest companies added more net workers (301,000) in 2014 than all the small firms that constitute 44 per cent of the work force added (281,000).

This is not a new trend. I took a look at the numbers from a decade and two decades ago. The BLS statistics show that the percentage share of private-sector job gains of the largest companies increased from 42.19 per cent twenty years ago and 44.01 per cent ten years ago to the present 46.32 per cent. Meanwhile the percentage share of net job creation of the firms employing fewer than 50 workers dwindled from 31.57 per cent two decades ago to 30.13 per cent ten years ago and 28.34 in 2014.

Large companies are well-versed in what is required to maintain their market dominance. But in a swiftly changing world a locational decision represents for them an opportunity to think outside the box, to remind themselves of emerging shifts in consumer needs and new technology, and to include the value of all aspects of market location.

*This weekly column reports on economic trends in the mid-Hudson region. To read past columns go to Ulster Publishing's [hudsonvalleybusinessreview.com](http://hudsonvalleybusinessreview.com).*