

Making Site Selection Decisions in the Worldwide Economy

By Carol Bergeron



New site selection decisions are best made when: business needs and opportunities drive new site exploration, vision and goals to be achieved are clear, the site selection team possesses the right skill set and works to a plan. The article shows how small, medium and large companies can benefit from a strategic approach to site selection.

Since running a business within the confines of a region or country specific economy is too limiting for many organizations today, those determined to thrive find themselves frequently considering new sites from which to conduct their operations, or a subset of their operations. There are a host of reasons, but the most common ones include the desire to establish presence in and access to new markets; tap into labor markets that meet talent requirements in terms of quantity and quality of the workforce; lower the cost of doing business; or even a combination of such reasons.

The actual methods for creating a presence elsewhere often involve make-or-buy decisions. Questions such as these dominate site selection deliberations: Should we create presence elsewhere by establishing our own operation? Or are we better off buying an existing one? Thus mergers, acquisitions, strategic alliances become options worthy of consideration.

What's the best approach for answering these questions in a way that sets the company off on the right course? Consider using the following approach to new site selection. It emphasizes setting up your own operation whether domestic or international:

- Recognize organizational needs
- Create a charter
- Assemble the team
- Plan the work
- Work the plan
- Evaluate the experience

Where organizations are going

Generally speaking, India is a hotbed for outsourced services. Its lower wage base, population growth and workforce, characterized as highly educated and English speaking, is desirable by many service providers. Canada and Ireland continue to be sought-after locations for service outsourcing. Western European companies target Eastern European countries such as Hungary, Poland and the Czech Republic as prospective sites for manufacturing and supplier sourcing. Mexico makes for a popular choice among US-based companies given its proximity and lower cost base. China, however, is capturing the lion's share of US and European industrial manufacturing outsourcing.

Companies with household recognition that have successfully opened their own domestic and international sites include: Analog Devices, Citigroup, Dell Computers, Fidelity, Ford Motor Company, General Electric, Hewlett Packard, IBM, Motorola, State Street Bank and Sun Microsystems. This list is just the tip of the iceberg. Avid readers of business magazines and periodicals know that globalization, business process outsourcing and mergers and acquisitions run rampant among Fortune 1000 companies.

Think the unprecedented number of site transactions is reserved for large companies? Small and medium sized companies are getting into the act, too. For instance:

- Global provider of customer relationship management support services for leading technology companies and e-businesses has over 9,000 employees residing in 19 locations around the world with substantial call-center presence in Canada. The new sites accommodated the firm's goal to provide 24x7 worldwide coverage to clients, thereby creating additional business development opportunity while keeping labor costs competitive given its site selection choices.
- Developer of laser-based capital equipment and solutions, employed several new site strategies that resulted in doubling its revenue size to over \$50m in just a couple of years. The firm's acquisition of a company in Germany was initially prompted by its lack of service presence in Europe. The acquisition increased its customer base and market opportunities throughout Europe. Additionally, it serves as the European Center for product development and manufacturing. Given the firm's electro-mechanical, optical, laser based engineering

talent requirements, the company opened a research and development office in Boston where the unique mix of expertise exists.

- Developer and manufacturer of global positioning systems for indoor use outsourced its manufacturing to China to remain competitive, a bold move for a start-up company that had just obtained its second round of funding.

In the future more companies will pursue multiple locations to satisfy their varied business needs. For instance a company may start up manufacturing capability in China, expand its service capability in India and secure top research and development personnel in strategic US locations where the talent is known to be prevalent.

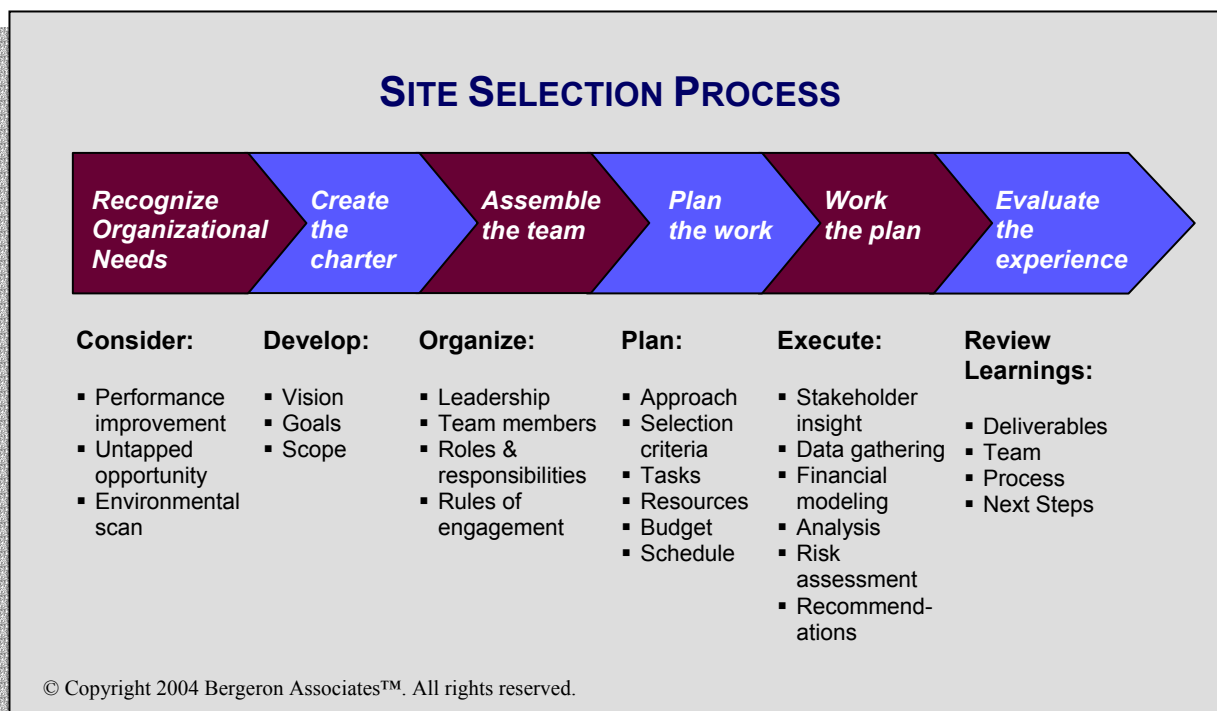
Recognize organizational needs

Do any of these sentiments sound familiar? “We need to reduce the time it takes to deliver product/service to customers in this region, otherwise we run the risk of losing this market.” Or: “We must be able to attract and retain talented, experienced people to develop the next generation of products. That critical knowledge or skill set does not exist in sufficient quantities where we currently operate.” Or: “Developing the capability to provide technical support 24 x 7 worldwide is imperative if we want to grow our business through customers with global needs.” Or simply: “We need to reduce our costs if we want to remain competitive.”

The point is that specific business problems, threats or unrealized opportunities prompt new site exploration. To form a common direction, start with these questions:

- What is the business problem that must be solved? Threats to be eliminated?
- What opportunities could be realized by creating presence elsewhere?
- What are some possible solutions?
- If creating presence elsewhere is part of the solution, where do we want to create presence and why?
- What business processes or functions will be performed there? What will stay at home?
- Shall we build our own operation, buy an existing one or form an alliance in the desired location?
- Do we have the expertise and capability to evaluate solutions? If not, how do we get the capability?

Answering these questions may lead to the adoption of new business strategies. But like any new business strategy, goals should be established and multiple solutions considered before deciding and implementing any one choice.



Create the charter

Making decisions on future locations from which to run portions of the business are complex. They involve risk and require commitment, resources, analysis and communication. Start with the senior leadership team by getting the players to agree on a common understanding of the site selection analysis. Use the following framework to author a charter based on senior leadership team input. The output will serve as the starting point for the site selection team's planning.

Statement of Need – Restate the problem to be solved, the threat to be mitigated and/or the opportunity to be pursued. Clarify their impact on business outcomes and why things need to change. Scan the future environment. Elaborate on expected trends in the worldwide economy, political and regulatory arenas, technology and innovation, competitive marketplace, customer needs and interfaces and the workforce. The environmental scan will help shape viable solutions.

Vision – Articulate the purpose of the analysis and paint a picture of what success looks like upon its completion. For example: "Upon completion of this analysis we will have identified the top two locations that address our business need to ... and satisfy our selection requirements which include ..."

Goals – Determine the goals of the analysis, be specific about expected deliverables.

Scope – Define the boundaries of the analysis; at a minimum determine business processes or functions that will be performed at the new location and those that will stay at home and why.

Selection Criteria – Describe the factors on which all potential locations will be evaluated, be specific about the "must haves" and the "nice to haves".

Record – denote important interdependencies, risks and assumptions made, if any.

Commitment from the top is the first step toward success. As you progress through the next phases the challenge becomes how to sustain senior leadership interest and commitment. Commitment includes concrete actions such as shoring up resources, running interference and removing obstacles at the most senior level when necessary. Enlist a sponsor from the senior leadership team early on. Engage him or her in the planning process and ask for help in facilitating check-ins with the senior leadership team at critical milestones.

Assemble the team

There are three primary areas on which to focus: assemble a team with the right skills, define roles and responsibilities of team members and map out team processes.

Once commitment of the organization's senior leadership team has been solidified, then assemble a crew to identify, analyze and recommend workable solutions. Leadership counts. Select a leader to head up the team who works effectively across functional lines and cultures, gets people to work toward a common goal, fosters team work, gets the job done and interacts effectively with the sponsor.

In general, experienced companies form a site selection team that includes experts from business development, customer support, logistics, finance, human resources and legal functions. When critical expertise is unavailable because it is tied up on other initiatives or does not exist in the organization, then make use of third parties who possess the missing expertise. Excluding these relevant business vantage points could make the difference between success and failure.

Team players should be people who are resourceful, focused, flexible and results oriented. When selecting team members determine:

- What expertise do we need? With whom does that expertise reside?
- What contributions are expected of each player? What are the roles and responsibilities of each?
- What adjustments to work load should be made given the level of priority assigned to the analysis?

If working with a virtual team, kicking off the project with a face-to-face interactive forum is preferable. It allows everyone to digest the subtleties of the situation, ask questions, challenge assumptions and paraphrase the vision to ensure understanding. Plus it creates an opportunity for the crew to suggest new ways of thinking and fully develop a practical project plan. The team should decide:

- What is the overall approach to be used?
- How will decisions be made? Who will make them?
- How will conflicts get resolved?

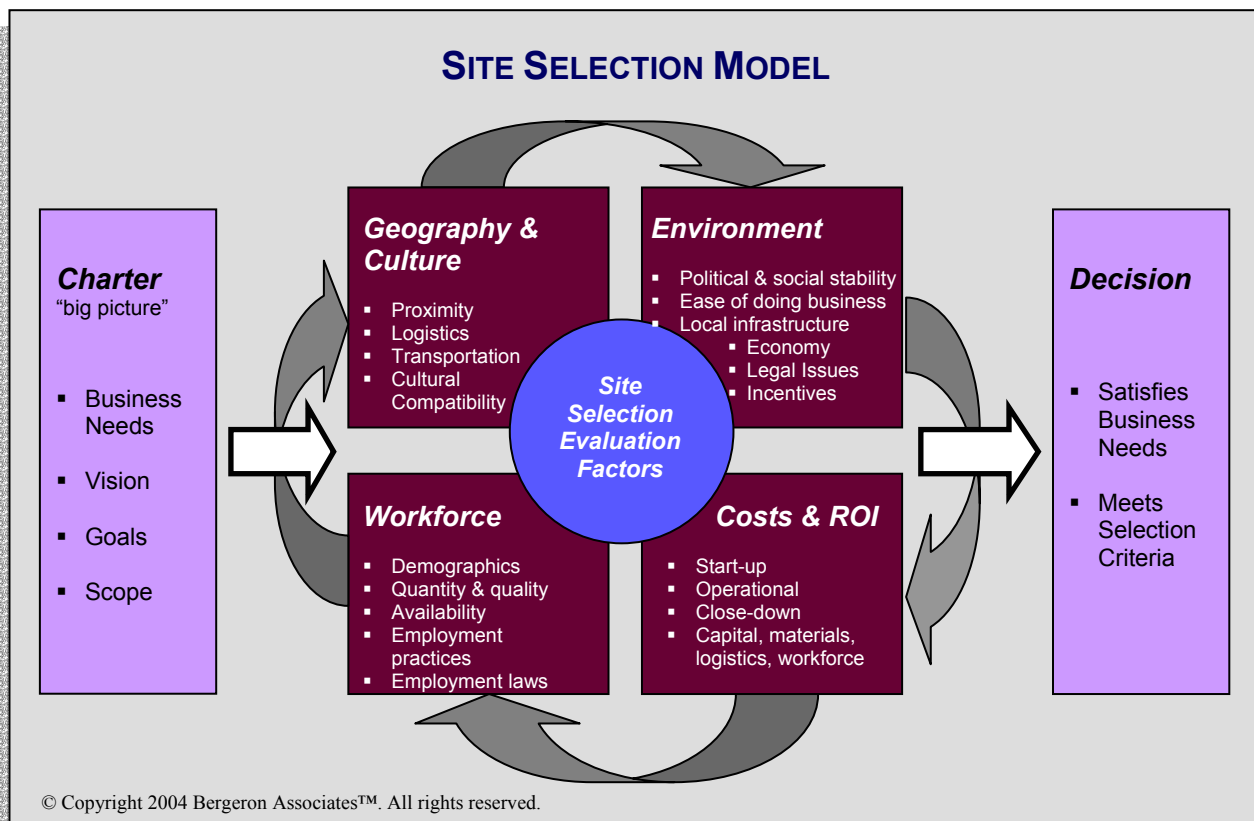
- What tools and practices will be used to communicate on a regular basis?

Plan the work

A team with the right leader and players that creates its own project plan usually has a high level of commitment and gets focused more quickly. Start with the charter to reinforce understanding of the business need, vision and goals. Move onto outlining the deliverables, steps and tasks that will result in thorough analysis. Determine who is responsible for what, resources needed and the time frame for completion. If working on international locations then spend time on brainstorming on where to get data.

It is common for organizations to create an initial checklist of information to be gathered on prospective locations. Equally common is for companies to employ an elimination process that reduces the long list of potential locations to a short list. The depth of the information sought is a function of whether a location graduates from the long list to the short list. For those locations that make it onto the short list, the data is often the basis for preparing financial models and a cross comparison of prospective sites. Let these questions be a guide for the team in creating a comprehensive project plan:

- Who are the key stakeholders both in and outside the company? What are their expectations?
- What are the site selection criteria? For the long list? For the short list?
- Will “go/no go” decisions be made at the end of specific phases?
- What data and information must be gathered?
- What impact will the best solutions have on important business outcomes such as revenue, profits, costs, customer retention and growth, ability to attract and retain employees? Run the numbers assuming a range of projected results.
- What are the start-up costs of the prospective sites?
- What are the shut down costs of moving/closing an existing location.
- How do the operational costs of the prospective sites compare/contrast to those of the current one?



- What are the costs associated with shutting down the prospective sites? Business needs change over time. Do the homework so the exit strategy and associated costs are understood up front.
- What are the risks? How can they be minimized?
- What are the opportunities? How can they be maximized?

Encourage the team members, individually and collectively, to record and consider interdependencies, risks and assumptions throughout their analyses so issues are reconciled, adjustments made and contingency plans initiated where appropriate. This becomes particularly important when the team's findings conflict with the beliefs and preferences expressed by stakeholders including the senior leadership team.

Work the plan

Navigating the course, or working the plan, starts with digging for data and insight then converting them into useful information. Understanding interdependencies and risks and combining them with good information serves as a basis for scenario building. Modeling likely business outcomes is a prelude to shoring up final recommendations. Sounds easy but expect to change tacks to effectively navigate obstacles, delays and unfavorable findings.

Gather information from reputable databases, business periodicals and journals, government agencies, embassies and with community leaders and professionals chartered with business development in the locations under evaluation. Start early because obstacles and delays, especially when researching global sites, are inevitable. For some locations data is at best difficult to acquire, for remote locations it may be non-existent so get creative or be prepared to make due with out it. The data to be gathered can be categorized into four areas.

Geography & Culture – Recognize neighboring countries and their proximity to customers, markets, competitors and suppliers. Understand how geography impacts logistics and transportation costs and practices. Be aware of infrastructure items such as local real estate and telecommunications and their costs. Determine languages spoken. Get to know the country's culture and how it influences business.

Environment – Get familiar with the state of the political, social and economical arena and their outlook. Learn how easy or difficult it is to start, run or close a business within the governmental framework. Explore investment restrictions and incentives such as grants, subsidies and tax incentives. Understand financial requirements such as start-up requirements and treatment of money transfers. Legal and regulatory issues may include considerations for import/export, intellectual property and immigration. Determine tax structures for individuals and corporations or the legal structure to be formed.

Workforce – Understand demographics, the workforce profile given the talent mix and expertise needed and the educational system. Get to know the employment climate, law and practices. Investigate labor costs, organized labor presence and recruiting and termination practices and costs. Given knowledge of country culture, assess if it is compatible with company culture from a human behavior standpoint.

Cost and Return on Investment – Gathering cost estimates on capital, materials, logistics and the workforce are the minimal requirements to preparing useful financial models. Compare the financial models of the prospective locations to existing ones. Run the numbers for initial start-up of the new site, on-going operations and closing the site down. Record all assumptions when preparing models so they can be easily adjusted when assumptions change.

Before contacting community leaders at or about prospective locations, determine in advance what requests and information should be handled confidentially. For instance, at what point in the data gathering phase should the firm's name be disclosed? How do you manage the process so that employees do not read in the press about interest in a site prematurely? Also recognize that one of the sites under review will be selected. So be aware that the simple act of gathering data may result in setting first impressions with community leaders at the chosen locale.

Conduct regular check-ins with the crew to share learnings, contacts and begin putting the pieces of the puzzle together. Building scenarios is helpful when comparing and contrasting locations. There is a danger in relying too heavily on one scenario. For the most promising locations, model a range of possible outcomes. Include the most optimistic, most pessimistic and the most probable scenarios in your analyses.

As the list of viable prospective sites gets shorter, risks associated with each are identified and may prompt additional research, modeling and contingency planning. The final recommendations should fit the needs of the organization, meet the prescribed selection criteria and include identification of risks and how to mitigate or overcome them.

Evaluate the experience

Evaluating the site selection experience is advantageous for several reasons. First, the organization benefits from the quality of the project team's output. Second, team members both individually and collectively learn so those learnings may be applied to future assignments. Third, it presents an opportunity to reconfirm next steps. Some next steps may be addressed in the new site implementation plan. Others are unrelated to opening the new site but critical to the organization. Without a post mortem review, some next steps run the risk of being forgotten.

Organize the evaluation by inviting the site selection team and important stakeholders, too. Include an agenda in the invitation. At the meeting, create a non-threatening environment so that outputs, tasks and process are discussed and emphasized rather than individual performance and behaviors. Brainstorm and record what went well, what could have gone better and next steps. Celebrate the accomplishment!

Peak into implementation

Once a site selection decision has been made then the implementation team is typically assembled quickly. It may be comprised of some members from the selection team, which affords continuity in knowledge and familiarity with the site and its risks. It takes competent, tenacious and hard-working people to get a new site up and running. It is common practice for implementation to include plans for:

- Announcing the new site to employees, customers, shareholders, suppliers.
- Selecting a strong leadership team at the new site who has values similar to those of the organization.
- Establishing goals and monitoring outcomes: for initial start up activities and on-going management.

- Designing business processes for the new site as they may differ from those being exported from an existing location.
- Creating an on-going communication strategy between existing offices and the new site.
- Staffing the new site: job and skills definition, compensation structure, benefits portfolio, standardized employment process and practices, recruiting and retention.
- Accelerating new hire effectiveness: orientation with the company's culture and values, job training, skills building, performance management, coaching.
- Accelerating home office employee effectiveness: cultural training.

Growing or restructuring an organization that results in opening new sites elsewhere is challenging. Companies large and small are compelled to address business needs whether due to the desire to: initiate or expand into specific markets, access critical talent pools and/or reduce costs. Additional complexities are encountered when sites under consideration are located abroad. The practical process described in this article positions leaders to apply it quickly and enable their organizations to reap the benefits of new site selection in an era when outsourcing and globalization gallop forward at an unprecedented rate.

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