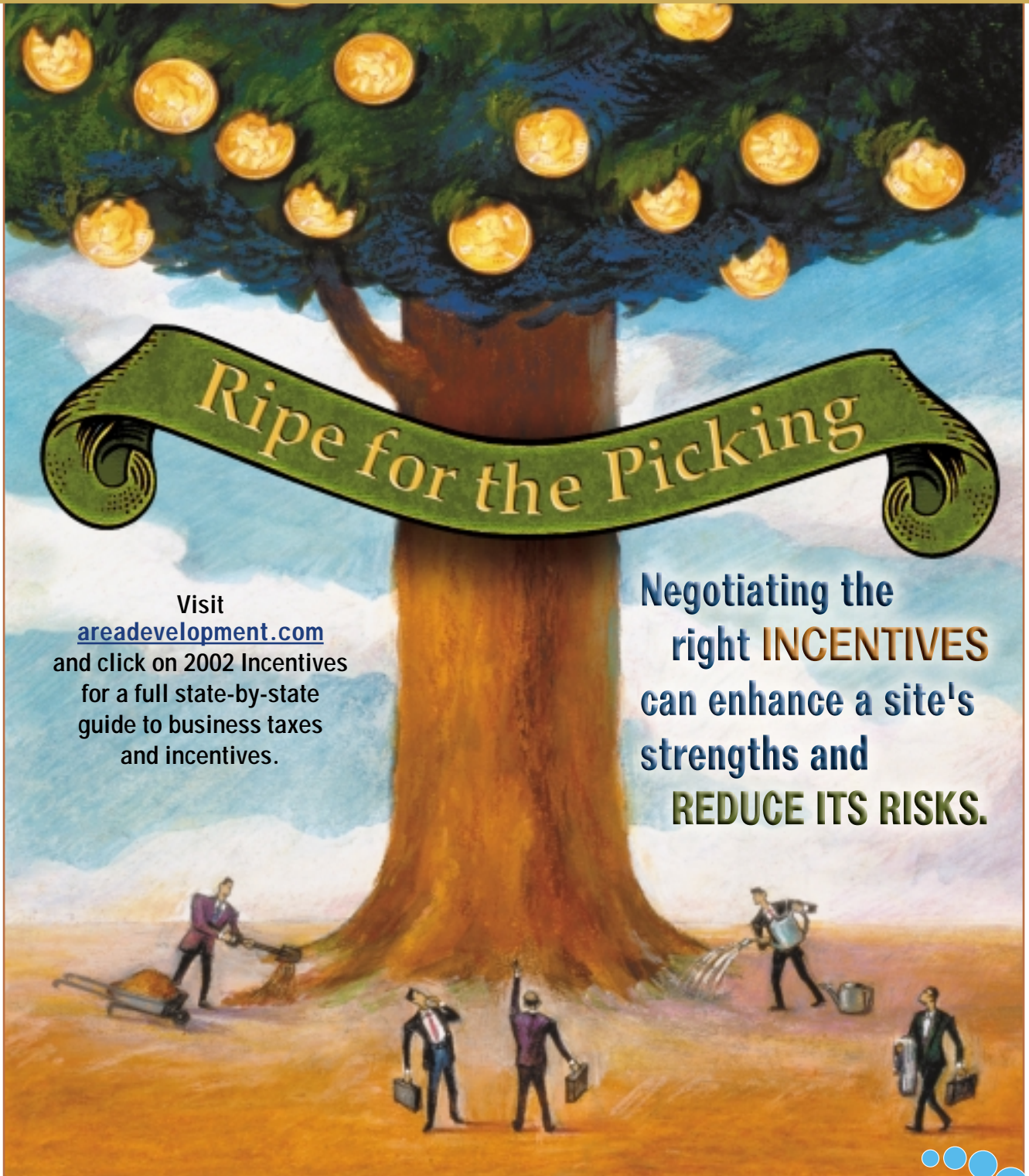


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Big Decisions for Midsize Companies

Moving a midsize company presents a unique set of challenges, all of which can be overcome with help from a variety of internal and external sources.

By James T. Berger



A GOOD STARTING point for the midsize company seeking to relocate is to bring in a specialist to help overcome the initial hurdles. Such a consultant might be used to help articulate a strategy, coordinate and outline the move, or as a fixture through the entire relocation process.

One such consultant is Joe Cavolick, president of Chicago-based Cavolick Consulting Group. A former realtor, Cavolick has made a specialty of helping to relocate midsize and larger firms.

“I start with a careful strategic analysis of the purpose of the move,” he says. “To do this I have to understand the company, its mission, its marketplace — what it wants to accomplish by moving.”

This analysis involves both internal and external considerations, according to Cavolick. The external environment includes such things as products, customers, suppliers, vendors, competitors, and the owner’s vision of the business. Internal considerations include people, departments, products, and functions.

“The next step is an exploration of

the reason for moving,” Cavolick continues. “Often, I discover and recommend to my clients that maybe they shouldn’t move — or should remain in the space they currently occupy and operate in multiple facilities.

“What I try to do in this phase,” he says, “is to help the company understand where they are right now, where they should be headed, and articulate a strategy to get them there.”

As a former realtor, Cavolick points out that many midsize companies make the mistake of calling in a commercial realtor before articulating a strategy for the move. “Too often we think ‘ready, fire, aim,’ instead of ‘ready, aim, fire.’ Companies really need a strategy before proceeding into the mechanics of the move — especially site selection.”

While many commercial real estate

companies will help their clients relocate, their expertise lies in site selection, lease negotiations, and bringing in professionals like architects, engineers, and contractors. In most cases, clients do not pay directly for their services. The real estate firm is compensated through the transaction commission. "Their focus is obviously on the deal itself," says Cavolick. "They really don't have the capability to help develop strategies and coordinate the other mechanics of the relocation."

Moving beyond the strategy and initial action plan, consultants like Cavolick have detailed checklists for the client to work through. "I have a checklist of probably 150 to 200 variables to be considered," he says.

Internal coordination is a crucial concern, and Cavolick focuses on team-building to foster that kind of environment. "Assembling the right project team and making sure the leaders meet and share critical information is a key priority," he says. He recommends a number of specialty teams that should include human resources; facilities; technology focusing on the conduct of the business (independent of data and telecommunications); data and telecommunications; purchasing and procurement; marketing; and administration.

"The biggest mistake I find is that too many midsize companies try to do too many things on their own without considering the implications and cross influences," he says. "They get downstream in the execution of a poorly conceived plan, and then they face problems with respect to timing because, for example, somebody forgot to order furniture 12 weeks earlier because he or she didn't consider lead time." Or, he continues, "they move to a new location and find their work force can't get there via public transportation or the commute is too long. If a move is not planned properly, it easily can turn into a disaster."

Defining the Hurdles

Midsize firms present a unique set of relocation challenges for a number of reasons, including:

◆ **Financial Considerations.** Most midsize firms are cash-flow oriented as opposed to larger firms that are more

profit-oriented. Also, creditworthiness is a major issue since midsize firms lack both the reputation and financial leverage of the larger, often publicly held corporations.

◆ **Organizational Consideration.** The midsize firm doesn't move that often and there is seldom an individual within the organization who has sufficient expertise to serve as the relocation coordinator. Moreover, many moves need special strategies that require the midsize firm to go outside the company for this kind of input.

◆ **Operational Considerations.** Especially crucial to the midsize company's move is the minimization of downtime — which involves finding time to change over computer and communications systems as well as to manage the physical move itself.

A good starting point is a careful analysis of the reasons for the move, some of which might be:

◆ The need for more space to accommodate an expanding work force or increased production capacity

◆ The need for less space to more efficiently accommodate a shrinking work force

◆ Replacement of antiquated facilities with more modern surroundings to make operations more efficient

◆ The merger of two companies or strategic business units into one and the corresponding need to create a physical environment to handle this consolidation

◆ Downsizing an operation and eliminating employees (Such a strategy will often manifest itself in a move to a new city or market.)

◆ Accommodation of employees who must commute

◆ Locating closer to key suppliers, vendors, and/or customers

Sources of Help

Fortunately, the midsize company seeking to relocate also has access to a variety of sources of assistance. Some of these sources charge no fees, while others charge fees based on the amount of services needed.

If a company seeks to change its venue and locate in another city, it may find help from governmental or private organizations within those markets whose mission is to attract business to

their city.

San Antonio, Tex., for example, offers businesses help through the San Antonio Economic Development Foundation, a privately supported not-for-profit organization that works with companies seeking to relocate to San Antonio, a market especially focused on the midsize company. Among the services offered are fast-tracking for permits, regulatory approvals, help in obtaining tax incentives, and assistance in employee recruitment.

Another source of assistance are the large, national real estate organizations such as C.B. Richard Ellis, Grubb and Ellis, and Trammell Crow. In addition to helping locate sites and properties, which these firms do as part of their commercial real estate services, they also perform such tasks as project management. The major focus of these large firms, though, is often the larger company, not the midsize firm.

"We provide a wide variety of services for companies seeking to relocate," says Chicago-based Peter J. Livaditis, principal of corporate advisor services for Trammell Crow Company. "We generally negotiate fees for these services depending on the scope of our involvement."

Relocation services offered by Trammell Crow include strategic planning; definition of requirements; scheduling and budgeting; market research; negotiation strategy; financial analysis; legal documentation; project management; construction management; and move coordination.

On a more local level, there are a number of smaller commercial real estate companies that provide comprehensive relocation services but focus on their local market. Pittsburgh-based Synergy Real Estate Corporation provides an example. According to Allan E. Wampler, Synergy's founder and president, more than 95 percent of its relocation work is paid for by fees rather than commission. Wampler lists what he calls four universal truths about any relocation assignment:

◆ It does not happen — it is managed to happen.

◆ It is not a decision, but a process that includes information-gathering, analysis, and a series of decisions.

◆ Perfection is unattainable. Opti-

Myth or Reality?

Controversy continues to stir over the belief that a major factor in the relocation of midsize businesses is proximity to the owner's home.

|| "There is story that is often told in Chicago real estate circles about A.B. Dick Company," says Jack Rosenberg, SIOR, senior vice president of Chicago-based Colliers Bennett & Kahnweiler's Industrial Group. "It seems they were looking to relocate and hired a major consulting firm who examined a variety of sites based on [the] needs for employees and governmental incentives. When they met with Mr. Dick, the owner, he put a compass on a map and said, 'I'll go anywhere within this radius.' The only place that met his criteria was a piece of property in Niles, Ill., and that is where they relocated."

|| Consultant Joe Cavolick, president of Chicago-based Cavolick Consulting Group, Inc., believes that the need to relocate near the owner's residence is a "popular myth."

|| "It's an unusual circumstance when an owner of a closely held company gets tired of the climate in South Dakota and decides he wants to move his business to Florida," Cavolick says. "In small to midsize companies, especially those with public ownership, the key questions about relocation focus on strategic considerations such as operations and human resources," he explains. "For example, if a company needs a pool of hourly workers, the ability to tap into a local labor force and the availability of public transportation have to be the key considerations."

|| "Another factor is the competition for that labor pool at that new location," Cavolick adds. "If a company wishes to relocate from the central city to a new business park in the suburbs, there might be seven other companies with the same idea and they will all end up competing for the same limited labor pool. While this new location might be closer to the owner's home, such a move clearly might jeopardize the business."

mization is the ideal in making the trade-offs between relocation goals.

◆ It is not a burden, it is an opportunity for improvement.

Wampler adds that the biggest variable with midsize relocations is labor. "Finding the right facility is certainly a key issue, but when we help clients relocate, access to labor is the major factor." He points out that the relocation process provides an excellent opportunity for companies to prune unneeded personnel — especially if the company's moving to another city.

"Let's say you have a person earning \$50,000 a year with benefits, and you can eliminate that job," he says. "The net present value of that salary over 20 years, depending on the firm's cost of capital, might be \$500,000. Take that \$500,000 and convert it into space at \$15 per square foot and you are talking about 32,000 square feet," Wampler says.

Typical commercial real estate brokerage firms provide transaction-based services. They help in site selection and the selection of architects, contractors, and others for no fees other than

the commission they will receive from the transaction.

"When we get into the management of construction, we charge a fee for those services," says Rob Salbego, senior vice president of transaction management for Chicago-based Equis Corporation.

Chicago-based Reed Illinois Corporation is a specialty firm that is often brought into a relocation project by the commercial realtor. Reed Illinois serves as a construction manager and gets involved in design/build projects as well as general contracting. "We charge fees for our services based on the scope of our involvement," says Terry Birck, the company's senior vice president.

Climate Change

The current state of the economy is definitely impacting midsize relocations, according to Philip R. Utigard, Chicago-based executive vice president of corporate advisory services at Transwestern Commercial Services.

"We are in a unique situation in the real estate market, especially for the midsize firm seeking to relocate," says

Utigard. "The dot.com fallout and the demise of high-tech companies has opened up a great quantity of small-block space, but with the economy going into recession, many companies are putting the brakes on relocation plans. Also, with an uncertain economy, developers are reluctant to commit to new constructions and lenders are wary of such plans.

"This," Utigard says, "translates into the need for the midsize company to have experienced staff with the ability to develop a relocation strategy. Unfortunately, a weakness of the midsize firm is lack of this kind of staff."

While the midsize company can find help from many sources, its greatest weakness is the lack of internal project management. Large companies generally possess this infrastructure, but small and midsize companies have to go outside to find it.

And yet, whether it be from a consultant, commercial real estate brokerage or specialty firm, or through a municipal not-for-profit organization, help for the midsize company is available and abundant. **AREA**