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The Corporate Headquarters Challenge

The location of a corporation's headquarters is an important element of its image and personality, so relocating comes with its own issues and consequences. Location Consultant Mark Sweeney tells us the steps to take.

By Mark Sweeney

"Phillip Morris Relocates HQ from NY to Richmond VA"

"Newell Rubbermaid moves HQ to Atlanta"

"Charlotte Scores Headquarters Relocation"

"Kinko's Moves Its West Coast Headquarters to Texas"

"Boeing Picks Chicago"



These are just a few of the many headlines we have seen in recent years announcing the move of another corporate headquarters. Major headquarters relocation projects are still relatively rare, but are high profile decisions. They capture the attention of the business world and the economic development community, as well as the company's stockholders and employees. Behind the headlines, though, headquarters relocation projects are difficult decisions for companies. They have immense consequences for a company's long-term identity as well as short-term continuity. Many firms will consider the possibility of a headquarters relocation, but few will get beyond preliminary consideration, and only a very few of these companies will actually make the decision to relocate.

The Ties That Bind

In the minds of both company leaders and employees, the location of a corporation's headquarters is an important element in its personality or image. Significant headquarters projects typically involve relocating away from a location where the firm was established, or at the very least where the firm has had a presence for a long time.

For the employees, their sense of place in the community is largely defined as being part of their company. The headquarters location may be the only location many employees have ever worked, while for others it may have been part of their long-term career goals to be assigned to headquarters. As a result, the company will find strong, binding ties to its current location among the headquarters employees, and these will be difficult to overcome.

The headquarters location is frequently an important part of the company's identity and position for its investors and its customers as well. The company may be a part of, indeed may have helped establish, a strong industry cluster presence in its community. The company's location is a basic component of its market position and how customers identify it and its products. An example of this would be American automotive companies with their headquarters in, and their very identity defined by, metropolitan Detroit (southeast Michigan). Ironically, historic market positioning tied to location may become a driver for a company's

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relocation—the company may need to reposition itself in the marketplace in response to its changing future opportunities. As part of establishing a new identity and position, it may need to sever ties to its old location.

The Human Resource Factor

People are what make up companies and people will be profoundly impacted by a headquarters relocation. In fact, it is important to note that people will be impacted by a potential headquarters relocation far in advance of the actual decision to move. The mere suggestion of such a project can have a major impact on the morale and productivity of the current headquarters workforce. In addition to the simple distraction effect, it will resonate throughout the workplace and become an emotionally traumatic issue. As a result, companies must initiate the discussion of a potential relocation with the smallest possible team under the strictest of external and internal confidentiality. Getting the needed information while maintaining confidentiality is a daunting challenge. It is important to realize that individuals selected for this small project evaluation team will also be dealing with all the issues identified here. They will have their own opinions on the wisdom of the project and may not be supportive, on a personal level, with the decision to relocate. As a result, the company risks getting biased input and may find its schedule or confidentiality compromised by conscious or even subconscious actions of team members.

Creating Continuity

A headquarters relocation project is going to be very disruptive, and this takes place at the core of the company, involving its highest executives and most important decision-makers and managers. Companies considering headquarters relocations are likely to be in the midst of big changes. The demands a company's management team are already facing may preclude them from embarking on a headquarters relocation.

Considering Cost

This is one of the toughest issues for a company to overcome when pursuing a headquarters relocation. In most cases, the headquarters relocation is from a higher cost location to a lower cost, or at least equal cost, location. However, the cost savings of a new location are almost always less than the relocation costs. The bottom line to headquarters relocations is that they are almost always net-cost projects, i.e. the costs are greater than the savings.



The costs items of a headquarters relocation project are similar to those of most new facility projects, but typically at much higher levels. In addition, there are some unique cost items associated with headquarter projects. Major cost items for a headquarters relocation include:

- Property acquisition—real estate costs in the new location
- Property disposition—real estate costs in the old location
- Employee relocation—significant amounts (high level executives) for significant numbers of people
- Employee retention—necessary to keep vital people on board during the transition period
- Employee severance—significant numbers of people
- Employee hiring—recruit, screen, and train a significant number of new employees in a new location

- Physical relocation—often a more manageable cost than initially expected
- Interruption—can be minimized by effectively managing the relocation

It is necessary for firms to try to quantify the strategic advantages to the new location—to attempt to put dollar values on the driving reasons for the relocation. (Of course, the firm may want to try to quantify some of the subjective cost factors as well, such as reduced productivity during the transition period, or increased turnover.) However, even when accounting for these beneficial factors, the firm is faced with comparing soft-savings dollars with hard-cost dollars. Be prepared to make a decision to proceed with a headquarters relocation in the face of a net-cost analytical result.

Reasons Companies Consider a Move

Announcements by companies that move their headquarters tend to focus on lofty issues and strategic advantages. This is actually an accurate expression of what is behind the relocation decision. The leadership of the firm must be convinced that the strategic and long-term interests of the company are best served in a new location and that the firm must accept the costs as an investment in its future. So it is appropriate for company executives to focus on those issues in announcing the move.

The actual issues for a company will be a combination of the strategic drivers and more practical considerations. The mix of factors will be unique for each firm that considers a headquarters relocation. However, there are several driving issues that are more commonly a part of a company's reasoning. These include:

Image and Brand Positioning—This can cover a wide range of applications and along with costs is probably the most common reason for headquarters relocation activity. For many firms, the key driver is to reposition itself in the marketplace with a new identity, and one part of establishing that new identity is to move to a new location.

Merger and Acquisition Activity—In major M&A projects, there will be two headquarters that will need to merge, eventually, into one. That is usually to one of the existing headquarters locations, since the challenges of moving to a new location would be doubled. However, such companies may want to create a unique, new company out of the merger and avoid the appearance of the merger being a takeover by one of the parties. A new headquarters location may be a necessary step to establishing the newly merged company with its own identity.

Proximity—As markets change over time, a company may find its current location no longer gives it the proximity to customers that it once had. Similarly, as old operational facilities close and new ones open, perhaps in different countries, a company may find its current location no longer gives it efficient proximity to its other operations. As a result, many companies are driven to relocate headquarters to achieve better proximity to markets or operations.

Reducing Costs—Most companies have spent the past decade or two wringing every last saving out of their manufacturing, supply chain, and customer service operations. So, companies are turning to their corporate and regional headquarter operations to look for additional savings. Many corporations look at the possibility of moving to a lower cost location to help reduce their overall costs of doing business. In addition, it is not unusual for a company to realize cost savings from a redesign of the organization, processes and workforce as well as from the lower cost location.

The Most Important Factors

The first step is to determine a set of candidate locations; i.e. defining the search region. The search region for a headquarters relocation project is somewhat unique. Those strategic drivers that are behind the project in the first place will go

a long way toward defining the search region. It is likely that the search "region" will not be a region at all in the sense of a defined contiguous area; rather, it will be a set of potential metropolitan areas that meet the fundamental strategic needs of the headquarters. Once these candidate metropolitan areas are defined, the actual communities, site and buildings to be considered will be identified, and this could include locations that are proximate to but outside the technical definition of the metropolitan statistical area.

Ability to Relocate, Attract and Retain Employees—Corporate headquarters projects involve the relocation of a substantial set of key employees. Interestingly, the percentage of employees targeted for relocation varies widely from project to project, ranging from less than 25% to over 50%. The new location must be one that enables the company to meet its employee relocation goals. Similarly, once relocated, companies must be confident their employees will want to stay. If the new location is qualitatively different than the old location (suburban area of large growing metropolitan area vs. downtown location in small older city), these employee risks get higher.

Available Labor Force—The availability of a qualified labor pool for current and future vacancies will be an important factor in evaluating new communities. The relocating company will be entering the labor market with a significant immediate need for a wide range of office, business and technical positions. As with any new company, especially in an office environment, turnover should be anticipated; as a result, the demand on the labor market will remain strong for a while after relocation. Communities with a large presence of management operations as well as high overall office sector employment will be attractive. The presence of universities with business and engineering programs is important to most companies as they are a source of future employees as well as a potential area for R&D collaboration.

Quality of Life—To many companies improving the quality of life for their employees is an important consideration. Companies look at factors such as the access to quality housing, low crime rates; shorter commute times; quality education at the primary, secondary and college levels; abundant quality day care; and access to high quality health care when evaluating potential new communities. These requirements must also include a wide range of choices in cultural, recreational, religious, housing and education opportunities. The character and personality of a community needs to be explored in order to be sure there is a "good fit" between the culture and values of the firm and those of the new community.

Cost of Living—The cost of housing differences between areas such as metropolitan New York or Los Angeles versus alternative headquarters locations can be dramatic. This factor enters into the decision in a number of ways, including the ability to relocate key employees, to attract new employees, and in overall salary and wage scale planning.

Cost of Doing Business—Many companies are looking for headquarters locations that will provide cost savings. For headquarters these operating cost savings include real estate, lower facility costs, lower initial salary rates, and lower taxes. The tax treatment of headquarters varies widely across states and can be a significant difference in the cost of doing business between one location and another.

Air Transportation—Access to quality air transportation is critical. The ability to get to most major cities, including international access, is an important evaluation criteria. In particular, firms will examine specific flights between the potential headquarters location and its most frequently visited cities, including where the company has other operations. As a result, companies will often find themselves looking primarily at locations with a hub airport.

Available Space—The actual headquarters site must be of the highest quality

with regard to such factors as site, park and building amenities; proximity to appropriate, high-end commercial activity; and ease of employee access. The space itself must be able to accommodate new workplace design as most companies will take advantage of a relocation to redesign their operating space. Finally, for firms building their own building or campus, the availability of temporary headquarters space near the new headquarters location is important.

Legal and Tax Environment—Another important issue is the legal environment of the new community. This is particularly important to firms who are looking to be in locations where tort reform of some sort has been enacted and juries are known to be less extreme in their judgments. The details of income allocation for income tax considerations and the definition of assets for franchise tax calculations are important elements of the tax environment of a headquarters location.

The Incentives Factor

Incentives become more important toward the latter stages of a decision. For headquarters projects, incentives may have an especially significant impact due to the fact the decision is more subjective among headquarters finalists than other projects, and the projects are typically "net-cost" to the company. In addition to traditional financial incentives (bond financing, tax incentives), some communities are offering direct financial assistance in the form of grants to offset employee relocation costs.

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