

## ASK THE EXPERT

By Jeannette Goldsmith, Principal, McCallum Sweeney Consulting

### Not Enough Love at Home?

**A successful company will often receive tempting relocation offers from surrounding locations. How will you make a decision if another community approaches you?**

**Q: I have never felt like my town or county leaders have been responsive to my company's needs, and I've gotten some pretty good offers from places within 200 miles of here. I know, however, that I would lose half my workforce with such a move. When is it worth it to move?**

—Name withheld



*Jeannette T. Goldsmith, Principal, McCallum Sweeney Consulting*

**The Expert Says:** Moving an operation is not a decision one should take lightly. It is, in fact, an extremely expensive proposition and it is difficult to make such moves without incurring significant costs. It is not clear from your question whether or not your operation is largely manufacturing, office-related, or a mix of both, so I will assume that it is both.

The bottom line (pun intended) is that the overall operating costs of the new location have to be lower than in your existing location AND you must be able to afford the upfront investment costs of a move. Doing an in-depth financial analysis of both the investment and operating costs associated with a move project is obviously an important exercise when deciding whether or not to undertake such an endeavor, and something that we here at McCallum Sweeney do on all of our projects. You should conduct this financial evaluation for both the current location as well as the potential new location to determine the overall costs (both investment and operating) associated with staying versus leaving.

Let's look at the investment cost side of the equation first. There are obvious investment costs to consider, such as the cost of acquiring land or a building. If you are considering building a brand new facility, there are a number of additional real estate-related costs to consider: engineering, site preparation, acquisition of construction materials, etc. If you are a manufacturing operation, the purchase of new machinery and equipment or the cost to move and reinstall existing equipment is another cost to consider. In addition, there are sales tax impacts associated with each of these cost categories.

The next category of investment costs to consider is the cost related to the people in your operation (both existing employees and new hires). First to consider is the cost to relocate individuals who do wish to come to the new location. Next are the severance costs associated with those employees who do not wish to relocate. Some companies may feel the need to incentivize key employees to stay until the move is complete and will pay retention bonuses to those individuals. Finally, there is the cost associated with recruiting, screening, relocating if necessary, and training of the new employees at the new location.

The final category of costs to consider is a bit more difficult to measure. These are the costs associated with either lost sales or lost productivity that are the direct result of the disruption associated with the move. Employees will be busy either trying to learn all that they can about the new location or looking for a new job; as a result, productivity is sure to suffer to some degree.

That covers investment costs; operating costs are another matter still. They will be comprised of things

like salaries, benefits, utility rates, tax rates, worker's compensation, unemployment insurance, training and education, etc. My advice here is: Don't get fooled by low income tax rates alone. Taken together with all operating costs, your effective tax rate may be an unpleasant surprise.