Strategic Drivers Motivating Headquarters Relocations

Headquarters projects present a unique set of challenges for companies and the locations seeking to attract them, partially due t the functions and roles involved.

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Anyone who has been involved in a headquarters relocation is aware of how strikingly different these projects are from industrial projects. Most industrial siting projects are new facilities, driven by the company's need to meet increasing demand, while headquarters projects are true relocation projects leaving one location for another. Headquarters projects present a unique set of challenges for companies and the locations seeking to attract them, partially due to the functions and roles involved.

While the specific criteria for headquarters projects will vary with each company, these projects are all motivated by strategic drivers. These are high level changes that involve fundamental core issues of a company. The following are some of the actual strategic drivers that were part of McCallum Sweeney Consulting headquarters relocation projects.

Alcoa Corp. is moving its global headquarters back to Pittsburgh, PA where the 129-year-old company ha been based until moving to New Yor City in 2006. (Photo: evolveEA)

Leadership: A board of directors will want to respect the preferences of their new CEO, so long as there are other reasons to support consideration of a headquarters relocation. While it is unlikely that a headquarters would be relocated strictly on the living preference (aka whim) of a new CEO, a change in leadership often includes an interest in relocating the headquarters operation. So once the process has begun, the CEO (and to some extent her top management team) will have a lot of influence on the final decision.

Merger/Acquisition: When a merger or acquisition occurs, the new entity will now have two headquarters along wi duplication of assets, functions, and talent. This creates a three-option decision: consolidate in one company's current location, consolidate in the second company's location, or consolidate in a new location. There are a lot of custom considerations involved in such decisions: relative strength of the merging entities, geographic advantages relative to the combined company, personnel strengths, recruiting competencies, transfer challenges to/from one location to the other, customer access, and real estate lease terms, just to name a few.

Restructuring: Large firms, especially international, often establish a "beachhead" with a sales office. Then, as success demands, a distribution facility, a production facility, research and development operations, and finally a headquarters. They are often initially structured in two large entities — Company, Inc. and Manufacturing, Inc. Eventually such firms may decide the benefits of having all functions under one headquarters structure will result greater coordination among critical and formerly separated functions.

Founding location and distribution of production assets: A firm may come to realize the geography of their production assets has changed significantly (maybe slowly over years and decades) and this has impacted the effectiveness of their headquarters location. This is often the case for headquarters in small cities, which is typical the location where they were founded. The company's assets are no longer "in the neighborhood" and may have a major international component, resulting in a headquarters operation that has grown steadily inefficient. The lack headquarters infrastructure — top level offices for corporate law firms, major and international accounting firms, strategic and operational partners and suppliers — can result in higher costs for these services. This results in higher costs (travel costs, effectiveness) to operate their headquarters even in a generally lower cost location. At th same time, headquarters located in their founding location typically have strong corporate-community relationships, providing a benefit that is not easily quantified.

International considerations: With the steady rise of globalization over the past decades, companies are faced witl the need to establish a stronger international presence. Simply being able to physically visit and manage far flung production facilities can be very demanding on many headquarters functions, and doing so from smaller cities without direct international flights adds to this burden. Pursuing new international markets and managing relationships with new customers and suppliers will demand frequent visits. As firms establish an international reach, such distribution of assets will create demand for international talent. The company will need access to a labor pool that understands the language and culture of the new places as well as the business demands of their particular headquarters role.

Recruitment and retention: Perhaps the one factor we see that is common to every headquarters project, or even the consideration of a headquarters project, is the requirement to recruit and retain critical talent. For companies located outside a major international city, and without a global hub airport, recruiting critical talent can be difficul It will involve relocating individuals whose considerations include finding a concentration of similar opportunities (i case the job doesn't work out), spousal employment opportunities, international support services, and a communi known for openness and tolerance. The presence of a substantial pool of 21-to-35-year-old college and technically educated people is desired as the baby boomer generation leaves the labor market.

Operating costs: While cost considerations alone will rarely be enough to drive a headquarters relocation, this fact can have strong impacts nonetheless. Companies that are driven by many of the factors noted above will find themselves drawn to a higher cost location than their current one, and the strategic benefits of these high cost locations will outweigh the cost concerns. This will often lead to a project where certain functions that are not physically required to be in the headquarters will be relocated to a less costly operation location. Accordingly, back office/shared services operations are likely to locate in mid-size or small metros where operating costs are low, bu there is still an attractive talent pool.

Recent Headquarters Relocations

Date	Company	New Location	Former Location
April 2017	Alcoa	Pittsburgh, PA	New York City
April 2017	Maserati (U.S. HQ)	Auburn Hills, MI	Englewood Cliffs, NJ
February 2017	Nestle USA	Rosslyn, VA	Glendale, CA
January 2017	Caterpillar	Deerfield, IL	Peoria, IL
October 2016	Marriott International	Bethesda, MD (downtown)	Bethesda, MD (suburban)
October 2016	ConAgra	Chicago, IL	Omaha, NE
January 2016	General Electric	Boston, MA	Fairfield, CT

Headquarters projects are substantial investment decisions. A relocation is often an indication of a recent change, such as leadership, merger, or restructure. But they can also be due to changes over a long period of time, due to spreading production or market share geographically. While costs remain important, finding the right employees t lead the "nerve-center" of the organization is critical.

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