



# Missouri Wonk

## Summary

Businesses rely on a variety of factors when making location, relocation, or expansion decisions. These factors often include a region's business climate, availability of skilled labor and labor costs, access to transportation, financial and tax considerations, the quality of life in an area, or other more specific factors that are specific to the nature of the business. Each of these factors carries a different weight depending on the needs of a particular firm. Tax policy generally receives the largest share of attention in debates; however evidence suggests that factors like infrastructure and human capital may have more influence in location decisions.

## Introduction

Missouri Wonk conducted an independent analysis of factors that firms consider when deciding whether to locate, expand, or relocate in an area and also considered the role that the tax policy of a region plays in their decisions. This analysis will explore decision factors common among most businesses, which include the region's business climate, labor laws and workforce, transportation and infrastructure, the quality of life in the region, and finance and incentive considerations. Additionally, this paper will delve into other factors unique to specific firms. Missouri Wonk will also analyze anecdotal evidence for what factors recently drove businesses to locate in Missouri. The analysis will conclude with a brief discussion on the role of a region's tax policy in the location, expansion, or relocation decisions of businesses.

## Business Climate & Primary Motivation Factors

### Business Climate

The business climate of a state is often a major consideration when businesses make a decision regarding locating, expanding, or relocating. Economic development professionals judge a state's business climate by assessing state and local taxation policies, employment law, union activity, and other factors. A pro-business moniker is a subjective term; organizations have different criteria for assessing the business climate of an area. There are numerous associations, institutes, and trade and commercial publications that publish rankings each year that list the top states and cities for business or the best places to live. The methodology to



compute the ranking often will look at factors like taxation, labor, right-to-work and worker's compensation laws, energy costs, infrastructure spending, and the economic stability and quality of life factors of an area.

Table 1 is the "2012 Top 10 Pro Business Ranking" which represents a joint endeavor conducted by the American Enterprise Institute, a non-partisan public policy think tank and Pollina Corporate Real Estate, a location analysis and site selection consulting firm. The study examines 32 factors in determining areas that are "pro-business" and evaluates state-level efforts to be more competitive. The ranking reflects a two-stage approach that first looks at labor, taxes, and other factors and then examines state government-controlled factors, including financial incentive programs and economic development evaluations of the business climate.

**Table 1: 2012 Top Ten Pro-Business State Rankings**

State and Rank	
1)	Utah
2)	Virginia
3)	Wyoming
4)	North Dakota
5)	Indiana
6)	Nebraska
7)	South Dakota
8)	Kansas
9)	Missouri
10)	Oklahoma
Source: Joint study between American Enterprise Institute and Pollina Corporate Real Estate, 2012	

Table 2 is the "U.S. Business Policy Index 2012," which ranks the 50 states according to 46 government-imposed or related costs that affect investment, entrepreneurship and business. Conducted by the Small Business & Entrepreneurship Council, this study examines taxes, health policy and regulation, energy policy and costs, crime, worker-related laws, wages, tort laws, regulatory climate, state and local government spending, state and local revenue, property laws, transportation costs and education policy.



**Table 2: 2012 U.S. Business Policy Index**

State and Rank	
1) South Dakota	26) New Mexico
2) Nevada	27) Wisconsin
3) Texas	28) Kansas
4) Wyoming	29) Kentucky
5) Florida	30) West Virginia
6) Washington	31) Idaho
7) Alabama	32) Montana
8) Utah	33) Delaware
9) Colorado	34) Arkansas
10) Arizona	35) Illinois
11) Michigan	36) Maryland
12) Virginia	37) North Carolina
13) Indiana	38) Massachusetts
14) South Carolina	39) Nebraska
15) Mississippi	40) Minnesota
16) North Dakota	41) Rhode Island
17) Tennessee	42) Connecticut
18) Ohio	43) Oregon
19) Alaska	44) Iowa
20) New Hampshire	45) Hawaii
21) Georgia	46) Maine
22) Missouri	47) New York
23) Oklahoma	48) Vermont
24) Pennsylvania	49) New Jersey
25) Louisiana	50) California
Source: Small Business and Entrepreneurship Council-December ,2012	



## Survey of Motivating Factors

In addition to a state's business climate, there are additional factors businesses consider as well. To facilitate site selection, many firms will use site consultants to help identify suitable locations and available incentives.

The leading site and facility planning executive magazine, Area Development, conducts two annual surveys; one directed at corporate executives and the other targeted at site consultants. In most cases, the chief executive or a member of the executive team of a business responds to the survey. Most respondents are involved in either the final or preliminary location decision of the business and work for firms that employ between 100-499 people worldwide. The survey asks questions about business climate and attitudes or intentions of facility relocation, expansion or closure. The survey also asks respondents to indicate the level of importance of primary location motivation factors.

The following analysis outlines the current issues and opinions regarding each motivation factor as well as data from the most recent survey published by Area Online Magazine. This listing includes the most comprehensive and robust set of factors available for public analysis. The results from the 26<sup>th</sup> Annual Corporate Executive Survey are below. Factors listed as "very important" or "important" were scored, combined, and then ranked with 1 representing the most important factor.

### Factor 1: Labor/Workforce

The availability of both skilled and unskilled labor, training programs, labor costs, union influence and whether or not a state has a right-to-work law heavily influences business location decisions. Firms need access to a workforce with basic competency in reading and math but also emphasize finding workers with specific skill sets as opposed to broad-skills developed from a general education. In some instances, firms in regions with high unemployment will struggle to find skilled workers and are unable to staff open positions (Claborn, 2012).

State economic development now includes proactive training programs and grants as part of incentive packages. Additionally, community colleges have partnered with the business community to create curriculum catered to the prominent industries within a regional cluster. In many cases, industry-specific labor pools shape the formation of industry clusters more than proximity to suppliers or customers (Hamilton, 2004).

In Area Development Magazine's latest site selection survey of corporate executives, the "availability of skilled labor" ranked equally with "labor costs" as the second most critical priority in location decision factors; these factors were second only to "highway accessibility" (Area Development, 2012). Table 3 shows the labor factors considered by businesses and how important these factors are in the location decisions of businesses.



**Table 3: Site Selection Factors - Labor**

Rank	Factor	Very Important	Important	Minor Consideration	No Importance
1	Availability of skilled labor	51.6	36.8	6.3	5.3
2	Labor costs	56.8	31.6	7.4	4.2
3	Low-union profile	58.9	22.1	6.3	12.6
4	Right-to-work state	53.8	23.7	16.1	6.4
5	Availability of unskilled labor	16.8	42.1	27.1	14.0
6	Training program	22.6	28.0	37.6	11.8

Source: Area Development Magazine, 26th Annual Corporate Survey, 2011

### Factor 2: Transportation/Telecommunication/Infrastructure

Firms that depend on transportation access for both labor and capital consistently rank “highway accessibility” as very important. Transportation is important for industrial recruitment, economic development, and supply-chain fulfillment. Sound highways are critical for just-in-time goods and reasonable commute times for workers. Additionally, many industries rely on rail and port access to receive and ship their materials.

In a recent study prepared for the Associated Equipment Distributors (AED) that examined the economic impact and financing of infrastructure spending, researchers found that a dollar spent on infrastructure construction would roughly produce twice as much spending in economic output in the short-run and triple as much spending in the long run. Manufacturing and professional/business services sectors see the greatest effects from this investment, but it will also impact the agricultural industry and eventually the general economy as a whole (Cohen, 2011).

In a survey conducted in 2011, site selection consultants ranked “highway accessibility” as the number one site selection factor. Firms in the midst of relocating a foreign facility back to the U.S. listed “lack of robust utility infrastructure,” “difficulties transporting supplies/products,” and the “cost of transporting supplies/products” as primary motivators (Area Development, 2012). Table 4 lists the transportation factors important in a business’s location decision.



**Table 4: Site Selection Factors - Transportation/Telecommunications**

Rank	Factor	Very Important	Important	Minor Consideration	No Importance
1	Highway accessibility	66.0	27.8	5.2	1.0
2	Availability of advanced services	45.7	30.9	16.0	7.4
3	Accessibility to major airport	18.9	36.8	28.4	15.8
4	Railroad service	14.7	18.9	31.6	34.7
5	Waterway or oceanport accessibility	6.4	18.1	30.9	44.7

Source: Area Development Magazine, 26th Annual Corporate Survey, 2011

### Factor 3: Finance & Tax Incentives

State tax policy is the subject of intense scrutiny with regards to location decisions and the findings with regards to the overall impact on location decisions often conflict. Site selection analysis consists of properly balancing numerous factors into a decision matrix. Attributes central to operations, like labor pool characteristics and access to customers, will most heavily drive the location decision. However, tax and finance issues play into the overall cost of doing business and do represent a significant expense for most businesses. The most recent survey data suggests that the corporate tax rate ranks as the most important among a business's financial considerations, barely edging out state and local incentives (Area Development , 2012).

For firms that are highly sensitive to taxation because of their sales, investment or overall operations, the tax policy of an area can eliminate certain sites from consideration. Table 5 lists the finance and tax incentive factors important to businesses that responded to the survey.



**Table 5: Site Selection Factors - Finance & Tax Incentives**

Rank	Factor	Very Important	Important	Minor Consideration	No Importance
1	Corporate tax rate	50.5	35.5	9.7	4.3
2	State and local incentives	41.3	44.6	9.8	4.3
3	Tax exemptions	41.8	41.8	11.0	5.5
4	Availability of long-term financing	42.2	27.8	20.0	10.0

Source: Area Development Magazine, 26th Annual Corporate Survey, 2011

#### Factor 4: Quality of Life

The quality of life factor generally encompasses the social, cultural, and environmental conditions present where businesses operate and people live. The Intelligence Unit at *The Economist* developed a “quality of life” index based on surveys. The indicators in the index include material well-being, health, political stability and security, family life, community life, climate and geography, job security, political freedom, and gender equality. The United States as a whole scored in the top ten percent of the countries measured, just ahead of Canada (The Economist, 2005).

Quality of life extends beyond comparisons between countries; often businesses will consider the quality of life in an area when deciding where to locate within the United States. Location decisions rarely begin with a concentrated focus on quality of life factors; however, when the location choices have narrowed, certain quality of life attributes will become deciding factors. For example, in May of 2002, when executives for a Silicon Valley IT firm searched for a second location for R&D efforts, the North Carolina Research Triangle area beat out eight other locations because of quality-of-life factors, specifically for cost of living and the fact that the Research Triangle was more “family-oriented” (Hamilton, 2004).

Firms that take a longer view of the work cycle will consider a community’s investment in public transportation, parks and recreation centers, and education, as these amenities help attract and retain a young, vibrant workforce that keeps talent in the workforce pipeline. Table 6 lists the quality of life factors important to businesses that responded to the survey.



**Table 6: Site Selection Factors - Quality of Life factors**

Rank	Factor	Very Important	Important	Minor Consideration	No Importance
1	Low crime rate	31.0	51.0	14.0	4.0
2	Healthcare facilities	19.4	51.6	18.3	10.8
3	Housing costs	18.3	51.6	21.5	8.6
4	Ratings of public schools	18.3	50.5	22.6	8.6
5	Housing availability	15.2	48.9	27.2	8.7
6	Colleges and universities in area	10.9	45.7	31.5	12.0
7	Recreational opportunities	5.3	47.9	34.0	12.8
8	Climate	9.8	42.4	39.1	8.7
9	Cultural opportunities	4.9	37.9	45.6	11.7

Source: Area Development Magazine, 26th Annual Corporate Survey , 2011

### Factor 5: Operational and Other Factors

As with quality of life, industry or operational-specific factors can be a prime motivator for some firms and a non-issue for others. For a large consumer of electricity, “energy availability” costs might be more important than labor costs and for a construction or engineering firm, “expedited permitting” may be essential. Surveys and rankings tend to cover general considerations or regional advantages; however in location decision-making, firm-specific factors may carry the greatest weight. Table 7 provides some of these other factors and how they rank in importance.





**Table 7: Site Selection Factors - Other**

Rank	Factor	Very Important	Important	Minor Consideration	No Importance
1	Occupancy or construction costs	42.4	43.5	10.9	3.3
2	Energy availability and costs	44.6	40.2	13.0	2.2
3	Proximity to major markets	40.4	42.6	16.0	1.1
4	Inbound/outbound shipping costs	44.0	35.2	11.0	9.9
5	Environmental regulations	35.5	40.9	21.5	2.2
6	Available buildings	29.0	47.3	20.4	3.2
7	Available land	29.3	44.6	20.7	5.4
8	Expedited or "fast-track" permitting	25.3	47.1	24.1	3.4
9	Proximity to suppliers	23.7	44.1	28.0	4.3
10	Raw materials availability	22.5	30.3	30.3	16.9
11	Proximity to technical college/training	6.5	33.7	45.7	14.1



## Firm Specific Characteristics

As just discussed, location decisions of firms often depend on firm-specific characteristics. In such cases, the interaction between these characteristics and potential locations will influence business location choices. The following examples show how specific factors, other than the ones previously described, influence a firm's location decisions.

### Case Example 1 - The Advantage of Isolation

Microsoft, Inc. and Lucasfilm, LLC are two examples of firms located a considerable distance from their respective industry clusters of Silicon Valley and Hollywood. Their size allows them to be more self-sufficient and less dependent on external resources. As industry leaders, these firms may value isolation over collaboration, as closeness to competitors may lead to losses from labor mobility, information leakage, or imitation. Small start-ups on the other hand establish linkages to compensate for a lack of internal resources and benefit from agglomeration (Nachum, 2002).

### Case Example 2 – Growth of the sub cluster: wholesale dominance in Missouri

Freightquote.com is the largest online freight shipper in the United States and an example of traded industry firm within the wholesale sub cluster of transportation and logistics; the company is located in Missouri. Nearly half of all wholesale trading in the United States occurs within a 500-mile radius of Missouri (MERIC, 2007). This cluster also includes logistical services, shipping containers, warehousing, local haulers and interstate/international haulers; it employs the largest percentage (7.6%) of cluster jobs in the state. By locating in a cluster, Freightquote.com benefits from the geographical interconnectivity with other firms in its industry. Firms that locate in close proximity to others in their industry seek to improve efficiency and effectiveness through transfer of knowledge, innovation, and specialization (Zelbst, 2010).

### Case Example 3 – Training Initiative Attracts BMW to South Carolina

BMW, the German automotive manufacturer, produces 80% of its cars to order and relies on a close relationship with its suppliers and high-technology precision and efficiency on its assembly line. When the firm looked to expand its operations into the United States, one of the greatest challenges was ensuring that American employees could learn the German way to assemble automobiles. The state of South Carolina used its incentive-based readySC™ program to satisfy BMW's firm-specific advanced skill force needs and provide customized training to prepare workers for the plant opening. The real incentive cost per job to BMW was \$81,479 in South Carolina as opposed to \$192,730 for Mercedes in Alabama. BMW cites the training package, not the incentives, as the factor that allowed them to move from a 40/60 to a 90/10 American to German assembly work force since opening in 1992 (The Division of Research, 2002)



## Reasons Why Businesses Choose Missouri – Anecdotal Examples

The Missouri Department of Economic Development uses six industry specific portals on its website to attract locations, relocations, and expansions of business to the state. They are automotive supply, bioscience, information technology, energy solutions, advanced manufacturing and health sciences and services. Each portal features testimonials and digital interviews with local businesses that have located, relocated or expanded in Missouri. Table 8 is an anecdotal sampling of such companies, the industry they represent, and key factors that influenced their location decision.

**Table 8: Key Factors for Missouri Location, Relocation or Expansion**

Company	Industry	Key Factor
EaglePicher Technologies	Energy Solutions	Technical talent and the ability to attract and retain engineers
Cosma International	Advanced Manufacturing	Proximity to customers for better cost management and just-in-time production
Mercy Research & Development	Health Sciences and Services	Trained workforce and quality education
SDC Probiotics	Biosciences	Access to international markets
Freightquote*	Information Technology	Attractive workforce, geographical location, incentives
<p>* Freightquote is an information technology provider within the transportation and logistics cluster. Source: Missouri Department of Economic Development, Industry Web Portal, 2013</p>		

## The Role of Taxation

When states set out to design or redesign their tax policies, they have many factors to consider. These factors include efficiency, fairness, simplicity, revenue adequacy, competitiveness, and how any proposed tax policy interacts with federal tax policy. These considerations often compete with each other as one policy may be more efficient than fair or alternatively, more fair than efficient. A policy may strike the right balance between efficiency and fairness but may not produce enough revenue to meet the demands of government. Or a policy can be efficient, fair, and bring in adequate revenue but may not be competitive with other states. Regardless, it is difficult to find a tax policy in practice that is simple. Policymakers make trade-offs between these factors in order to strike a balance that works on both economic and political levels.



Much like the consideration process that states employ in developing their tax policy, businesses use a similar process when deciding where to locate, expand, or relocate. They consider many factors such as business climate, labor, transportation, or other, more industry-specific factors. Depending on the nature of their business, the tax policy of a state may eliminate states from consideration for some firms looking for a place to locate; however, if a state adopted an alternative tax policy, it could have the same effect. For most businesses, tax policy is only one in a myriad of factors that must be carefully weighed and balanced according to their specific needs.

## Summary

Businesses rely on a variety of factors when making location, relocation, or expansion decisions. These factors often include a regions' business climate, availability of skilled labor and labor costs, access to transportation, financial and tax considerations, the quality of life in an area, or other more specific factors that are specific to the nature of the business. Each of these factors carries a different weight depending on the needs of a particular firm. Tax policy generally receives the largest share of attention in debates; however evidence suggests that factors like infrastructure and human capital have more influence in location decisions.



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