Site Selection Consulting Services
of Buck Consultants International

Buck Consultants International
Nijmegen, the Netherlands, March 2002
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1 Introduction Buck Consultants International

Areas of activity for:

- **Corporate clients:**
  - Business strategy development
  - Location advice
  - Real estate strategy and projects
  - Supply chain optimization

- **Public clients:**
  - Transport, logistics and infrastructure projects,
  - Regional economic development
  - Programs and strategies to attract foreign enterprises

Profile:

- Established in Nijmegen, the Netherlands in 1985
- Employs 65 full-time professionals
- Performed studies in more than 20 European countries
Buck Consultants International offers corporate location and site selection consulting services for:

- offices for national or European headquarters
- shared services/call centers
- manufacturing/assembly plants
- international distribution centers
- R&D centers
- data centers
Other business consulting services offered are:

- selection of third party logistics services providers\(^1\)
- identification of strategic alliance partners
- supply chain optimization\(^1\)
- development of business plans
- benchmarking and market studies
- corporate real estate advice (e.g. acquisition and disposition of sites and buildings, assessing real estate scenarios)\(^2\)
- site marketing (e.g. industrial complexes, airports, business centers)

\(^1\) A separate brochure “Making your Supply Chain Outperform the competition in the European market - 2002” is available at your request

\(^2\) A separate brochure “Corporate Real Estate and Location Consulting Services - 2002” is available at your request
Characteristics of BCI’s consulting services:

• close co-operation with the client
• pan-European services (offices in 8 countries: of which 7 in Europe)
• tailor-made
• cost-effective
• impartial
• independent
• fixed time frame
• industry sector specific knowledge
The importance of the right location

Why is selecting the right location for your new facility so important?

- The locations of facilities have a significant influence on the operations and risk perspectives of a company.
- New locations often require investments of millions of dollars, choosing the wrong location is a very expensive mistake.
- For non-manufacturing operations, real estate costs are generally the second largest cost factor after labor costs and represent in general about 10-15% of a facility’s total costs.
Trends influencing the site selection process

Let’s review each of these trends at a conceptual level.
**A Scale of operations**

The geographical scope of a site selection is changing: there is increasing Euregional and European emphasis, but with a national/regional and local content. This trend is facilitated by improved transportation and ever increasing IT connectivity.

<table>
<thead>
<tr>
<th>Operation</th>
<th>National</th>
<th>Euregional</th>
<th>European</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Back offices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing &amp; sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
B Outsourcing to third parties

Multinational companies increasingly outsource activities and return to core business. For example:

- Manufacturing → Contract manufacturing/Value added logistics
- Call centers → Third party call centers
- Logistics → Logistics subcontractors/final assembly
- R&D → Contract research (e.g. clinical trials)
C Mergers and Acquisitions

- Companies merge in order to rapidly expand their geographical coverage
- Companies sell divisions in which they will never be a market leader
- Companies acquire companies to expand the scope of their product offering

Drivers:  
- economies of scale
- economies of scope

Result: rationalization of operations
D Customer service levels

Companies realize that market success increasingly depends on the level of customer service. Speed, reliability of delivery, customer support and technical assistance are critical factors nowadays.

Result: the establishment of shared services centers and customer contact centers for the Euregional or national market.
E Growing importance of labor

In the European economy the personnel issue has become a critical success factor. Labor cost levels and labor availability are the main drivers for many site selection processes.

As a result of economic growth and increasing labor flexibility, unemployment is at an all-time low. In some regions not only costs but also availability and quality of labor are becoming critical location factors. Some metropolitan regions show signs of overheating:

• labor shortages (skilled and unskilled)
• rising wages
• competition amongst employers

Result: companies, in search of a suitable workforce, are reviewing their current locations and considering relocation to regions with acceptable wages and sufficient labor.
F Internet and E-Commerce

The Internet and E-Commerce have changed location issues

• Telecom infrastructure (bandwidth) is becoming a critical location factor
• Information and Communication Technologies change business processes significantly:
  – Technical support : remote web enabled support
  – Customer education : courses supplied via the internet
  – Finance and general admin. : moving to standard global processes
  – Product sales & information : product info and purchase direct on the Internet
  – Working at home : personnel equipped to work remote

Result : • location still matters in search for the right telecom infrastructure
  • changing space requirements will lead to a review of sites, buildings and locations
European Monetary Union (EMU)

As a result of the Eurozone, the European single currency zone, the monetary, and on longer term also the fiscal policy in the member states will be harmonized.

What does the creation of the EMU means for international site selection?

Drivers:
- Real cost savings: no currency conversion
- Minimization of economic risk: exchange and currency hedging not necessary anymore
- Product price differences will become transparent

Result:
- The Euro causes convergence in economic and financial profile of countries and regions
- Location decisions are no longer influenced by exchange rate issues
Results of these trends influencing the location selection process

• New business concepts are emerging
  • Back offices
    – shared service centers (admin.)
    – call centers → customer contact centers
  • Third parties
    – logistics services providers
    – third party call center providers
    – contract manufacturers
  • E-companies
    – M&S offices
    – customer contact centers
    – logistics facilities/fulfillment centers
Location factors are diverging and converging

As a result labor climate, suppliers & knowledge, infrastructure and logistics are becoming more important because regions/locations can really vary on these factors (divergence of locations)
Concrete location challenges for your company

Is your company:

☐ entering or expanding into the European market?

☐ thinking of consolidating operations?

☐ experiencing that the present location does not meet (future) requirements and do you need an alternative solution?

☐ in need of a new facility (plant, office or warehouse) and looking for the best location?

☐ thinking of relocating the current facility and buying or leasing a new facility?
16 years of experience have learned us the following golden rules of site selection

- Link the location decision process with the overall strategies
- Take a long term corporate view
- Escape from a narrow scope
- Verify all assumptions of the process
- Set clear priorities in location requirements
- Focus on regions, not countries
- Anticipate future regional developments
- Search for excellence in terms of region, site & building
- Develop an exit scenario
- Challenge all information you get
- Plan the project’s process thoroughly
- Negotiate a better deal
Site selection is not a stand-alone process but has to be embedded in your company’s overall strategies.
Site selection process: narrowing down from European to site level

**Stage A**
Start up:
Definition investment profile & location requirements

**Stage B**
Quick scan:
Limiting the search area to target areas

**Stage C**
In-depth assessment selected target areas

**Stage D**
Identification of sites and site visits

**Stage E**
Negotiations

**Stage F**
Final choice

*) : Indicative number
A site selection process is a **project specific** process: not all location
criteria are equally important, they are weighted according to the
individual project characteristics and drivers:

<table>
<thead>
<tr>
<th>Location factor</th>
<th>Type of operation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Office</td>
</tr>
<tr>
<td>Economic profile</td>
<td>++</td>
</tr>
<tr>
<td>Market prospects</td>
<td>(+)</td>
</tr>
<tr>
<td>Taxes</td>
<td>+++</td>
</tr>
<tr>
<td>Regulations</td>
<td>+</td>
</tr>
<tr>
<td>Labor climate</td>
<td>+++</td>
</tr>
<tr>
<td>Suppliers &amp; know how</td>
<td>++</td>
</tr>
<tr>
<td>Utilities</td>
<td>+</td>
</tr>
<tr>
<td>Incentives</td>
<td>(+)</td>
</tr>
<tr>
<td>Quality of life</td>
<td>+++</td>
</tr>
<tr>
<td>Infrastructure &amp; logistics</td>
<td>++(+)</td>
</tr>
<tr>
<td>Sites &amp; offices</td>
<td>++</td>
</tr>
</tbody>
</table>

Key:  +++ = Critical  ++ = Important  + = Less important  (+) = Depends on project
### Example: Many location factors can play a role

<table>
<thead>
<tr>
<th>I Economic Profile</th>
<th>IV Regulatory framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>• exchange rates</td>
<td>• marketing authorization</td>
</tr>
<tr>
<td>• inflation</td>
<td>• product pricing regulations</td>
</tr>
<tr>
<td>• stability of currency</td>
<td>• patent protection</td>
</tr>
<tr>
<td>• political stability</td>
<td>• certification</td>
</tr>
<tr>
<td>• economic growth</td>
<td>• packaging regulations</td>
</tr>
<tr>
<td>• employment growth</td>
<td></td>
</tr>
<tr>
<td>• exports - imports</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II Market Prospects</th>
<th>V Labor climate</th>
</tr>
</thead>
<tbody>
<tr>
<td>• industry figures</td>
<td>• costs (per sector of industry)</td>
</tr>
<tr>
<td>• proximity to market</td>
<td>• productivity</td>
</tr>
<tr>
<td>• benchmarking information</td>
<td>• working hours</td>
</tr>
<tr>
<td>• GDP figures</td>
<td>• vacation</td>
</tr>
<tr>
<td>• sales leverage</td>
<td>• availability of work force</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>III Taxes</th>
<th>VI Suppliers &amp; know-how</th>
</tr>
</thead>
<tbody>
<tr>
<td>• corporate taxes</td>
<td>• suppliers</td>
</tr>
<tr>
<td>• depreciation rates</td>
<td>• raw materials</td>
</tr>
<tr>
<td>• withholding taxes</td>
<td>• foreign companies</td>
</tr>
<tr>
<td>• fiscal system</td>
<td>• universities/hospitals</td>
</tr>
<tr>
<td>• local taxes</td>
<td>• technological institutes</td>
</tr>
<tr>
<td>• real estate taxes</td>
<td></td>
</tr>
<tr>
<td>• legal entities</td>
<td></td>
</tr>
</tbody>
</table>
**Example: Many location factors can play a role**

<table>
<thead>
<tr>
<th>VII Utilities</th>
<th>X Logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>• electricity expenses</td>
<td>• inbound shipments</td>
</tr>
<tr>
<td>• gas expenses</td>
<td>• distribution pattern</td>
</tr>
<tr>
<td>• water expenses</td>
<td>• availability of qualified logistics suppliers</td>
</tr>
<tr>
<td>• telecommunications</td>
<td>• distribution costs</td>
</tr>
<tr>
<td>• waste disposal</td>
<td>• delivery times</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VIII Incentives</th>
<th>XI Sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>• investment grants</td>
<td>• availability of qualified sites/buildings</td>
</tr>
<tr>
<td>• employment grants</td>
<td>• purchasing costs</td>
</tr>
<tr>
<td>• training grants</td>
<td>• lease costs</td>
</tr>
<tr>
<td>• loans</td>
<td>• building costs</td>
</tr>
<tr>
<td>• venture capital</td>
<td>• property taxes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IX Quality of life</th>
<th>XI Sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>• costs of living</td>
<td>• accessibility by car/public transport</td>
</tr>
<tr>
<td>• housing</td>
<td>• building regulations</td>
</tr>
<tr>
<td>• international schools</td>
<td></td>
</tr>
<tr>
<td>• personal taxes</td>
<td></td>
</tr>
</tbody>
</table>

- Example: Many location factors can play a role
Buck Consultants International’s approach for selecting project specific location criteria - weighted according to their importance

- Basic range of possible location requirements (11 factors, 72 criteria)

  Project specific subset of up to 20-25 criteria

  Weighted project specific set of up to 20-25 criteria

Selection based on:
- a rough project outline
- our experience and reference models

Weighting based on:
- your detailed project specifications
- our experience and reference models
Project specific location criteria

In general, the Buck Consultants International approach focuses on **costs** and **quality** of the new location

**Cost factors**
- Labor costs
- Transportation costs
- Occupancy costs
- Incentives
- Taxes
- etc…

**Quality factors**
- Labor availability
- Labor flexibility
- Business climate
- Infrastructure
- Utilities
- etc…
**Example:** Site selection review of a shared services center (SSC) as a result of a company’s division consolidation

<table>
<thead>
<tr>
<th>Case</th>
<th>A company decides to consolidate its back office activities on a pan-European level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key questions</td>
<td>• How does an existing corporate facility score as potential solution?</td>
</tr>
<tr>
<td></td>
<td>• What are the best location(s) within Europe for the company’s new SSC in order to best meet the company’s objectives?</td>
</tr>
</tbody>
</table>

Cost-quality analysis with the following location factors:

1. **Costs of labor**
2. **Occupancy costs**
3. **Investment costs**
4. **Investment incentives and grants (-/-)**

Cost factors:
- in their real value in US$

A. **Labor availability**
B. **Attractiveness for international workforce**
C. **Labor regulations**
D. **Infrastructure, sites and facilities**

Quality factors:
- in weighted score from:
  - 1 = not favorable to the company
  - 5 = very favorable to the company
**Example: Project specific weighted site selection criteria for the new shared services center**

<table>
<thead>
<tr>
<th>Location categories</th>
<th>Relative weight</th>
<th>Location factors</th>
<th>Relative weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Cost of labor</td>
<td>In U.S.$</td>
<td>A1 Total annual compensation General Sales Admin</td>
<td>In U.S.$</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A2 Total annual compensation Team Leaders</td>
<td>In U.S.$</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A3 Total annual compensation Process Engineers/support</td>
<td>In U.S.$</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A4 Total annual compensation Managers</td>
<td>In U.S.$</td>
</tr>
<tr>
<td>B Operating costs</td>
<td>In U.S.$</td>
<td>B1 Occupancy cost</td>
<td>In U.S.$</td>
</tr>
<tr>
<td>C Total relocation costs</td>
<td>In U.S.$</td>
<td>C1 Relocation costs</td>
<td>In U.S.$</td>
</tr>
<tr>
<td></td>
<td></td>
<td>C2 Recruitment costs</td>
<td>In U.S.$</td>
</tr>
<tr>
<td>D Investment subsidies</td>
<td>In U.S.$</td>
<td>D1 Investment incentives and grants</td>
<td>In U.S.$</td>
</tr>
<tr>
<td>E Educated labor availability (locally sourced)</td>
<td>45</td>
<td>E1 Presence of similar companies as recruitment potential</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>E2 Local pool of professionals</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>E3 Local pool of educated, non-professionals</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>E4 Local professional development opportunities</td>
<td>25%</td>
</tr>
<tr>
<td>F Attractiveness to retain and hire international workforce</td>
<td>25</td>
<td>F1 Recruitment potential international and multilingual people</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>F2 Spendable income</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>F3 Quality of living</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>F4 Multilingual skills</td>
<td>10%</td>
</tr>
<tr>
<td>G Labor regulations</td>
<td>20</td>
<td>G1 De-employment regulations</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>G2 Works Council involvement</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>G4 Working schedule flexibility</td>
<td>60%</td>
</tr>
<tr>
<td>H Physical accessibility</td>
<td>10</td>
<td>H1 Number of direct scheduled flights to main European destinations</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H2 General public transportation infrastructure</td>
<td>70%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H3 Distance to airport</td>
<td>15%</td>
</tr>
</tbody>
</table>
Example: Project specific site selection results of the SSC in perspective: cost - quality assessment

Total costs in million U.S.$ for first 5 years (all operating costs +/- investment incentives)

Location E
Location D
Location B
Location C
Location A
Benchmark (existing location)
Theoretic optimum

Weighted quality scores
Example: Project specific site selection results in perspective

<table>
<thead>
<tr>
<th>Costs in U.S.$ million per year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental savings compared to current location</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Incremental costs compared to current location</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net difference</td>
<td>-5</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Cumulative incremental savings</td>
<td>3</td>
<td>7</td>
<td>11</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Cumulative incremental costs</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Net cumulative difference</td>
<td>-5</td>
<td>-1</td>
<td>3</td>
<td>7</td>
<td>12</td>
</tr>
</tbody>
</table>

The pay-back period/break-even time for the investments required for the relocation to location B is less than 3 years.
### Track record of Buck Consultants International (partial listing)

- ABB
- AKZO Nobel
- Alcan
- Alliant Techsystems
- Amgen, Inc.
- AMOCO Chemical Co.
- ARCO Chemicals
- Amylum Nederland
- Angeles Group
- Atlanta
- Autojectors
- Baxter
- Bemis Manufacturing
- Biogen, Inc.
- Bonduelle
- Boral Nedusa
- Boston Scientific
- Bouwfonds
- BP AMOCO
- British Petroleum
- Cargill
- Celexa
- C.R. Bard
- Centocor
- Collins & Aikman
- Columbia Sportswear
- Conrelder
- Corning Cable
- Corning Costar
- CSAD
- Curver
- Daly Plastics
- Danone
- Dataram
- Dell Computer
- Dentsu
- DHL
- DSM
- DuPont
- EDS
- Elliott Turbomachinery
- Emerson Electric Co.
- Ericsson
- ESCO Corp.
- Essilor
- Exel Logistics
- Exxon Chemical Holland
- FETIM
- Fisher Rosemount
- Fleetguard
- FMC Corp.
- Fuji Photo Film
- GATX Terminals Corp.
- Gebr. Weiss
- Gelman Sciences
- Glory Ltd.
- Grotsch
- Heaters Engineering
- Hewlett-Packard Co.
• Hoechst  
• Hyva  
• Hudson RCI  
• IBM Nederland  
• Inspec Fine Chemicals  
• Int’l Gaming Technology  
• Invacare  
• John Deere  
• Johnson & Johnson  
• Lanier  
• LumiLeds  
• Lunar Corp.  
• Lyondell Chemical  
• 3M  
• Mallinckrodt Medical  
• Marvelo Food Company  
• Medtronic  
• Milacron  
• Mitsubishi  
• Mitutoyo  
• Motorola  
• MSA  
• Nalco  
• NCR  
• New Wave (NYK)  
• Nippondenso  
• Norit  
• Norsk Hydro  
• Novell  
• Ocular Sciences  
• Outokompu Steel Processing  
• Parenco  
• Pechiney  
• Pella Corporation  
• Philips  
• Philips Consumer Electronics  
• PictureTel Corp.  
• Pioneer Hi-Bred Int’l, Inc.  
• Polaroid  
• Prologis  
• Pure Fishing  
• Quaker Chemical  
• Replogle Globes  
• Samsung Electronics  
• Schering-Plough  
• Sea-Land  
• Setpoint, Inc.  
• Sims Deltec  
• Sitel  
• Sola Optical  
• Sony Logistics Europe  
• Spectra-Physics  
• Sumitran  
• Sun Microsystems  
• Texas Instruments  
• Textron Automotive Company  
• TNT  
• Toshiba  
• TPG  
• Transitions Optical  
• Tredegar Film  
• Tsutsunaka Plastics  
• UPS  
• Van Melle  
• Van Mierlo Logistics  
• Viratec Thin Films  
• VNU  
• White Cap/Continental Can  
• Wiener & Co  
• Wilson Color  
• Wim Bosman Group  
• Wolff  
• X-Rite  
• Xyplex  
• Yamaha
5 How to contact us?

Corporate headquarters, the Netherlands:

René Buck, President  
Kerkenbos 10-31  
P.O. Box 1456  
6501 BL NIJMEGEN  
Netherlands  
Phone : +31-24-3790222  
Fax : +31-24-3790120  
Website : www.bciglobal.com

rene.buck@bciglobal.com
North America
Martijn Bouwman
1131 Central Avenue, Suite 14
Wilmette, IL 60091 USA
Phone: +1-847-728-0591

United Kingdom
Takuya Matsuo
EBS, 1 Heathcock Court, 415 Strand
London WC2R 0NT
United Kingdom
Phone: +44-207-2404251

Spain
Juan Carredano
Calle Serrano, 98
28006 Madrid
Spain
Phone: +34-91-4355559
Fax: +34-91-5769221

Germany
Andreas Paulicks
Lyoner Strasse 30
60528 Frankfurt/Main
Germany
Phone: +49-69-66807722
Fax: +49-69-66807799

France
Philippe Meurice
43 Rue Bobillot
75013 Paris
France
Phone: +33-1-45659840
Fax: +33-1-45887004

Belgium
Karel Vanroye
Excelsiorlaan 35
1930 Zaventem/Brussels
Belgium
Phone: +32-2-7097750
Fax: +32-2-7097751

Italy
Via Lombardini 22
20143 Milano
Italy
Phone: +39-02-54118409
Fax: +39-02-54115176

Contact details updated in 2011