

Set your sites on incentives

by Peter Cleaveland, Contributing Editor
June 4, 2006

Revitalized market access, quality labor, lucrative enticements, weather—site selection isn't what it used to be.



Knauss Snack Food Company opened this 100,000-sq.-ft. facility to manufacture dried beef products in Henry County, VA in 2003.

Location, location, location.

The old real estate mantra rings hollow in food and beverage plant site selection. Choosing a plant location involves much more—access to markets, transportation infrastructure, water and sewer, and available workforce. It's about energy, what you've got and what you need, and who's making the best offers. Yes, offers. Incentives—which can be in the form of deals on taxes, utilities, training, capital and more—have been known to put many locations on the map.

In recent years, locations with high unemployment due to plant closings and outsourcing have fashioned remarkable packages to jumpstart local economies. "You wouldn't believe some of the things being offered," says Chris Palumbo, vice president of The Facility Group Inc. One such example is Bud Antle, a subsidiary of Dole Fresh Vegetables, which stands to reap up to \$22 million in incentives for a plant in Gaston County, NC, according to published reports.

What governs the decision about which site to select varies with the product produced. In the case of highly perishable goods like bagged salad, it's "really about logistics," says Don Schjeldahl, vice president of The Austin Company's facilities location group. "It's about supply chain more than processing raw material. It's moving raw material through the system quickly, and then processing and distributing it quickly. If you add just a day or half-day to the cycle, that comes off the end of the usable life of the product."

And the product is just the beginning. Food plants have heavy water demands and substantial BOD loads. The plant must be in a location that provides infrastructure, preferably without cost to the processor. In other site selection decisions, labor is a factor, not just the quantity but also its quality. The skills and work ethic of the local workforce are huge factors in the where and why of locations.

Site selection has expanded in recent years to add one more wrinkle to the fold of criteria—weather. The threat of natural disasters, like hurricanes, tornados, floods and earthquakes, are playing into many major food and beverage processors' decisions. "We're working on a distribution center right now for a major retailer," says Schjeldahl, "and we're looking in Mississippi, but we're staying 200 miles away from the coast." Even the threat of a hurricane, he continues, can be a problem, because with a hurricane hovering off the coast, "people don't come to work."

Some economic developers suggest low labor costs or plentiful water are insufficient reasons to select an area, a point stressed by C. Jones Hooks, CECD, president & CEO, Hampton Roads Economic Development Alliance, which represents 15 jurisdictions in eastern Virginia. Home to many long-established companies, the area doesn't suffer from mass unemployment, but it works hard to attract businesses, including food processors.

One big attraction is the Port of Virginia, which, Hooks says, handled 590,000 tons of food processing cargo imports in 2003, "and that number has continued to increase." The presence of the port provides another benefit. "As a result of the port we have outstanding distribution infrastructure, including all types of trucking companies and many different types of trucks available," he says.

The labor pull

Like the enchanting songs of the sirens, the South beckons to many food processors. One such processor, Knauss Snack Food, headquartered in Quakertown, PA, is the world's largest producer of naturally cured dried beef in the world, marketing the Bull & Hannah's line of beef sticks, beef jerky, hot sausage and pickled meat products. The Quakertown area has long suffered from overburdened water and sewer utilities, and when Knauss applied for a variance to expand its existing location the local township turned it down.

The company set its sights on finding a new location. "Pennsylvania offered little in the way of incentives," says Brian Fleming, president, Knauss Snack Food Company, LLC, and unemployment in the Quakertown area was then at about 4 percent. Knauss representatives visited areas with significant levels of unemployment in North Carolina, Georgia and Virginia, among others.

In 2002, Knauss chose Henry County, VA, in the Blue Ridge Mountains near the North Carolina border. Unemployment there was about 15 percent, says Fleming. "The area was decimated by the loss of textile and furniture in particular," he says. And while other areas also had high unemployment rates, Fleming continues, there was a difference in the quality of the available labor force. "I interviewed companies that had moved into [several] areas within the most recent 24 month period from other states to validate their assumptions," he says, "and generally speaking, although the quantity of the labor was abundant, the quality was not great. When I talked to the companies in Henry County, the opposite was true. There was obviously the 15 percent unemployment, there was a strong supply, and also the quality of the workforce was very strong."

Fleming suspects that the quality of the workforce has to do with the industries from which it had come. "You had generations of people working in furniture factories, textile plants," he says. "I think a strong work ethic is just ingrained in this community."

Knauss chose to build a new plant at the Patriot Center, a 1,000-acre industrial park in Martinsville-Henry County, VA; spend \$5.7 million—\$4.2 million for the 100,000-sq.-ft. building and \$1.5 million for equipment; and employ 105 people when the plant opened in 2003.

One thing that Fleming didn't have to worry about much was infrastructure, particularly water and sewer capacity. "We used to have a lot of textile operations here," says Mark Heath, president and CEO, Martinsville-Henry County Economic Development Corporation, "so we have a whole bunch of water and sewer that's available." That adds up, he says, to "7 million gallons a day for water and 3 million gallons a day for sewer."

The local and state authorities also took steps to sweeten the deal. "The county and state incentives were as good if not better than the other areas we considered," says Fleming. These included a steep discount on the land by the county Industrial Development Authority, a \$180,000 grant from the

Virginia Tobacco Indemnification and Community Revitalization Commission and another \$180,000 grant from the Governor's Opportunity Fund. The company was also eligible to receive further tax credits because it was locating in an enterprise zone.

The new site saved on distribution and freight costs too, says Fleming. "Prior to moving here, we determined what our freight would have been in 2003 if we were here versus where we were in Pennsylvania, and the reduction was about 13 percent," he explains. The quality of life in the region was a bonus, he adds. "It's beautiful country. It's rural [with] a relatively low cost of living, so all of the people who relocated from the Pennsylvania area feel as though they've taken a step up from a quality of life standpoint."

The authorities in Quakertown did the company a favor, concludes Fleming. "I've told many people that probably the best thing that ever happened to our company was their denying the variance to expand there," he says. "If it was approved, we probably would have expanded and still would have been in a tight labor market. They forced us to do something that certainly was in the best long-term interest of our company."

Fresh incentives



A new Dole bagged-salad plant in Gaston County, NC, will open in December of this year. Source: The Austin Company.

Bud Antle Inc., a subsidiary of Dole Fresh Vegetables, was running out of capacity at its fresh salad processing plants in Salinas, CA and Springfield, OH, and needed another plant to serve the South and East. Dole retained The Austin Company, to assist with location strategy and site selection for the new plant.

The Austin Company initially studied how this facility would fit into the larger network of company facilities. It worked with Dole on supply chain logistics, movement of trucks, sales projections by market, and picking the best overall strategy. The conclusion was that the new plant should go in the mid-Atlantic region, but the question was where? "You want to find the best community and you want to find the best site within the community," says Schjeldahl. "And for this type of operation, labor is extremely important."

Dole plants are "large facilities, with 800+ employees, 24/7 operations, hundreds of trucks in and out, and they're demanding—lots of water and traffic problems, disposal of vegetable waste," says Schjeldahl. The new plant would cost \$54 million to build and equip and would have 525 employees within three years and 900 by 2016.

After investigating, Dole selected the Southridge Business Park in Bessemer City, NC, just outside Gastonia, in Gaston County, which offered sufficient space and ample water and sewer capacity.

Gaston County had suffered severe unemployment as textile jobs disappeared—15,000 in the past decade—and had an unemployment rate of 6.1 percent in the summer of 2005. Both state and local authorities were prepared to offer substantial incentives. These incentives, according to a 2005 Associated Press story, included: \$9.3 million in state tax credits for job creation, worker training and new machinery (although Dole may be able to take advantage of only about one-third of the machinery credit); \$8.6 million in Gaston County property tax breaks and \$2.65 million of donated land; \$750,000 in highway work to ease truck access to the plant; \$500,000 in cash, granted once Dole reaches a set of certain milestones.

Production is slated to begin by December, and at its peak the plant will turn out 720,000 bags (60,000 cases) per day, as well as act as a trans-shipment point for other Dole products. Truck traffic should reach 175 per day.

Another advantage Gastonia had, Schjeldahl adds, is that it is far enough from the Atlantic to be free of danger from hurricanes. Much of the eastern portion of North Carolina is at low elevations, making the threat of flooding during a hurricane a real possibility. As a result of Hurricanes Dennis and Floyd in 1999, roughly 60,000 businesses suffered loss through physical damage, disrupted service, or expected loss of market share, according to the North Carolina Economic Development Administration. Fortunately Gastonia is in the western part of the state (West of Charlotte) and flooding is not a consideration.

Going global; lower tariffs

Asia is the world's fastest growing market for infant nutritionals, with a projected compound annual growth rate of 8 percent over the next five years. In order to tap into that market, Abbott Nutrition International needed a plant to serve the burgeoning continent. After considering several areas, the company settled on Singapore because of its location, airport, seaport connectivity and the presence of more than 40 logistics service providers. But perhaps even more important was Singapore's Free Trade Agreements to access regional markets, which allow exports to Southeast Asian markets at significantly reduced tariffs, and will provide tariff-free access into China beginning in 2010.



Company and local officials break ground for the new Abbott Nutrition International plant in Singapore.

"We chose Singapore for its strategic location as a regional distribution hub, its business-friendly climate, and its highly motivated and educated workforce," says John Ginascol, divisional vice president, global supply chain with Abbott Nutrition International. "By 2010, the Asian market will constitute over 40 percent of the global demand for infant nutritional products," adds Lim Hng Kiang, Singapore's Minister for Trade and Industry.

Abbott's nutritional powder manufacturing plant, at 450 million Singapore dollars, is the company's largest-ever capital investment. It is being built in the Tuas Biomedical Park II, which was developed as a "plug and play" environment for manufacturing operations, with essential infrastructure—roads, drainage systems, power and water supply and telecommunication lines—in place. Third-party utilities and services such as steam, natural gas, chilled water and waste treatment are also available. The plant will produce Similac Follow-On, PediaSure and PediaSure Complete, Gain, and Grow, and will have a workforce of several hundred. First commercial production is expected in December 2008.

Once you've decided to build a new plant, determining which site is appropriate can involve numerous factors from both logistical and economic/political viewpoints. A careful balance of these factors as well as strong research into a target area can go a long way toward making a successful decision.

For more information:

Mark Heath, Martinsville-Henry County Economic Development Corp. 276-403-5940, mheath@yesmartinsville.com,

C. Jones Hooks, Hampton Roads Economic Development Alliance, 757-627-2315, jhooks@hreda.com

Don Schjeldahl, The Austin Company, 440-544-2617, don.schjeldahl@theaustin.com

Chris Palumbo The Facility Group Inc., 770-437-2700

Peter Cleaveland, Contributing Editor