Matt Highfield and Steven Dahl of Deloitte Consulting

Minnesota a good location for business but could do more to drive investment

A Civic Caucus Focus on Competitiveness Interview

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Present

John Adams, Dave Broden (vice chair), Steven Dahl, Pat Davies, Paul Gilje (coordinator), Matt Highfield, Sallie Kemper, Dan Loritz (chair), Dana Schroeder. By phone: Amir Gharbi.

Summary

According to Matt Highfield and Steven Dahl of Deloitte Consulting, Minnesota is not considered very business-friendly by business location consultants or many businesses. On the other hand, he says, the state is not considered business-unfriendly, either. Highfield says Minnesota is not known as an easy state to work with on permitting, licensing or speed of movement on decisions. In addition, the state does not offer competitive financial incentives to companies considering moving or expanding here. He points out that many southeastern states have been very successful in attracting businesses because they compete intensely with each other and must be very aggressive in their business-attraction strategies.

He makes the point, however, that incentives don't make the wrong location the right location. The worst-case scenario, he says, is if a company can't find the workforce it needs, especially in knowledge-based industries. He points out that the Twin Cities stand out in that area, with a high-quality, highly educated workforce.

Highfield discusses the importance of a quality education system to prepare workers at all levels for today's and tomorrow's technically skilled jobs. He comments that students with technical skills learned at technical and community colleges can not only find good careers, but also are more likely to stay in Minnesota than graduates of, for example, the University of Minnesota. And he says more must be done to interest junior and senior high school students in science, math and other technical careers.
Issues to address
Prior to the meeting, Steven Dahl and Matt Highfield were asked to be prepared to discuss the following issues: whether the role of site selectors is as significant on the Iron Range as in the metro area; what makes a city or area a good place for business to expand; what things they are looking for on behalf of their clients: the workforce, educational institutions, transportation, etc.; whether they focus on new or existing businesses; whether Minnesota is an attractive place to expand, locate and invest; the role of financial incentives in location decisions; the role of organizations like the state's Department of Employment and Economic Development (DEED) and Greater MSP; what Minnesota's positives and negatives are for business location; and what can be done to improve the negatives and augment the positives.

Biographies
Steven Dahl is a national financial management and business transformation leader and Midwest region leader for Deloitte Consulting LLP's Public Sector practice. He has been with Deloitte for 25 years and is the company's lead client service partner for the state of Minnesota.

Dahl has extensive experience in process, organizational and system assessments, as well as business and technical strategy with qualitative and quantitative supporting business cases/financial models. He graduated summa cum laude from the University of Texas at San Antonio and was a scholastic All American there.

Matt Highfield is director of real estate and location strategy at Deloitte Consulting LLC. He started his career with Deloitte Consulting, became managing principal at Cushman & Wakefield Global Business Consulting, and then served as senior vice president at Jones Lang LaSalle, Inc., until he rejoined Deloitte Consulting in 2012. He has 16 years experience in assisting large corporations in global location strategy, occupancy strategy and site selection. His experience spans multiple industry sectors in the U.S. and internationally.

Highfield's specialties include labor market assessment and stratification, competitive market assessment, incentive negotiations, real estate assessment, infrastructure assessment, human resources strategy and market entry strategy. He received his bachelor's degree from Macalester College and his master's degree from the University of North Carolina, Charlotte.

Discussion
The real estate and location strategy practice of Deloitte is the largest dedicated location strategy practice in the world. "It's a discipline you have to focus on and remain committed to if you're going to become good at it," said Matt Highfield. "There's an infinite number of geographies and an infinite number of project profiles and you learn by experience. Deloitte has invested in this practice and it's been around for almost 100 years." He said the company has 30 people who work in the field.

By the early 2000s, 50 percent of Deloitte's location strategy business was global. When Highfield first joined Deloitte in 1997, the majority of the work was domestic. In the late 1990s, there was an increasing amount of activity that was global in nature, such as service centers, call centers
and offshore manufacturing. By the early 2000s, he said, 50 percent of Deloitte’s location-strategy business was global.

**Deloitte has a five-step process in its location-strategy work:**

1. **The discovery process:** We spend time with clients understanding what they are, what the profile of their project is, who their customers are, their cost sensitivity and how we’re going to make the location decision, Highfield said.

2. **The assessment phase:** We take a long list of locations and apply filters and screens developed in the discovery process, he said, so we can focus on a smaller number of locations, using demographic analyses, cost analyses, infrastructure, access, etc.

3. **The validation process:** We go into the field, he said, interviewing other companies, inspecting real estate, meeting with local, state and national officials. We go anywhere from one to 10 locations, spending two to five days on the ground at each location.

4. **Negotiations:** This starts at the very beginning of the location decision process, he said. Many incentive programs have a but-for clause, i.e., but for these incentives, this project will go someplace else. The state undertakes a due diligence process to verify that a project is competitive. You must validate that you’ve truly entered into a competitive comparative process, which is always the case.

5. **Implementation:** The company has selected the location. Then the client must undertake incentives administration and myriad other activities associated with putting up a new facility. We may provide assistance in areas like IT, finance or human resources assistance, Highfield said.

**Incentives don’t make the wrong location the right location.** An interviewer asked how competitive Minnesota is in its foundational assets, like education, a skilled workforce, infrastructure, etc., and in its tax levels to pay for those things. "We tell clients they have to make sure they have the right operating climate, because incentives go away," Highfield said. "If they’re spending $100 million on a plant, the incentives will help, but they must, first and foremost, be able to find the right operating environment."

**Deloitte’s location strategists look at things from three different dimensions:**

1. **The noneconomic factors:** the availability of labor, physical infrastructure, access, etc. "We take things that are qualitative and turn them into something quantitative in order to differentiate locations and find the best fit," Highfield said.

2. **The loaded cost:** looking at just taxes, labor costs, real estate costs or the cost of electricity doesn’t give the whole picture. "It’s like a cake," he said. "You take all the ingredients and you must bake it all together to see if it is right. The same applies to gathering the total cost of operations and ownership and determining whether a location is competitive or not."

3. **The risk:** operational, political, natural disaster and financial.

**The lowest-cost location does not always win. The worst-case scenario is not that the cost of labor is too high, but that a company can’t find the labor at all.** "The worst case is when you can’t
find the labor at all, especially in knowledge-based industries," Highfield said. "That's where the Twin Cities area tends to stand out and shine. No one doubts that the Twin Cities has a high-quality labor force, but the landscape is a competitive one, there are other high quality markets, and costs in the Twin Cities are not considered low."

**Minnesota isn't necessarily considered very business-friendly. But on the flip side, it is not "business unfriendly."** Highfield said the "not very business-friendly" view is from the perspective of both the consultants and many companies. But the area continues to see success in certain fields, like medical devices. "Certain industries are very knowledge-driven and they like to cluster and the momentum of a community in a certain sector can override lack of incentives and higher-than-average operating costs," he said. "The life sciences, particularly medical devices, are a prime example of this."

"Like all states, Minnesota must support private companies," Highfield continued. "Site selectors help clients build their business case. You can put yourself out of the game by being too expensive and appearing to offer limited support. Companies want to feel they're wanted. Ultimately, they say 'How can you help us?' And a state like Minnesota is saying, 'We really want you, but we have nothing to help you build your business case.'"

An interviewer asked what factors determine whether a location is business-friendly: permitting, licensing or speed of movement on decisions. "Minnesota isn't renowned for being an easy state to work with in any of those areas," Highfield responded. "It's getting better and there are some very responsive and talented people with Minnesota's Department of Employment and Economic Development (DEED)."

**The Economic Development Board of Singapore, known as the best economic development agency globally, recruits out of industry and hires industry experts.** An interviewer asked whether people working for different Minnesota economic development organizations know enough about manufacturing to understand the business they're dealing with. Highfield pointed to the Economic Development Board of Singapore, which "is renowned as being the very best economic development organization globally. They have a different level of funding from everybody else. They're organized around industry. They have huge budgets, industry experts and recruit out of industry."

"Minnesota has some very skilled, very passionate economic developers," he continued. Some of it has to do with industry alignment related to funding and some with deal flow, he said. If there aren't a lot of deals in a certain industry, then DEED and other economic development agencies can't set themselves up along industry lines. "I've never had a sense that DEED does that," he said, "but there are some very, very capable people at DEED who work effectively across industries."

**What DEED has at its disposal when it comes down to negotiations is limited.** An interviewer asked how DEED compares with other economic development organizations and what DEED could do to improve its capabilities. Highfield said he had a very positive experience with DEED on a recent project. But, he said, what DEED has at its disposal when it comes down to negotiations is very limited. He noted that the Minnesota Investment Fund administered by DEED is now better funded, but there is still a limit of $1 million for any one project, without significant scrutiny and involvement of the Legislature.
Greater MSP, the Minneapolis St. Paul Regional Economic Development Partnership, is getting the Twin Cities' name out there and doing a fine job of educating people. Highfield said Greater MSP is a marketing organization. "Having an organization like that is almost table stakes nowadays for a community of the Twin Cities' size," he said. "Greater MSP is doing some good things under CEO Mike Langley."

Location strategists look closely at the education system and whether the training it delivers meets the needs of the client. In response to a question about how location strategists assess how well educational institutions are preparing people for work, Highfield said, "We dig down into the structure of the education system and whether the training delivered locally meets the needs of the client. For example, Minneapolis Community and Technical College (MCTC) has made investments in its biotechnology program. This assessment is often done in parallel with incentive discussions, as many communities rely on such institutions for delivering incentivized technical training to current and future employees."

North Carolina has a disproportionate number of biotech companies. "What attracts them and creates expansions is that they keep producing the type of talent they need, because they've focused on it and invested in it over an extended period of time," Highfield said. Having training programs in place is one thing, he said, but communities need to generate interest in the discipline. He noted that North Carolina has buses, actually biotech labs on wheels, that make the rounds to junior and senior high schools to get kids interested enough to go into the life sciences, including biotech training. "Not everybody has to have a Ph.D. to work in a drug-production facility," he said. People need basic training about operating in a clean-room environment, among other things. North Carolina, he said, has biotech-training programs for high school students and at community and technical colleges and is committed to filling the pipeline of employees for employers from top to bottom. Much of the success is centered on the North Carolina Biotechnology Center, a private, nonprofit organization, funded by the State General Assembly that is dedicated to biotechnology development in the state.

The Twin Cities punches above its weight as a location for decision centers and headquarters. An interviewer asked which pieces of Minnesota's diverse economy are the strongest and will attract the most interest in the next 10 years. "Nineteen Fortune 500 companies have their headquarters here, which is a disproportionately large number," Highfield said. "However, the majority of those companies were started in Minnesota. I suspect the state would struggle to attract a large number of headquarters operations in a greenfield scenario, due to the tax climate and, candidly, our weather, which is a more important factor than most people would think in these decisions."

The medical device industry does not appear likely to diminish here. However, Highfield said, there are convergences among industries that the Twin Cities needs to stay on top of. For example, there's a convergence between biotechnology and medical technology in using medical devices to deliver drugs. "Those are the types of areas the Twin Cities is

The days are likely past for the Twin Cities to be a location for lower-end manufacturing. Highfield commented that the face of manufacturing is changing and in the future it will have less to do with people's hands and more to do with people operating computers alongside robots in
advanced-manufacturing settings. "The state of Minnesota needs to make sure it's positioned to take advantage of those developments and trends, and that it is training the right people in the right way," he said.

**Businesses seek to benefit from some type of training-related incentive to locate in Minnesota or around the country.** An interviewer asked whether Highfield, if he were governor, would choose to spend money on education or on incentives to get companies to locate here. Highfield responded that most states do well in incentivizing people with customized training, which accounts for both. "Most companies want training programs to be on their terms," he said.

He gave the example of a company Deloitte worked with that needed several hundred engineers. The location the company chose offered to pay for some of the employees to train at the company’s facility in Asia, rather than at the local community college. The state paid for airfare, salaries prior to being actually hired by the company, lodging, etc.

"You have to put some parameters around such programs," Highfield said. "You could, for example, mandate that employees need to be Minnesotans to be eligible. Companies spend a lot of money on training and they know how much it costs to train somebody. Having that pot of money be flexible is an incentive, but it's also a stipend for education. Do you put $10 million into a community college or spend dollars on training Minnesota workers abroad, so they bring the skills back? It's one way to spend some incentive money to educate workers for a company, rather than just giving them cash."

"Some of it's philosophical," Highfield said. Some states haven't arrived at that philosophical place where incentives are bad, he said, but Minnesota appears to be there, based upon the portfolio of offerings available from the state. "This perspective must be balanced by the fact that recent surveys at the local level suggest that Minnesotans are supportive of their cities providing incentives to improve economic development efforts," he said.

"When it comes time to talk about incentives, our state officials tend to talk about our great education system," he continued. "Well, there are a lot of locations that have great education systems. If you're a scientist and you want good educational opportunities for your kids, there are myriad opportunities for you to work all over the globe. Companies will select the locations that have the ability to attract and retain candidates and that offer a compelling business case."

**Even in a diversified economy like Minnesota's, it's important to have a manufacturing base.** "No one would argue that having a manufacturing base is not important," Highfield said. "A diversified economy is clearly the goal, but having people who make things continues to be important. Locations without that don't fare as well in the long term. Every $1 spent on manufacturing creates $1.35 in secondary and tertiary economic activity, so maintaining a manufacturing base is very important."

**For Minnesota, with an unemployment rate of 5.1 percent, the issue is not getting people back to work, but training people for the right type of work and for the next generation of jobs.** "It's the technical and community colleges that are pushing out people who produce things," Highfield said. "Many states have put huge amounts of resources into developing that technical school system. People who come out of tech schools tend to stick around, due to the fact that they are typically local, less transient and attending the institution with a specific vocational goal in mind. They will likely stay and apply their skills in Minnesota. The state will and must continue to, pump money into the four-year-
plus institutions, like the University of Minnesota, but those students are in national and global labor markets. This is not an either/or situation, just the need for a clear understanding of the role the technical school system plays in economic development.

The aging population is a problem everywhere. An interviewer pointed out that Minnesota will have fewer workers in five years and has lots of kids who don't even finish high school. He asked what the state can do about that shortage. Highfield responded, "We'd better make sure the labor force is trained to do what industry wants them to do. So, we need to clearly understand what that is."

Taxes are an important factor to companies. An interviewer asked how companies that are looking to the state to provide stipends for training around the world and to provide a top-notch educational system feel about funding the state's operations through taxes. Highfield said the tax rates get factored into any financial models Deloitte builds and companies look at the bottom line to see how the models compare.

He said most professional site-selectors look at the location decision in a very balanced fashion, incorporating cost, talent, operating climate, infrastructure and risk. "Taxes are only a small, but high-profile, part of this," he said. But he pointed out that Deloitte is involved in only "a tiny slice" of the location decisions that take place every year. If an engineer, for example, is tasked with making a location decision for a company, he or she might start narrowing down states by looking only at their corporate income-tax rates.

Certain types of projects work well in Minnesota. Highfield noted that the Twin Cities area has a real value proposition. He said the Twin Cities are not going to win a heavy manufacturing project where a company is shipping products around the country because of the region's geographic location in the U.S. But, he said, Minnesota does well in projects where products are distributed locally and regionally and where inputs to the production process are local. He cited fertilizer plants and winter sports companies, whose market is here in the region. He also pointed to tech companies that choose to be here because there's a lot of highly educated talent and a knowledge-based economy here.

"These are areas that Minnesota will continue to play in," Highfield said. "I'm not concerned that all the jobs will leave Minnesota. The question is whether the state is going after the right types of jobs and training its population for them. Companies reach these watershed moments and must decide whether they're going to reinvest in the Twin Cities and Minnesota or deploy their next production lines elsewhere. The state needs to be ready to support those companies with what they need. For every large, stable company, there are other Mom-and-Pop shops that need support."

The southeastern United States is prospering partly because of intense competition among states there. An interviewer asked if North Carolina is the state to emulate. Highfield said companies have invested so much in the southeastern U.S. partly because structural costs are lower there, but also because the competition among states in the Southeast is so intense that they have to keep coming up with better practices, more aggressive incentives and better training programs.

"I don't sense that we have the sense of urgency or commitment that they have down there," he said. Dahl added that North Carolina is going through phenomenal growth and will pass Michigan in population this year.
Companies must understand what they'll get for their taxes if they locate here. Dahl said a lot of the debate over taxes is whether companies can understand what they're getting for their investment. If they're getting the workforce they need, a safe environment and a good quality of life for the people they're going to locate here and you can directly tie that to the taxes they're paying, that's one thing, he said. But if companies are going to get high taxes without those assets, they won't come here. "Being able to directly relate and communicate what they're getting for that money is a huge part of the equation," he said.

"When they come to a state," Highfield said, "people know what the state tax rate is. It's best to acknowledge that we have higher-than-average taxes, but here's what you get for it."

Conclusion

Highfield concluded, "Minnesota is a good location for business. But the state could do more. It tends to sit on the sideline and doesn't drive investment here. It takes forethought and investment and I don't know if Minnesota has the appetite for that."