AREA DEVELOPMENT ONLINE
SITE AND FACILITY PLANNING

Top Site Selection Factors: Labor Costs - Still a Major Concern

The cost of skilled labor is always at the forefront of concern for corporate executives, and the 2010 survey respondents confirmed this fact. Labor costs were ranked as the second most important factor in Area Development's 2010 Corporate Survey, with a 91 percent importance rating, although this was a 5.7 percent drop from 2009.

Cynthia Kincaid (November 2011)

The Top Site Selection Factor series outlines the factors that ranked high in importance by the executives responding to Area Development's 25th Annual Corporate Survey. Find out why and how these factors should be evaluated in your next move...

While the economy started off somewhat stronger at the beginning of 2011, and was expected to expand by 3 to 3.6 percent, the later half of this year saw growth and GDP sputter. This trend should dampen labor costs, as it is now widely acknowledged that the 8.5 million jobs that were lost in 2008 and 2009 will take time to be added back into the economy, furthering keeping wages from accelerating.

Costs Trending Upward
Lower labor costs abroad, of course, have driven much of the movement of jobs overseas, where skilled workers will do a job for half or even a third of what many American workers are paid. For companies that employ thousands of people, those labor costs add up.

"Getting a product manufactured in the United States can cost three times what it costs in China or India or someplace else," says Don Strobel, who has more than 30 years of experience with the U.S. Department of Labor and is now president of Baton Rouge-based Labor Consultants Central. "You have the problem of American workers competing with global workers [on wages], which is why the middle class is being squeezed."

Eventually, though, U.S. companies are going to have to hire. When that happens, Dennis Donovan, principal at Bridgewater, New Jersey-based, Wadley, Donovan Gutshaw Consulting, thinks companies will take a look at employing people here in America, particularly because sending jobs overseas is becoming more costly.

"With the continuing introduction of labor-saving technologies, and the rising cost of offshoring - be it labor, utilities, or logistics - we will see proportionally less offshoring due to strict cost reduction," says Donovan.

It's true, he says, that "companies that have to be rock bottom on cost continue to offshore operations to take advantage of labor, but I think that will be of less proportion to new location activity, simply because companies that have had to wring costs out of their portfolio have already done so."

Companies, Donovan says, are starting to invest in manufacturing, distribution, and logistics, but the cost of labor is still something employers are keeping a critical eye on, particularly when it comes to employee relocations: "We're seeing companies investing in new facilities, but there are less relocations than might be expected due to the costs of moving people and their inability to sell their homes," he notes.

"If employers underwrite the cost of the home sale, they have to have a capital loss provision, which is extremely expensive."

Small Business Concerns

Hiring is picking up, despite the additional costs of labor that companies will have to shoulder. The September jobs report from the Department of Labor showed the addition of 137,000 private-sector jobs, and total nonfarm payroll jobs grew by 103,000.

It's the increase of private-sector hiring that is vital to getting the country back on its economic feet, especially small business hiring. One such company that has weighed the additional costs of labor and hired anyway is Minnesota-based VistaTek, which specializes in rapid prototyping, tooling, and injection molding. The company recently added three new workers to its payroll. While that may not seem like a lot, Dan Mishek, managing director for VistaTek, disagrees.

"If every company did that, we wouldn't be in these poor times," he says. While the addition of these new workers does, indeed, add to his labor costs, he admits that a few years ago that new-hire number would have been even larger at eight employees. Two reasons for hiring fewer workers this time around is the current cost of labor and the availability of less expensive and more efficient technology.

"We now have equipment that runs around the clock that doesn't have to be manually babysat," says Mishek. "Before we had these electronic sensors, someone had to be there to watch the machines," which translates into more workers and higher labor costs.

Don Strobel readily sees the technology and labor cost connection for employers. "Machines work cheap," he says. "You don't have all those payroll costs and labor expenses."

Ignoring Incentives to Hire

Many employers are sidestepping the costs of additional labor by shunning new tax credits and new-hire incentives, and instead utilizing the labor force they already have. Larry Gigerich, managing director of Indianapolis-based consulting firm Ginovus, LLC, finds his clients deploying current employees in a far more resourceful manner. "They would much rather give their employees overtime to be able to manage their work force costs more effectively, than adding 30 to 40 new people onto a contract, only to shed those people 12 months later when the contract ends," he says.

The National Federation of Independent Business (NFIB) recently confirmed this cost-management approach, when NFIB's chief economist, William C. Dunkelberg said, "Until sales improve, until it becomes cost-effective to hire new workers, we cannot expect small-business owners to take advantage of new hiring tax credits and increase their employee rolls."

Using Discipline and Forethought

Additionally, the cost of healthcare reform also looms large for many employers, preventing them from committing to new labor costs until they fully understand how much a new employee is going to impact their bottom line.

"Our healthcare premiums increased by 14 percent this year; that's a big number," says VistaTek's Mishek. "It's hard to bring people on when things are so unstable. Our margins are tougher, and we are competing around the world."

To keep labor costs down and profits up in the future, companies will find themselves having to structurally adjust wages, closely benchmark industry salary data, tie compensation to work performance, and even reduce wages to remain competitive, even as they slowly add new workers to their payrolls. Many businesses across the nation, and around the world, have been doing this with discipline and forethought. Ultimately, this approach should bring labor costs in line with the cost of doing business, eventually restoring the economic health of the U.S. and doing business, eventually restoring the economic health of the U.S. and global economies.