2012 Business Expansion and New Site Survey: Why Companies Do and Don't Choose California
Executive Summary

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Background:

There is growing evidence that US firms, particularly manufacturing companies, are increasingly expanding operations. However, data shows that California's share of these expansions is slim. Moreover, it appears that firms with a California presence are increasingly deciding to move or expand operations outside of the state. The cause behind California based firms leaving the state and national firms hesitating to invest in the state are not fully understood. In order to better understand why companies choose locations for expansions and new sites, CMTA retained Andrew Chang & Company, LLC to conduct a national survey that looked into the site selection criteria of manufacturing companies. The goal of the survey was to provide insights into what is driving site investment and expansion decisions, particularly, why some companies choose to invest in California and why others choose to invest elsewhere. The results of this survey, which included responses from 100 CEOs and other business decision makers from manufacturing firms across the United States, are meant to be used to frame policy issues for policymakers.

Methodology:

The survey was conducted over a period of seven weeks. From a list of 2,755 manufacturing companies that had either expanded or opened a new facility in the U.S. over the past year,[1] 500 companies were selected at random. Of the 500 companies contacted, 100 completed the survey. As the site selection process is generally a high-level decision, the company representatives that were contacted and interviewed were high-level decision makers (Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operation Officer (COO), etc.) who had been actively involved in the site selection decision making process.

Key Findings:

- California accounted for only 2.2 percent of national manufacturing expansions and new sites in 2011. Among its western neighbors, only Washington has a lower rate of expansion/new sites per capita than California. Furthermore, compared to other large states such as Texas, New York, Florida and Illinois, California is even further behind.

- 82 percent of the companies surveyed did not consider California when expanding or opening a new facility. Many of the reasons companies gave for not considering California were highly impacted by state policies. These included a costly and complicated tax system, a poor regulatory environment, high labor costs and a lack of incentives and credits.

- 18 percent of the respondents considered California but few companies chose to expand in the state, leading to a low rate of expansion within California.

[1] List provided by Conway Data Inc.

- The most mentioned factors that influenced decisions of where to expand were proximity to customers, amount of incentives/credits offered by the state, the cost of labor, proximity to suppliers and the tax system. Other than proximity to customers, California ranked in the bottom tier or dead last in the majority of these important factors.

- Many of the companies that decided to stay in California were small businesses that chose to stay because of strategic drivers (i.e. proximity to existing facilities, geographic location or personal preference).

- 27 percent of the companies surveyed stated that they are planning on expanding again within the next two years.

- In order for companies to stay and/or consider California the next time they expand, respondents stated that policy makers need to increase incentives and credits, improve the regulatory environment and make the tax system less costly and complicated.

- There was general consensus among respondents that in order for California to attract business investment and become competitive, there needs to be serious reforms in multiple areas – not just one single factor.

Conclusion:

The bottom line from the respondents is that California is not a competitive place for a manufacturing company. Costs, regulations, permitting delays, a lack of incentives, high labor costs and a high tax rate among other factors make it very difficult for manufacturers to do business in California. Streamlining the regulatory and permitting processes and removing financial disincentives on capital investment, among other reforms, could make California a more attractive destination for growing companies.