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Go

[Home](#) > [Articles By Issue](#) > [Site Selector's Strategies](#) > [Article May 2004](#)

Comparing Global Business Costs

Need to compare business costs around the world? KPMG's 2004 Competitive Alternatives study provides a comprehensive guide for the site selection process.

By Larry Cusack and Stuart MacKay

Business costs are one of the most important, if not the most important, factors to take into consideration when selecting a location for your company's relocation or expansion project. Luckily for you, KPMG LLP recently released the results of its 2004 Competitive Alternatives study—an independent analysis of major cost factors impacting site selection decisions. The biannual study, conducted in association with **MMK Consulting**, is a comprehensive report of business costs for companies, in various global locations, seeking comparisons to consider in their decisions on locating international business operations.

Specifically, the study enables business executives to compare business costs in cities located in leading industrialized countries; assists economic developers in their work with potential investors—using independently-developed cost data that they can tailor to the operation of a specific enterprise; and helps policy makers in determining the impact of a proposed tax and/or incentive policy change on the cost-competitiveness of their jurisdiction in relation to others.

The 10-month long study analyzed the relative cost of doing business in 11 developed countries in North America, Europe, and Asia Pacific, looking at 11 manufacturing-based industries across 27 cost components likely to vary by location. Cost structures were examined for France, Germany, Iceland, Italy, Luxemburg, the Netherlands, the United Kingdom, Canada, the United States, Australia, and Japan; research included an analysis of costs in 98 cities worldwide. The basis for comparison was the after-tax cost of start-up operation for 12 types of business over 10 years. More than 30,000 individual data cost elements were developed in performing the study. Major cost factors that a company would consider when setting up a business were studied (costs for facility, labor, utilities, and transportation and distribution), as well as income-based and non income-based taxes. The study's benchmark cost index (U.S.=100) was defined as the average of nine representative U.S. cities.

This article highlights key results from the study and looks at ways corporate site selectors can best use the results to their advantage.

CANADA RANKS AS LEAST-COSTLY COUNTRY FOR BUSINESS

Among the 11 nations examined, Canada ranked as the least costly place to do business with a cost index of 91, edging out Australia, with a cost index of 91.5. At the other end of the spectrum, Japan and Germany, with cost indexes of 113.9 and 123.8 respectively, earned the dubious distinction as the most expensive countries in which to do business.

The U.S., seventh in the ranking with its benchmark cost index of 100, had the greatest improvement in cost competitiveness since 2002. In Europe, the UK ranked first in cost-competitiveness and third overall in the study. Italy, France and Luxemburg had the lowest costs among continental European countries, with business costs marginally lower than in the U.S.

Since 2002, the last time KPMG conducted the study, the most important factor affecting international business competitiveness has been the decline of the U.S. dollar relative to all major currencies. Exchange rates for the countries analyzed in the KPMG study have appreciated between 9% and 35% relative to the U.S. dollar over this period.

LABOR, UTILITIES, AND INCOME TAXES: KEY TO COSTS

Labor, utilities, and income taxes were the most significant factors affecting business costs; their impact varies considerably depending on the type of



business being studied. For example, while salaries and wages declined in France and Italy since 2002, most other countries had increases; electricity costs have increased in both the Netherlands and Germany, while Italy was the only country to have notable decreases.

The study also found significant cost differentials between countries for establishing manufacturing and corporate services operations. For example, Canada has an 18.2% cost advantage over Germany for manufacturing and a 55.7% cost advantage for corporate services operations. The U.S. is at a 2.5% cost disadvantage to the UK for manufacturing, but holds a 16.9% cost advantage for corporate services.

According to the study, labor costs typically represent 56% to 72% of location-sensitive costs for manufacturing operations and 75% to 85% for non-manufacturing operations. Facility costs represent the second largest location-sensitive cost factor, accounting for 4% to 14% of costs for manufacturing and 12% to 24% for non-manufacturing. Taxes are another key factor, representing 5% to 11% of total location-sensitive costs for manufacturing and 3% to 8% for non-manufacturing.

For manufacturing operations, transportation is another major factor, representing up to 17% of total location-sensitive costs. Utility costs represent 2% to 10% of location-sensitive costs. Electricity and natural gas are the most significant utility costs for manufacturers, while telecommunications costs are more significant for non-manufacturers.

In comparing international cities with populations over two million, Montreal ranked as the most cost-competitive with a cost index of 91.3 followed by Melbourne, Australia, and Toronto, with cost indexes of 92.1 and 93.2, respectively. Cities with the highest costs were Yokohama, Japan with a cost index of 128, followed by Frankfurt, Germany and London, with 118.5 and 115.1, respectively.

When all large, medium and small cities are included, the least-costly place to do business is Sherbrooke, Canada (86.5 cost index). In Europe, the least costly city was Caserta, Italy (95.1 cost index).

SAN JUAN TOPS U.S. AND AFFILIATED CITIES

Among 24 large U.S. and affiliated cities studied (populations over 1.5 million), San Juan, Puerto Rico is the least costly place to do business, benefiting from low labor and tax costs. The city, with a cost index of 93-7% below the U.S. national average (100 cost index)-is also the least costly among the 44 U.S. locations examined in the study.

In the large U.S. cities category, Atlanta, GA and Tampa, FL, emerged as the most cost-competitive locations behind San Juan, ranking second and third, respectively. Atlanta, with a cost index of 99.2, and Tampa, with a cost index of 99.3, both benefit from very competitive labor costs found in the southeast.

Phoenix, with a cost index of 99.4, ranks fourth among U.S. large cities and has significantly lower costs than comparable southwestern cities. Indianapolis and Columbus, OH, are closely ranked fifth and sixth, respectively, with cost indexes of 99.6 and 99.8, respectively. Both cities benefit from very competitive land and construction costs, as well as favorable transportation costs associated with central locations.

In San Juan, labor costs-which are approximately 25% below the U.S. average-are a major advantage. In addition, businesses locating in Puerto Rico-especially those serving customers outside the U.S. commonwealth-can receive favorable federal income tax as well as favorable rates and abatements on local taxes. These savings are partly offset by transportation costs approximately 70% above the U.S. average.

On the other end of the spectrum, San Jose, CA, and New York City are the most expensive places to do business among large U.S. cities. Reflecting the high labor costs of its technology-based economy, San Jose is the most expensive location to do business in the U.S., posting a cost index of 110.9 or 10.9% above the U.S. national average. New York, with a cost index of 109.8, ranked as the next most expensive place to do business.

USING RESULTS IN THE SITE SELECTION PROCESS

Site selection evaluations can easily stall due to the sheer number, variety, and weighting of all relevant factors. Evaluations that succeed often begin with the benchmarking and "short-listing" of locations based upon an analysis of costs associated with doing business. That quantifiable approach, as evidenced in Competitive Alternatives, provides a platform from which to identify attractive jurisdictions in which a business can operate profitably.

How can corporate site selectors work best with the results provided by Competitive Alternatives? In general, here are four key ways:

- Review the overall results of the report to develop an initial understanding of how costs differ among countries and regions and identify which regions (and cities within each region) are most attractive from a cost perspective. The intent at this stage is to perform a "quick scan," to identify a "long list" of which locations are worthy of further investigation.
- For the locations of greatest interest, select the most relevant industry sector (from the 17 standard industry operations analyzed in the report) and review the detailed results by cost component. This step will provide an understanding of how each of the individual costs factors (labor, facilities, utilities, taxes, etc.) varies by location, as well as the relative influence of each cost factor in the overall cost comparison. Further, this step can be performed using the tools available on the Competitive Alternatives Web site. Where exchange rates are relevant to the comparison, the potential impact of future exchange rate shifts can also be assessed, using the public cost model posted on the site.
- Customize the cost comparison to the specific operation under consideration. This third step can be a complex one and requires a wide range of "what if" questions such as worker productivity, availability of discretionary (non-statutory) incentives, and many other factors, which could impact on relative costs by location. A variety of resources are available to help provide information at this stage, ranging from local economic development councils, government data, and the guidance of an experienced professional. Regarding incentive programs, site selectors usually use them as a tool to fine-tune the site selection process (i.e., to choose between the finalists after weighing other considerations). Keep in mind that certain programs, such as tax-free zones or programs legislated particularly for a given company/project, can rate higher in terms of relative importance than widely available incentives such as job creation credits.
- Combine the cost comparison results with other key factors (such as worker quality and availability and access to markets), which need to be considered in comparing sites and determining which locations provide the best mix of cost and other advantages.

In summary, selecting the best site for a business operation requires careful consideration of a multitude of factors ranging from taxes, utilities, wage rates, and property costs to more subjective considerations such as proximity of competitors, quality of the local workforce, and community aesthetics.

The relative importance of these factors will vary significantly-not only for different industries, but also for individual companies within a particular industry. Site selectors should be sure to keep all of them in mind when searching for new jurisdictions in which to conduct business.

The full text of KPMG's 2004 Competitive Alternatives study is available online at <http://www.competitivealternatives.com/>.

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NATIONAL RESULTS BY INDUSTRY AND OPERATION¹

INDUSTRY/OPERATION	COST INDEX (RANK)										
	EUROPE							NORTH AMERICA		ASIA-PACIFIC	
	FRANCE	GERMANY	ICELAND	ITALY	LUX.	UK	NETH.	CANADA	US	AUSTRALIA	JAPAN
MANUFACTURING											
Aerospace/Aircraft parts	99.2 (4)	117.1 (10)	101.3 (8)	100.6 (7)	99.9 (5)	97.9 (3)	104.5 (9)	92.9 (1)	100.0 (6)	93.5 (2)	126.7 (11)
Agri-food/Food processing ²	98.0 (4)	106.3 (9)	116.5 (11)	99.6 (7)	98.5 (5)	96.8 (3)	99.4 (6)	95.3 (2)	100.0 (8)	94.7 (1)	112.7 (10)
Automotive/Auto parts	98.9 (4)	113.8 (10)	102.2 (8)	100.5 (7)	100.2 (6)	97.5 (3)	103.2 (9)	93.6 (2)	100.0 (5)	92.1 (1)	129.6 (11)
Chemicals/Specialty chemicals ²	99.9 (6)	109.8 (10)	100.9 (8)	97.0 (4)	96.7 (2)	98.1 (5)	104.2 (9)	93.9 (1)	100.0 (7)	96.9 (3)	114.0 (11)
Electronics/Electronics assembly ²	100.8 (7)	115.0 (10)	101.9 (8)	99.2 (4)	100.5 (6)	98.7 (3)	105.7 (9)	93.2 (1)	100.0 (5)	95.1 (2)	123.7 (11)
Medical devices/Medical device man.	100.3 (6)	115.8 (10)	100.2 (5)	101.2 (8)	100.6 (7)	98.2 (3)	104.9 (9)	94.4 (1)	100.0 (4)	95.6 (2)	124.5 (11)
Metal components/Metal machining ²	98.8 (4)	114.0 (10)	102.7 (8)	100.7 (7)	100.2 (6)	97.4 (3)	103.2 (9)	93.7 (2)	100.0 (5)	92.0 (1)	130.5 (11)
Pharmaceuticals/Pharm. products ²	99.6 (6)	113.4 (10)	99.4 (5)	100.4 (8)	99.4 (4)	97.5 (3)	103.2 (9)	94.0 (1)	100.0 (7)	95.8 (2)	120.4 (11)
Plastics/Plastic products ²	97.9 (4)	114.4 (9)	120.1 (10)	101.4 (7)	99.6 (5)	97.4 (3)	101.9 (8)	93.6 (2)	100.0 (6)	91.3 (1)	129.1 (11)
Precision manufac./Precision components ²	98.0 (4)	124.4 (10)	101.6 (7)	102.1 (9)	99.8 (5)	95.9 (3)	102.0 (8)	91.8 (2)	100.0 (6)	91.2 (1)	128.6 (11)
Telecommunications/Telecom equipment	98.5 (4)	105.1 (10)	102.3 (9)	98.9 (6)	98.9 (5)	97.2 (3)	101.0 (8)	95.7 (1)	100.0 (7)	96.4 (2)	108.6 (11)
R&D											
Biotechnology/Biomedical R&D ²	97.3 (6)	115.0 (10)	94.8 (4)	91.8 (3)	100.2 (8)	96.6 (5)	101.3 (9)	83.4 (1)	100.0 (7)	88.6 (2)	135.9 (11)
Clinical trials/Clinical trials management	105.6 (9)	131.5 (10)	95.5 (6)	97.2 (7)	94.8 (5)	94.0 (4)	83.8 (2)	77.6 (1)	100.0 (8)	85.7 (3)	153.3 (11)
Product testing/Electronic syst. dvl't/testing ²	86.8 (6)	102.2 (10)	81.7 (3)	82.6 (4)	89.4 (7)	85.4 (5)	90.5 (8)	75.3 (2)	100.0 (9)	71.7 (1)	120.8 (11)
SOFTWARE											
Software design/Advanced software ²	98.5 (7)	108.2 (10)	88.4 (3)	95.6 (5)	95.7 (6)	92.9 (4)	105.3 (9)	86.4 (2)	100.0 (8)	84.7 (1)	114.4 (11)
Web and multimedia/Content develop. ²	98.4 (7)	120.5 (10)	93.4 (3)	96.3 (5)	94.9 (4)	97.3 (6)	108.6 (9)	87.5 (2)	100.0 (8)	84.2 (1)	128.1 (11)
CORPORATE SERVICES											
Back office/call ctrs/Shared svcs center ²	114.3 (4)	144.0 (10)	121.3 (8)	114.6 (5)	118.3 (7)	116.9 (6)	128.4 (9)	88.3 (1)	100.0 (3)	95.9 (2)	162.4 (11)
OVERALL RESULTS											
Overall results ²	99.1 (5)	113.9 (10)	103.3 (8)	98.7 (4)	99.1 (5)	97.6 (3)	104.0 (9)	91.0 (1)	100.0 (7)	91.5 (2)	123.8 (11)

OVERALL RESULTS BY REGION AND CITY: EUROPEAN NATIONS¹

CONTINENTAL EUROPE			
LOCATION	COUNTRY	INDEX	RANK
Grenoble	France	99.1	5
Mulhouse	France	97.2	2
Nantes	France	99.2	8
Toulouse	France	101.0	9
Chemnitz	Germany	106.5	14
Darmstadt	Germany	116.6	15
Frankfurt	Germany	118.5	16
Reykjavik	Iceland	103.3	11
Caserta	Italy	95.1	1
Livorno	Italy	98.0	3
Turin	Italy	99.1	5
Vicenza	Italy	98.9	4
Luxembourg	Luxembourg	99.1	5
Amsterdam Area	Netherlands	104.9	12
Groningen	Netherlands	102.9	10
Rotterdam Area	Netherlands	105.1	13

UNITED KINGDOM			
LOCATION	COUNTRY	INDEX	RANK
Birmingham	England	100.0	13
Derby	England	97.8	7
Durham	England	97.1	3
Leicester	England	98.3	9
London	England	115.1	14
Manchester	England	96.9	2
Newcastle-Gateshead	England	98.0	8
Nottingham	England	98.7	10
Stoke-on-Trent	England	96.1	1
Sunderland	England	97.2	4
Telford	England	97.7	6
Belfast	Northern Ireland	97.3	5
Derry	Northern Ireland	98.8	12
Newry	Northern Ireland	98.7	11

SOUTHEAST (NORTH AMERICA)			
LOCATION	COUNTRY	INDEX	RANK
Atlanta, GA	United States	99.2	6
Dothan, AL	United States	94.7	2
Greenville-Spartanburg, SC	United States	96.7	3
Jackson, MS	United States	97.1	4
Nashville, TN	United States	97.4	5
Raleigh, NC	United States	99.4	8
San Juan, PR	United States	93.0	1
Tampa, FL	United States	99.3	7

MIDWEST (NORTH AMERICA)			
Calgary, AB	Canada	91.4	4
Cedar Rapids, IA	United States	99.3	8
Chicago, IL	United States	103.5	15
Colorado Springs, CO	United States	98.6	7
Dallas-Fort Worth, TX	United States	102.8	14
Edmonton, AB	Canada	89.2	1
Houston, TX	United States	104.7	17
Milwaukee, WI	United States	102.1	13
Minneapolis, MN	United States	104.1	16
Oklahoma City, OK	United States	100.1	10
Phoenix, AZ	United States	99.4	9
Salt Lake City, UT	United States	97.8	6
Saskatoon, SK	Canada	89.4	2
Sioux Falls, SD	United States	97.6	5
St. Louis, MO	United States	102.0	12
Wichita, KS	United States	100.1	11
Winnipeg, MB	Canada	90.5	3

PACIFIC (NORTH AMERICA)			
Boise, ID	United States	97.9	3
Kelowna, BC	Canada	89.7	1
Las Vegas, NV	United States	102.2	5
Portland, OR	United States	102.5	6
Riverside-San Bernardino, CA	United States	104.8	7
San Diego, CA	United States	105.1	8
San Jose, CA	United States	110.9	10
Seattle, WA	United States	105.6	9
Spokane, WA	United States	101.4	4
Vancouver, BC	Canada	93.6	2

ASIA-PACIFIC			
LOCATION	COUNTRY	INDEX	RANK
Adelaide	Australia	90.4	1
Brisbane	Australia	91.0	2
Canberra	Australia	91.5	3
Fukuoka	Japan	121.5	6
Hamamatsu	Japan	121.9	7
Melbourne	Australia	92.1	4
Sydney	Australia	93.8	5
Yokohama	Japan	128.0	8

NEW ENGLAND/ATLANTIC (NORTH AMERICA)			
LOCATION	COUNTRY	INDEX	RANK
Boston, MA	United States	103.8	9
Burlington, VT	United States	99.8	6
Charlottetown, PE	Canada	87.8	1
Halifax, NS	Canada	88.6	3
Hartford, CT	United States	102.9	8
Lewiston, ME	United States	97.6	5
Moncton, NB	Canada	88.1	2
Providence, RI	United States	100.6	7
St. John's, NF	Canada	89.7	4

NORTHEAST (NORTH AMERICA)			
Buffalo, NY	United States	100.3	10
Columbus, OH	United States	99.8	9
Detroit, MI	United States	105.6	15
Indianapolis, IN	United States	99.6	8
Lexington, KY	United States	97.0	7
Montreal, QC	Canada	91.3	4
New York City, NY	United States	109.8	16
Newark, NJ	United States	104.3	14
Northern Virginia (Metro DC), VA	United States	101.3	12
Ottawa, ON	Canada	92.0	5
Philadelphia, PA	United States	102.1	13
Quebec City, QC	Canada	89.1	2
Saginaw, MI	United States	101.2	11
Sherbrooke, QC	Canada	86.5	1
Toronto, ON	Canada	93.2	6
Waterloo Region, ON	Canada	91.0	3

ASIA-PACIFIC			
LOCATION	COUNTRY	INDEX	RANK
Adelaide	Australia	90.4	1
Brisbane	Australia	91.0	2
Canberra	Australia	91.5	3
Fukuoka	Japan	121.5	6
Hamamatsu	Japan	121.9	7
Melbourne	Australia	92.1	4
Sydney	Australia	93.8	5
Yokohama	Japan	128.0	8

<<Back || Close || Next >>