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Automotive Site Guide: The Automotive Industry Flies South

John Schuetz, Principal, The RHS Group (Automotive Site Guide 2006)

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EDITORS PICKS

Do the Clouds Hovering Over the U.S. Auto Industry Have a Silver Lining?

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Making the Most of Auto Industry Incentives

The Southern United States is rapidly becoming the country's automotive powerhouse. It is the home to the automotive industry's top manufacturers. Where America's Big Three - General Motors, Ford, and DaimlerChrysler - have lapsed in producing sales and maintaining facilities in the North, both domestic and foreign manufacturers - Toyota Motor Corp., Nissan, and others - have located to the South to pick up the slack, creating thousands of jobs.

The economies of the Southern states - Alabama, Louisiana, Mississippi, and Texas - are flourishing due to the opportunities generated by these firms. And, as the automotive manufacturing industry continues to expand, the nation will see a further shift in production from the North to the South.

With several states craving the economic advancement, it's no wonder that neighboring states are offering massive incentives to have a transplant of their own. These incentives offerings can play a major role for automotive producers in determining a site. Once the selection has been narrowed down, the true negotiation for incentives can begin.

The Draw of the South and the I-70 Belt

It's not surprising that automotive manufacturers are flocking to the region. The moderate climates of the South and Southeast allow for year-round production to be relatively unaffected by weather. The moderate temperatures allow for the constant flow of materials in and products out. The Northern states often have such severe weather that production

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out. The northern states often have such severe weather that production needs to be halted for a few days. This increases production as well as distribution costs.

Moreover, part of the initial draw to the South for foreign competitors like Nissan and Toyota is that they were the first automotive manufacturers to locate to the region, which meant less competition for the producers in staffing, lower costs, more available land, and ease of transportation access. Now the draw to the South is just the opposite. Companies are locating to the South because it is the "automotive manufacturing hub." Having other manufacturers nearby increases the probability of a state already having an available skilled and trainable automotive work force.

Sites in the South are also strategically located in close proximity to populated areas, highways, and supply chains. Suppliers and distributors need to be in the vicinity of the automotive producer. Therefore, they will build neighboring facilities that will create an abundance of unexpected jobs for a community. Suppliers and associated businesses represent nearly three additional jobs for every assembly plant job.

According to a study conducted by the Center for Automotive Research, the lure of the South can also be attributed to several other factors including lower wage rates and nonunionized labor. Auto companies in the South don't face the union challenges faced by those in the North because most Southern states do not have required labor unions, i.e., they are right-to-work states. Therefore, automotive producers in the South can save tremendous amounts of money. According to the Mackinac Center for Public Policy, this gives them an immediate \$2,600 labor cost advantage.

Tennessee, Kentucky, and Ohio - also known as the I-70 belt - are also thriving from the automotive industry. The region is home to transplants for Toyota Motor Corp., Nissan, and Honda. The I-70 belt is one of the few U.S. regions that are still competing with the Southeast for automotive facilities. Automotive manufacturing is just not as cost-effective in the North as is in the South. For example, it costs significantly less to ship from Alabama to Florida than from Michigan to Florida.

Growing Importance of Skilled Work Force


When selecting a site for an automotive facility, a company first needs to choose an area that can meet all of its predetermined requirements. The top two areas of concern for the automotive industry are energy and

work force. Thus, the company should evaluate the availability of a skilled and trainable work force and the resources offered by the selected region. A company's work force is its foundation of production and revenue. Not having a qualified work force can jeopardize operations and also deter supplier companies from locating to the area.

The availability of a skilled work force attracted newcomer KIA to the state of Georgia. The \$1.2 billion plant located in West Point is expected to create 5,500 jobs in Georgia as well as in neighboring East Alabama. KIA has also attracted four suppliers to the area.

In order for a site to be competitive, a community not only needs to have a readily available work force, it also needs to provide a skilled and trainable work force. Not having an up-to-par work force can be quite detrimental to the community - and to the United States. Toyota Motor Corp.'s move to Canada is a prime example.

Toyota Motor Corp. decided to open its new plant in Woodstock, Ontario. The manufacturing plant will produce 200,000 vehicles a year and create a boost in the local Woodstock economy. Although the transplant proved to be a great addition to Ontario, it is the United States' loss. It has been reported that Toyota was offered substantial financial incentives to locate to the Southern United States. However, Toyota declined to open its eighth U.S. manufacturing plant citing the work force's poor level of training as the reason. Toyota claimed that Canada




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Other areas that rank high on the list for location are transportation and distribution for ingress and egress of raw materials and finished product, respectively. While energy and work force have the biggest impact on the location, it is important for a company to evaluate these contributing factors as well.



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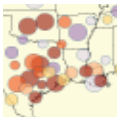
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