

# Chicago Real Estate Daily Article

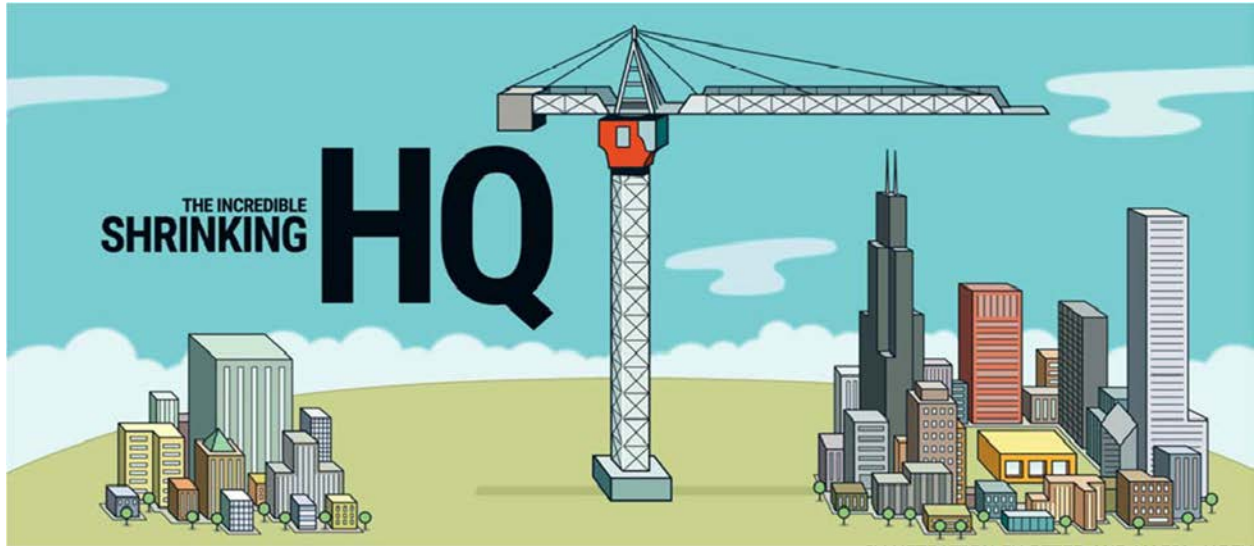


ILLUSTRATION BY PETER AND MARIA HOEY

THE INCREDIBLE  
SHRINKING  
**HQ**

**HQ**

THE INCREDIBLE SHRINKING

Corporations moving their headquarters to Chicago arrive with only a handful of employees and a modest economic impact

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BY CLAIRE BUSHEY

In the winter twilight, the logo of Archer Daniels Midland gleams silver where it is cut into the wall beside the front door at 77 W. Wacker Drive. Though it marks the company's world headquarters, it's easy to walk past without noticing.

Contrast that with the \$33.12 billion agribusiness's presence at its former headquarters in Decatur. When Chicago landed ADM in 2013, it got 70 executives and white-collar employees, plus a promise of 100 technology jobs that never arrived. Two years later, Decatur still has 4,200 ADM workers in logistics, corn processing, farmers services, natural health and nutrition, oilseed processing and specialty ingredients.

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Mobile HQs erode Chicago's tradition of corporate philanthropy.

ADM is Exhibit A in the rise of a new type of corporate headquarters, one that arrives from afar but packs light. These headquarters represent the pinnacle of the corporate pyramid, snapped off and relocated, free of jobs tied to operations and often midlevel HQ functions such as payroll, human resources or purchasing. To be sure, migrating headquarters offer benefits to the city: They boost demand for business services, their executives join the philanthropic scene and, of course, they confer bragging rights. But in terms of jobs, the farther a company travels to set up shop in Chicago, the fewer people come with it.

"The notion of the corporate headquarters in the 'Mad Men' world when there were hundreds or thousands of people in a building with the company logo... those days are gone," says David Collis, a professor at Harvard Business School who studies corporate headquarters.

Chicago may have won ConAgra's headquarters recently, for example, but there's balm to soothe troubled city boosters in Omaha, Neb., its current hometown: The Gateway to the West will keep 1,200 office jobs—500 more than here—plus 900 in factories. In 2011, GE Transportation moved its headquarters here from Erie, Pa., along with 50 of 5,500 jobs. (The number in Chicago since has climbed to 150, while Erie has shrunk to 4,750, with more cuts planned this spring.) In 2013, design and construction firm Clayco agreed to make its 288-employee Chicago office its headquarters. The company now employs 620 here, while in its old home of St. Louis, it's grown to 1,025 from 700. The latest to announce plans to alight in Chicago, GE Healthcare, will pluck just the executive leadership team of 200 or fewer from suburban London, where it employs about 1,000.

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MANUEL MARTINEZ

Archer Daniels Midland's headquarters at 77 W. Wacker Drive. The company employs 70 executives and white-collar employees here after moving from Decatur in 2013.

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The sticker shock of severance, retention packages and relocation costs depresses the job count when a headquarters moves from far away, says Debra Moritz, executive managing director in the Chicago office of commercial real estate company Cushman & Wakefield. Even Boeing, the largest company to come to Chicago from out of state, brought just 400 employees here in 2001, compared with the 1,000 it employed at its headquarters in Seattle. Fifteen years later, its Chicago headcount is up to roughly 560.

Headquarters began shrinking a decade ago, but the trend has accelerated in the past three years, says Vinay Couto, a consultant in the Chicago office of Strategy &. The phenomenon is driven by the outsourcing of shared services such as IT, accounting and human resources, as well as by a mindset borrowed from private equity—and embraced by activist investors and increasingly management itself—to cut overhead and make every part of a business count toward profitability. If a company moves to a "more expensive location, you just move the team that runs the business, but not the team that administers... because what you want is to not increase the overall cost," Couto says.

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—DAVID COLLIS, HARVARD BUSINESS SCHOOL PROFESSOR

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While comprehensive data on the size of headquarters is limited, a 2014 study of mostly European companies that Zimmermann co-authored found that the average percentage of employees working at headquarters dropped to 3.4 percent in 2014 from 5.6 percent in 2012. The shrinkage is due to the recovery from the 2008 financial crisis, Zimmermann says. Companies reduced staff at headquarters as they returned resources to their business units to drive growth and located administrative functions in low-cost locales.

"When ADM relocated its global headquarters to Chicago, it was always our intention to move a small group of people who mostly focus on the strategic direction of the company," spokeswoman Jackie Anderson says. "Chicago allows us to more easily reach global markets while still maintaining close proximity to our North American headquarters in Decatur, where a significant amount of our commercial activities take place."

For Aaron Renn, a senior fellow at the Manhattan Institute for Policy Research, it exemplifies the "executive headquarters," a term he coined to describe the detached corporate nucleus. For a metropolis to get 100 executives "gets you something, but in a city the size of Chicago, that's not what it used to be."

## LOCAL POACHING

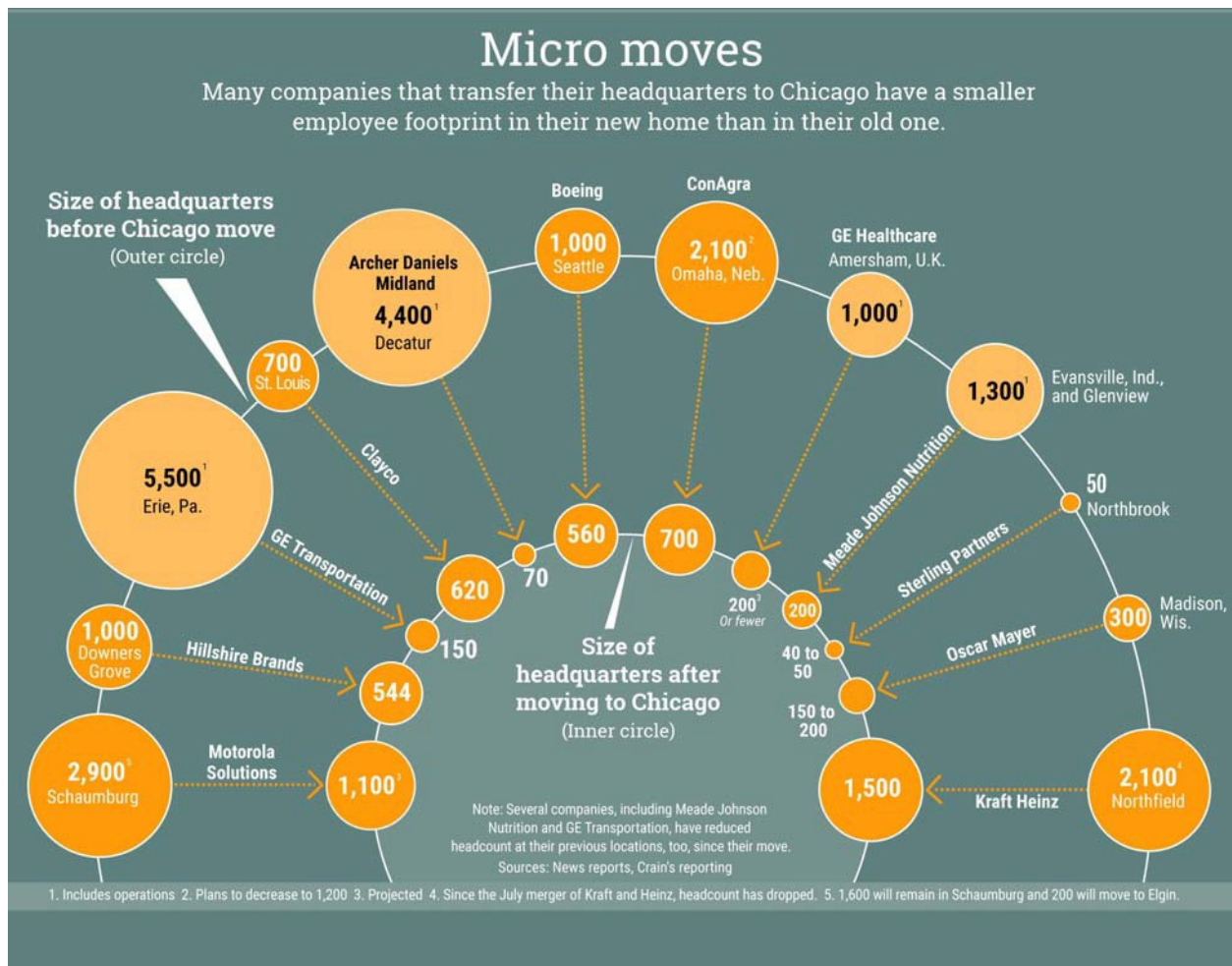
**M**etro Chicago boasts the headquarters of 34 Fortune 500 companies, with a fair share bouncing between city and suburb or suburb to suburb. Historically, staying within greater Chicago meant employees from at least some of a company's businesses would keep their jobs, even if they changed their commute. Local poaching yields greater returns for the new jurisdiction because companies are more likely to bring business units, not just the C suite. Walgreen was based in Chicago until 1975, when it moved to Deerfield. Baxter International moved to Deerfield from Morton Grove the same year, when it employed 2,200.

When Sears built its namesake tower in the early 1970s, it did so with the purpose of convening all its corporate operations under one roof, says John Russick, director of curatorial affairs at the Chicago History Museum. In 1992, the company moved the headquarters for its 5,000-strong merchandising group to Hoffman Estates. The official company headquarters stayed in Chicago; about 550 senior executives and support staff continued to work in the tower. Their move two years later was anticlimactic.

More recently, about 350 United Airlines executives came in 2007 when the company moved its headquarters downtown from Elk Grove Township, where it employed 3,600. The number swelled to 4,300 in Chicago, including 1,300 jobs when United opened an operations center in Willis Tower. Motorola Mobility brought all 2,000 employees from its Libertyville head office when it moved downtown in 2014, though it announced plans in August to cut 500. Motorola Solutions will leave 1,600 in Schaumburg but bring 800 to Chicago when it completes its move this summer.



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These moves don't represent a gain for the region, however, since increases in one municipality are offset by losses in another. It's a zero-sum game that quickly grows pricey if local governments offer relocation subsidies. (Renn cites Kansas City, where Missouri and Kansas dangle incentives to tempt companies to jump from one side of the state line to the other.)

Companies do sometimes decamp entirely, as General Electric demonstrated in January when it announced it will move from Fairfield, Conn., to Boston. Some fear that Chicago's technology startups are particularly vulnerable to leaving for Silicon Valley, attracted by venture capital and a deep talent pool.

But a company needs a strong business reason to take the radical step and expense of leaving the region, Renn says, and plenty don't have it. So, he says, the argument that regional hops are a win because at least the companies stayed in-state becomes "the argument you would make if you were Rahm Emanuel," who has wooed multiple.

firms to move downtown from the suburbs. During Emanuel's tenure as mayor, 16 companies have relocated their main headquarters to the city from the suburbs. Seventeen came from outside the metroarea.

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"The changing nature of corporate headquarters is very real, but headquarters are still really vital to our city and our economic development work," says Wendi Taylor Nations, chief marketing officer at the city's economic development agency, World Business Chicago. Even if initial job numbers are low, she says, there's a positive ripple effect that benefits the city's professional services firms and a "cool kid factor" that makes other companies want to settle here, like the clustering of food companies ConAgra and KraftHeinz.

## A REFRESH

Moving headquarters often can be a way for companies to break from the past and shed employees and positions, Couto says. Boeing's Seattle location was identified with its commercial airplane unit at a time when the company was still digesting its merger with St. Louis-based defense contractor McDonnell Douglas and it needed a "neutral location" for its headquarters.

Kraft Heinz, with dual headquarters in Pittsburgh and Chicago since the March merger of H.J. Heinz and Kraft Foods Group, is another instance of significant change. The company's real estate footprint will go to 170,000 square feet in the Aon Center from 700,000 square feet in Northfield, where 2,100 people worked before the merger. Headcount at Kraft Heinz's Chicago site already has dropped. Spokesman Michael Mullen says the downtown location will have about 1,500 employees. "It's an easy way also of making some difficult decisions," Couto says.

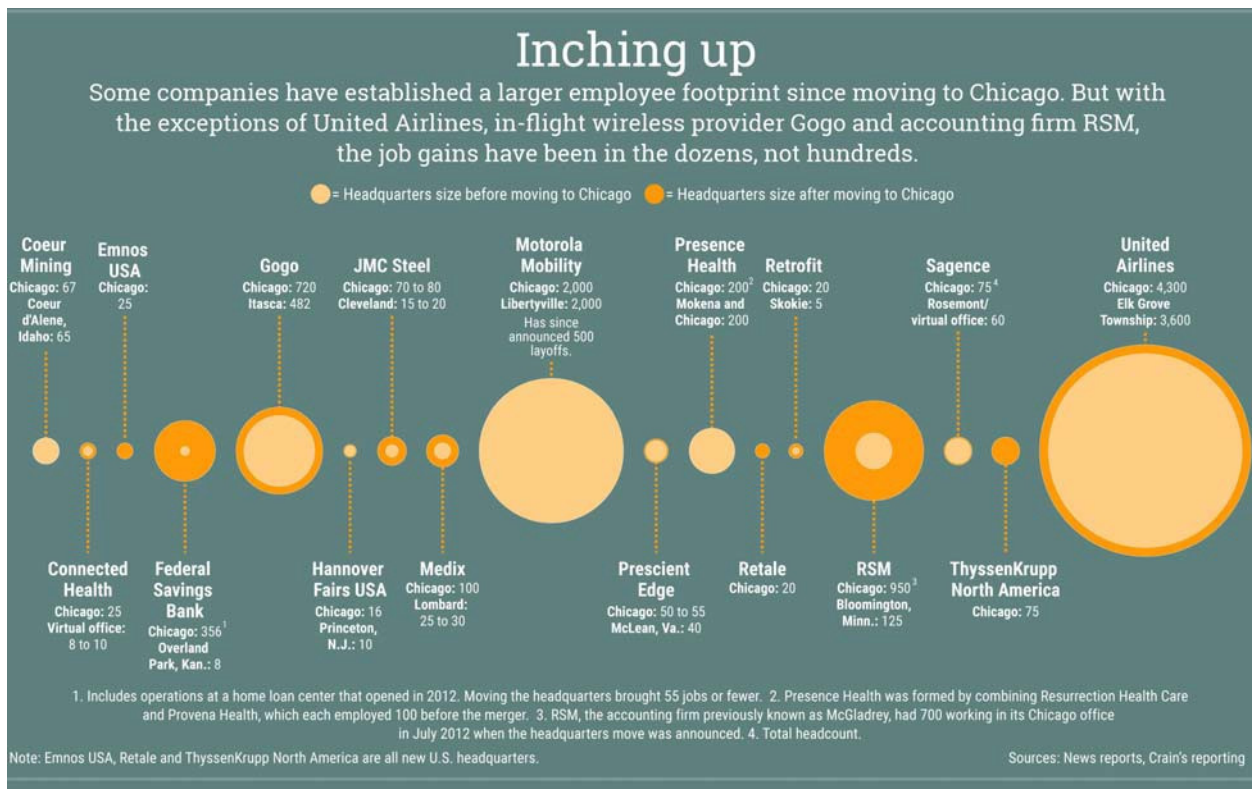
All companies have become more efficient about how they use space, says Todd Lippman, a vice chairman in the Chicago office of commercial real estate firm CBRE. For a decade, the amount of square footage per employee has been dropping, and companies have been moving back-office workers out of the country or at least to less expensive space. Locally based Northern Trust bank, for example, moved jobs from Chicago to Arizona when it opened an operations center there in June. Executives said in October that they were capitalizing on lower labor costs by basing more than a quarter of the bank's 16,000-strong workforce in Arizona, India, Ireland and the Philippines.

"It's a reality we've been working with for the last 12 years," Lippman says. A business may grow revenue and headcount, but that doesn't mean it's going to take up the same amount of real estate as before. "What that means for cities is that you may have growth . . . (but) instead of a tenant taking 300,000 feet, they take 200,000 feet."

MOVING HEADQUARTERS CAN BE "AN EASY WAY . . . OF MAKING SOME DIFFICULT DECISIONS."

—VINAY COUTO, STRATEGY&CONSULTANT

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Even so, overall demand for office space has stayed strong because of smaller and midsize companies, says Moritz of Cushman & Wakefield. Moreover, Lippman says, a company not moving all its workers when it relocates does not diminish the importance of the jobs it does bring, the reputational advantage associated with a headquarters and the benefit to ancillary businesses. Seattle-based law firm Perkins.

Coie opened an office in Chicago after Boeing moved here and now employs 116 lawyers in the city. "It's easy to say, 'One hundred people, that's not that much,' and that's true. But if you look overall at Loop employment, it's quite robust," Renn says. Private-sector employment in downtown Chicago increased 16 percent between 2010 and 2015. "It adds up."

Access to professional services is one of the driving reasons for headquarters to relocate downtown, Renn says. "They need to talk to their banker at Goldman Sachs, they need to talk to their lawyer—those people are downtown." Chicago's history as "hog butcher for the world" and as a hub for manufacturing and transportation means today agribusiness and industrial companies can find lawyers and accountants here familiar with their industries. The professional services firms benefit from increased patronage, and as more companies cluster here because they can obtain needed services, it fosters a virtuous circle.

Yet the ripple of economic benefit is checked by the smaller nature of these headquarters, says Norton Francis, an expert in state and local tax policy at the Urban- Brookings Tax Policy Center at the Urban Institute in Washington, D.C. When United moved downtown, restaurateurs in Elk Grove Township worried ([http://articles.chicagotribune.com/2009-08-26/news/0908240316\\_1\\_united-airlines-elk-grove-township-northwest](http://articles.chicagotribune.com/2009-08-26/news/0908240316_1_united-airlines-elk-grove-township-northwest)) about the loss of business. Were ADM to relocate again, the city's eateries wouldn't miss company executives in the same way. "Fifty lunches is a lot fewer than 500 lunches, and the expense of the lunch isn't going to overcome that," Francis says.

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## GROWTH

The majority of job growth comes from expanding existing businesses, Renn says. There's the old guard, Abbott Laboratories, founded in 1915 and employing an estimated 10,000 in the Chicago area; 2,100 at McDonald's headquarters in Oak Brook; and 1,800 at Baxter's main campus in Deerfield, with another 4,700 spread across northern Illinois. There's also the new crop. Groupon, for all its struggles, still employs 2,100 in Chicago.

Even homegrown companies that drew brickbats for moving their headquarters out of town, like Aon and Accenture, maintain large footprints in Chicago. Aon moved 20 executives from Chicago to its new London headquarters. It employs 3,100 there but still has 2,700 employees in the Aon Center. Dublin-based Accenture, which had 6,500 employees spread across the metro area when it was last headquartered here 15 years ago, still has 5,500, compared with 1,800 in Ireland. A spokesman declines to say how many people moved from Chicago to Ireland.



Aaron Renn coined the term "executive headquarters" to describe the detached corporate nucleus.

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The loss of a major headquarters doesn't necessarily stifle job gains. When Boeing moved to Chicago, Seattle's economy kept growing, fed by Microsoft and Amazon, says Kevin Hively, founder of Ninigret Partners, a business and economic development strategy consulting firm in Providence, R.I. Homegrown companies offer "more bang for the buck" because "if you have things like their R&D or their major business units, you also get the opportunity to hold onto their growth," he says.



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to attract smaller stores.



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But in a world of pinched municipal budgets, deciding how to balance economic development priorities is a challenge. "The real question is, if you only have a dollar to spend, do you spend 50 cents on each? Is it 60-40? 70-30?" Hively says. "I think that's an open question."

So if a company does travel light, if there's less tie to any particular patch of earth, is it less likely to stay where it lands? The first relocation "certainly removes the loyalty factor," Francis says, with any subsequent decision about location "more focused on conventional business arguments" like cost and customer access.

Mead Johnson Nutrition, makers of Enfamil baby formula and other nutrition products for children, may offer a glimpse of the future. The company was founded in 1905 in Jersey City, N.J. Ten years later when World War I cut off supplies of potato starch needed to make the company's first infant feeding product, the company moved to Evansville, Ind., to source an alternative carbohydrate, corn. It stayed there for almost a century.

In 2007, Illinois paid the company \$2.7 million to move 50 executives to Glenview while 1,300 employees remained in Indiana. (Employment there now stands at 930.) It has stayed there eight years as the company's headcount at headquarters grew to 170. Then, in March, Mead Johnson announced it will take those 170 jobs, possibly as many as 200, and join the tide of companies heading downtown. It will claim a Chicago address in mid-2017.