



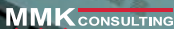
Competitive Alternatives

KPMG's Guide to International Business Location

2008 Edition

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A Guide to Business Location

Competitive Alternatives is KPMG's guide to comparing business locations in North America, Europe, and Asia Pacific

The *Competitive Alternatives* study is the most thorough comparison of international business locations ever undertaken by KPMG. This study contains valuable information for any company considering their international business location options.

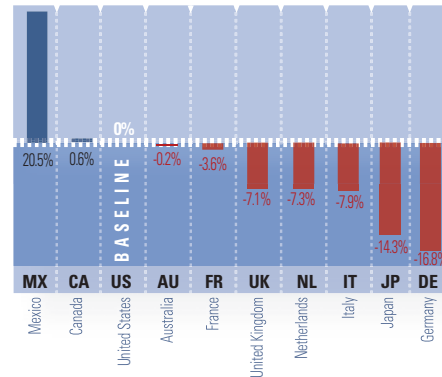
Competitive Alternatives 2008 compares business competitiveness for more than 100 cities in ten countries: Australia, Canada, France, Italy, Japan, Germany, Mexico, the Netherlands, the United Kingdom, and the United States. For the first time, the 2008 study includes all three NAFTA countries and all 50 US states, in addition to its traditional G7 coverage.

The primary focus of *Competitive Alternatives 2008* is international business costs. The study measures the combined impact of 27 significant cost components that are most likely to vary by location, as applied to 17 different business operations. The basis for the cost comparison is the after-tax cost of startup and operation, over a 10-year planning horizon. This brochure summarizes the results of the international cost comparisons.

The *Competitive Alternatives* report also presents a comparison of a variety of non-cost factors that can also influence the attractiveness of locations to business. Aspects of the business environment, such as labor availability and skills, economic conditions and markets, innovation, infrastructure, and the regulatory environment, as well as personal factors, such as cost of living and quality of life, are all discussed and compared in the main study report.

Full study results, for both cost and non-cost factors, are available online at: www.CompetitiveAlternatives.com.

The Bottom Line



% cost advantage/(disadvantage) relative to the US

Among the countries studied, **Mexico** represents the lowest-cost country, with a business cost advantage of 20.5 percent, on average, relative to the US baseline. This rating reflects Mexico's status as the first emerging industrialized country to be included in *Competitive Alternatives*.

Canada, the **United States**, and **Australia** are the cost leaders among the nine established industrialized countries examined. Business costs in these three countries are virtually equivalent, with less than one percent separating them.

France ranks fifth among the ten countries examined, and has the lowest cost structure among the European countries studied. Overall business costs in France are 3.6 percent higher than the US benchmark.

The **United Kingdom**, the **Netherlands**, and **Italy** are also very closely grouped, with business costs between 7.1 and 7.9 percent above the US benchmark.

Japan and **Germany** have the highest cost structures among the ten countries examined, with costs 14.3 and 16.8 percent (respectively) higher than the United States.

Cost Trends—Big Gains for US on Back of Weak Currency

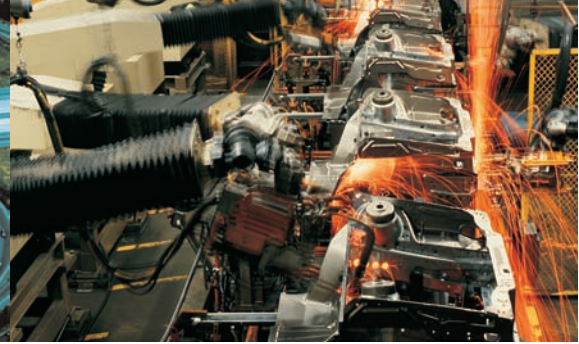
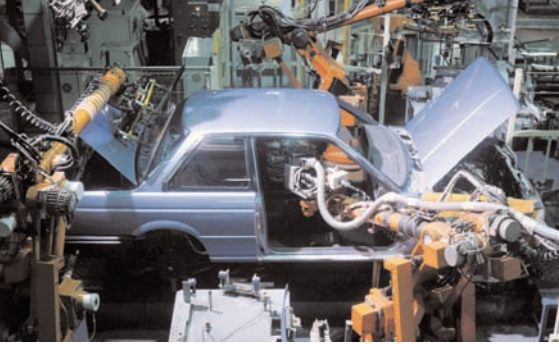
Since the previous (2006) edition of *Competitive Alternatives*, the most notable cost trends have been caused by the weakening of the US dollar against all other major currencies. However, changes in the local cost fundamentals in each country have also impacted results:

- The **United States** has experienced the greatest gain in cost competitiveness since 2006, improving its position significantly against all other countries as the value of the US dollar has declined
- **Canada** and **Australia** have both lost their previous cost advantages relative to the US, but have both gained ground relative to the European countries
- **France**, **Germany**, **Italy**, and the **Netherlands** have all lost ground, not only relative to the US, but also to the **United Kingdom**, which has benefited from the stronger appreciation seen by the euro than the pound
- While **Japan** remains a relatively high-cost country, over the longer term it has gained some ground against most countries, due to its low inflation rates and the lower volatility of the yen vis-a-vis the US dollar.

The results of this study are sensitive to exchange rates.

Exchange Rates ¹			
Currency	2006 Edition	2008 Edition	% Change ²
Euro	0.84	0.68	23.7%
UK £	0.57	0.50	14.4%
Canadian \$	1.17	1.00	17.4%
Mexican peso	10.71	10.87	-1.5%
Australian \$	1.34	1.14	17.9%
Japanese ¥	117.26	111.27	5.4%

1: Per US\$. 2: Two-year appreciation relative to US\$



Labor Costs Are Key

Labor cost comparisons are based on 42 job positions.

Labor costs include wages and salaries, statutory benefits (including government pension plans, medical plans, etc.), and all other benefits typically provided by employers.

For manufacturing operations, labor costs typically represent 58 to 74 percent of total location-sensitive costs. For non-manufacturing operations, this range is typically 79 to 88 percent.

Labor-related costs vary significantly among countries:

- Mexico has the lowest salary and wage costs among the ten countries examined, followed by France, Italy, and the United States
- Costs for statutory plans, as a percentage of payroll, are lowest in Canada, followed by Japan, the United States, and the Netherlands
- Costs for other employer-sponsored benefits, as a percentage of payroll, are lowest in France, followed by Canada, Germany and Mexico
- Combining these three elements, total labor costs are lowest in Mexico, followed by the United States, Canada, and Australia; an order that is generally consistent with the overall cost rankings

Other Major Costs

Facility costs generally represent the second-largest group of location-sensitive business costs:

- For manufacturing operations, facility ownership costs (including financing) range from 8 to 19 percent of location-sensitive costs

Land purchase and building construction costs for a new industrial facility are lowest in Mexico, followed by the United States, Italy, and France

- For non-manufacturing operations, office leasing costs range from 4 to 14 percent of location-sensitive costs. Lease costs include rent, plus all costs and taxes typically passed on by the landlord to the tenant

Office lease costs are lowest in Italy, followed by Mexico, the Netherlands, and Germany

Transportation costs vary widely by industry, and represent between 1 and 15 percent of location-sensitive costs for the manufacturing operations examined. Transportation costs vary by product and markets served, but tend to be lowest in the more compact European market, with leading cost countries including the Netherlands, the United Kingdom, and France. Despite its broad expanse and more distant global location, Australia also offers relatively low transportation costs.

Utility costs represent between two and ten percent of location-sensitive costs:

- The lowest electricity costs are found in the United States, Canada and France, but may vary significantly by region

- Mexico, the United States, and Canada offer the lowest natural gas costs
- Telecommunication costs are lowest in the United States, Canada, and the United Kingdom

Income taxes typically represent two to eight percent of location-sensitive costs. Effective income tax rates are calculated net of generally applicable tax credits, grants and incentives:

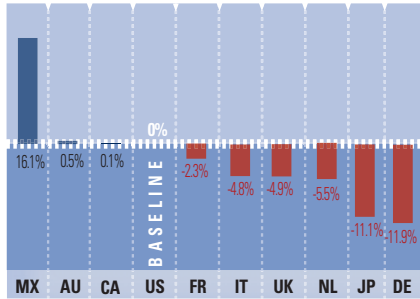
- For manufacturing operations, the Netherlands offers the lowest effective corporate income tax rate, followed by Canada, Mexico and France
- For R&D operations, the Netherlands, France, the United Kingdom, Canada, Australia, and many US states all offer significant R&D tax incentives, which may be fully or partially refundable in certain cases or locations
- For other non-manufacturing operations, the United Kingdom, the Netherlands, Canada, and Australia offer the lowest effective corporate income tax rates

Detailed Results

Full results of this study, including all industries and cities for both cost and non-cost factors, can be found online at: www.CompetitiveAlternatives.com.

Results by Industry Sector

Results for specific business operations form the basis for comparing industry sectors

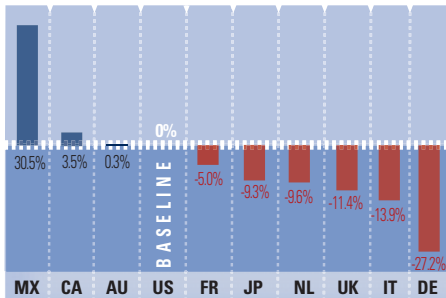


MANUFACTURING

For manufacturers, significant costs for globally sourced materials and equipment do not vary by location, resulting in lower cost differentials for most countries. In this sector, **Australia** and **Italy** achieve their best rankings, while the **United Kingdom** and **Germany** also achieve their strongest results.

Seven manufacturing operations

- Electronics assembly
- Food processing
- Metal machining
- Pharmaceutical products
- Plastic products
- Precision components
- Specialty chemicals

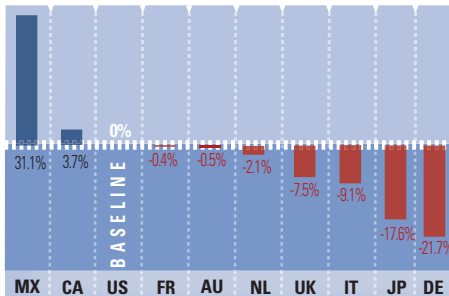


SOFTWARE

Labor costs are more significant in the software sector, and vary considerably by country and by region. This results in generally higher cost differentials in this sector, as seen most prominently in the cost advantage that **Mexico** holds over all other countries. Among other countries studied, **Japan** achieves its best ranking in this sector.

Two software operations

- Advanced software
- Content development

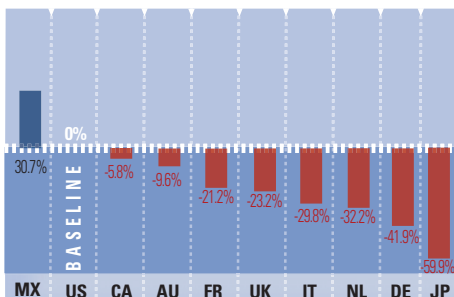


RESEARCH & DEVELOPMENT

Cost differentials are generally higher for R&D, due to differences in labor costs for scientific and technical employees, as well as differences in tax treatment of R&D costs. **Canada**, **France**, and the **Netherlands** all have their strongest results in this sector.

Two R&D operations

- Biomedical R&D
- Electronics systems development/testing



CORPORATE SERVICES

Results for the corporate services sector are driven primarily by labor costs for entry-level workers, which vary most significantly by country. The **United States** achieves its best ranking in this sector.

One corporate services operation

- Shared services center

About KPMG's Global Location and Expansion Services

In most industries today, companies have to operate internationally to stay successful and grow. The need to enter new markets, serve major customers, or reduce costs and risks are just some of the reasons why businesses decide to establish a presence overseas. KPMG's Global Location and Expansion Services (GLES) group was formed to assist clients in the location and establishment of operations around the world. GLES professionals can provide objective advice that can help companies:

- Develop an approach for international expansion that can support overall business objectives
- Determine the requirements of a new operation and translate these into criteria for evaluating locations
- Identify and compare countries, regions, and cities as potential locations for relocating or establishing new operations
- Select and evaluate potential properties, buildings, or sites for a new facility
- Negotiate and secure grants, tax breaks and other types of government incentives and support
- Set up new operations in a tax-efficient manner

Based in all regions of the globe, KPMG's GLES professionals offer locally relevant, industry-specific knowledge that can help support expansion and relocation decisions.

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