



John Engler, Governor

Doug Rothwell, Chief Executive Officer
and Department Director

MEMORANDUM

DATE: September 24, 1996

TO: Michigan Economic Growth Authority (MEGA)

FROM: Douglas E. Stites, Chief Operating Officer

SUBJECT: Briefing Memo - Compuware Corporation

COMPANY NAME:

Compuware Corporation
31440 Northwestern Highway
Farmington Hills, Michigan 48334-2564

HISTORY OF COMPANY:

Compuware began in Michigan in 1973 as a provider of data processing service and remained in that market until 1978 when it began marketing its own system software. Today, Compuware develops and markets numerous software products and product options around the world. Compuware is an international corporation headquartered in Farmington Hills, with nearly 5,000 employees worldwide. It has 28 North American offices and 31 others located in every major European country, Hong Kong, Japan, Singapore, and other countries. Compuware has realized profits in every year except 1992 (as a result of an acquisition that year) and its 1996 revenues were approximately \$635 million. Because of ever expanding markets for computer software and related services, Compuware has seen significant growth since its inception. Current demand for products in the banking and automotive industries has prompted the company to consider a major expansion of both its product development and services staffs.

PROJECT DESCRIPTION:

Compuware will expand either in Farmington Hills, Michigan, or in Columbus, Ohio. This expansion will create 331 computer software development jobs and will also lead to a significant increase in field service staff as a result of these new products. Major customers for these new products are expected to be manufacturers and the banking industry. These customers are located in the Midwest and throughout the United States and the world.

Capital investment is small (at approximately \$6.6 million for new computer equipment and furniture and fixtures) compared to the growth in payroll. The company will be leasing building space in either location. Payroll for these 331 new employees is expected to exceed \$1135 per week with a full benefit package. Total annual payroll will be in excess of \$19.5 million when all staff are on board.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 680 new jobs in the state by the year 2011. Total state government revenues through the year 2011, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation would be increased by \$28,383,000 (1996 dollars) due to the presence of the Compuware facility.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Columbus, Ohio, and Farmington Hills, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Compuware to establish their manufacturing facility in Farmington Hills rather than Columbus ranges from approximately \$255,000 to \$1,600,000 over the term of the incentive. The cost differential is primarily attributable to wages and lease costs. Michigan Jobs Commission staff have examined these numbers and believe they are a fair representation of the cost differential between Michigan and Ohio.

OTHER STATE AND LOCAL ASSISTANCE:

Other than MEGA, no other state assistance will be offered to Compuware.

Local assistance includes upgrading of Northwestern Highway in the area between the intersections of Thirteen Mile Road and Middlebelt, and improvements to the storm drainage system and detention ponds in the area. This infrastructure improvement program will cost the community approximately \$4 million from 1997 through 1999.

BUT FOR:

Because software development takes place independently of product support and service functions of Compuware, the company has the option of locating this part of its business anywhere. Because of the highly competitive labor market for experienced software developers, it is important that companies offer an excellent community and environment for these people. Because Farmington Hills has to compete with desirable living locations, such as Columbus, Ohio, and California, higher wages and better benefits must be provided to lure employees to the area.

Lease costs for the greater Columbus area have been shown to be lower by both research done by Compuware and by independent data obtained by the Michigan Jobs Commission from commercial real estate information clearinghouses such as the New America Network. This cost differential, teamed with the wage issue discussed above, would cause Compuware to locate this expansion in Ohio.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for years 1 through 3, and 40 percent for years 4 through 15 for up to 331 net new employees.