

What will \$1 buy these days?

For Medtronic, the right prescription for growth



Medtronic's World Headquarters in Fridley, Minnesota

You don't get anything you don't ask for. Or so goes the old negotiating adage. Medtronic Inc. discovered the truth in that old saying when it acquired land for a new headquarters at a premier intersection in the northern suburbs of Minneapolis recently. For \$1, the medical device company acquired a 42-acre parcel and won development incentives likely to be worth tens of millions over the next 25 years. The new parcel will allow the company to build up to 1.6 million square feet over the next decade, a solution that offers space flexibility, a more strategic arrangement of Medtronic's operations, and greater visibility.

Faced with rapid growth and sprawling facilities, and after interviewing a number of consultants, Medtronic choose The Keewaydin Group, a nationally recognized Minneapolis-based real estate consulting company, to assist. Keewaydin had planned and negotiated similar headquarters projects for other local corporate giants such as Target/Dayton Hudson, Piper Jaffray, and Fingerhut. Keewaydin worked with Medtronic on every step of the project.

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- Strategic Real Estate Planning
- Site Selection
- Land Acquisition
- Negotiation of Government Incentives
- Project Implementation

Donn Hagmann, Director of Real Estate and Facilities Planning for Medtronic, described Keewaydin's President, Peter Kitchak, as "a very creative and extraordinary negotiator." Kitchak worked aggressively to obtain the best terms and maximum tax incentives for Medtronic — while preserving Medtronic management's cordial relationship with city officials.

"We emphasized that this wasn't corporate welfare, but a sound investment of future tax payments that otherwise wouldn't exist," said Kitchak. "We helped government authorities understand the tremendous benefits which would accrue from this project."

"Keewaydin's style is to look at all the angles and prod the possibilities,"

says Hagmann. “They were involved every step of the way, asking the right questions and demanding the best for Medtronic from everyone involved in the project.”

Cindy Arndt, Medtronic’s legal counsel, described Keewaydin as an integral part of the Medtronic team. “Keewaydin functioned more as an extension of Medtronic,” Arndt said. “Peter is a very powerful negotiator and he was able to present himself as speaking for the company.”

It Started with a Plan

Before Medtronic began reshaping its corporate facilities, the company and Keewaydin worked together to develop a strategic real estate plan. “We didn’t start by looking at sites or even planning buildings,” said Kathy Ehrmann, Senior Vice President of Strategic Real Estate Planning at Keewaydin, “we started with understanding Medtronic’s business and what type of real estate solutions could best support its corporate goals over the next decade.” The company was growing and changing rapidly. Its marketing, manufacturing, research and production operations had expanded into eight Twin Cities facilities with over 4,000 employees. Medtronic employment locally is likely to double to nearly 8,000 over the next 10 years.

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The strategic real estate planning process began with Keewaydin interviewing each member of Medtronic’s senior management team — gathering in-depth information about the company’s strategic business plan, its goals, and its approach to corporate finance. Keewaydin and Medtronic also carefully considered the needs of existing employees, issues that affected hiring “the best and brightest “ new employees, and positioning the company to meet the competitive challenges of the medical technology industry.

Months of analysis, meetings and creative thought later, Keewaydin and the Medtronic facilities team presented senior management with a complete plan recommended actions. It reviewed the feasibility, cost and consequences of each possibility. The plan recommended a “dual campus” strategy to develop a major new corporate campus in the Minneapolis area, preferably near Medtronic’s 800,000 square foot Rice Creek campus.

The report concluded that a new solution should provide a highly visible headquarters and an additional location for its rapidly growing Neurological business. The Rice Creek campus could then be dedicated to the business that has been the company’s foundation, Cardiac Rhythm Management, the



The Master Plan is designed for three phases on the 42-acre site. Phase I is 514,000 square feet and includes the corporate headquarters, research and education facilities, campus commons, and the first building to accommodate neuro growth.

pacemaker business that has been the company's foundation.

Additionally, the new campus should bring together Medtronic's research and education facilities to highlight the company's key competitive strengths and provide an important marketing tool for the 5,000 physicians that Medtronic hosts annually.

"This was clearly a decision that went far beyond space considerations," said Ehrmann, "It has major long-term ramifications not just financially, but in terms of business flexibility, shareholder value and long-term competitiveness. "

"Keewaydin presented everything in a very factual, unbiased way," said Robert Ryan, Medtronic's Senior Vice President and Chief Financial Officer. "Decisions that could have been really difficult to make became easy. Our senior management team was dealing not with their opinions, but with facts."



The project team at groundbreaking: (l to r) Donn Hagmann - Medtronic, Kathy Ehrmann - Keewaydin, Rodger McCombs - Medtronic, Jim Driessen - Medtronic, Cindy Arndt - Medtronic, Peter Kitchak - Keewaydin

Location, Location, Location

Medtronic approved the concept and asked Keewaydin to help translate the plan into reality. Keewaydin's search for an appropriate site soon zeroed in on a 42-acre parcel in suburban Fridley, just a mile from Medtronic's current headquarters. Part of a city redevelopment district, the property qualified for tax increment financing and provided a highly visible location with excellent access.

There was just one problem: The city of Fridley was close to an agreement permitting another company to erect an industrial warehouse on the site. Prompted by Keewaydin's inquiry on behalf of Medtronic, within days the Fridley City Council and Housing and Redevelopment Authority held an emergency meeting in which they decided to discontinue negotiations with the warehouse developer and make the property available to Medtronic.

"Medtronic got a nearly ideal site for its purposes," said Barbara Dacy, Community Development Director for

the City of Fridley, "and the city gained a highly prestigious corporate headquarters, with all the benefits related to tax base, employment and our ongoing relationship with an excellent corporate citizen. Everyone wins"

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Helping to Assemble the Team

Having the experience of launching major headquarters projects, Keewaydin knew what to do and who needed to be on the team.

- Keewaydin's first steps included conducting a nationwide search for architects, assisting in the selection process and negotiating the contracts for both the architect and the prime contractor, saving Medtronic large amounts of money assembling the team quickly. Keewaydin also worked directly with the design team and architect to develop the master plan that would guide Medtronic as it implemented the strategic plan over time.

- Keewaydin recommended that

Medtronic conduct its own traffic study. The study uncovered some critical issues that helped Medtronic and the city to prepare for future road needs to support the development. At Medtronic's request, the city is now seeking funding to build these roads.

- Keewaydin also recommended retaining an environmental lawyer to perform the required environmental assessment for the development. The attorney's approach took 3 months, slashing by half the 6 months it typically takes to prepare such a report.
- Finally, Keewaydin strongly advised Medtronic to anticipate the huge infrastructure costs of future phases and immediately secure the additional government incentives before breaking ground and losing potential negotiating leverage.

"This should be an easy decision for the legislature," advised Kitchak, "the return on investment and the value to the Twin Cities will be phenomenal." Keewaydin prepared a financial impact analysis that demonstrated the benefit to the state and the community. The numbers were impressive – a resounding \$50-60 million in new annual state tax revenues for Minnesota.

Keewaydin then retained a University of Minnesota Economics Professor to confirm the numbers. He agreed. Persuaded this was a good investment, legislators extended the tax increment district to provide significant incentives. The value added: Medtronic's total tax incentives will nearly double as a result of the extension.

A Northern Gateway

Just months after the celebration of the company's 50th anniversary, Medtronic broke ground for its new campus on June 24, 1999 at the intersection of Highways 694 and 65: The Northern Gateway to the Twin Cities. At the groundbreaking ceremony, Medtronic CEO William George



Bill George, Medtronic Chairman with Peter Kitchak and Kathy Ehrmann of Keewaydin at the groundbreaking ceremony.

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recognized Keewaydin as "the reason we are all here today."

Now under construction, the new campus will be the epicenter of Medtronic's Twin Cities' facilities. And, located in Fridley between Quincy and Jackson Streets, it has strong ties to Medtronic's beginning. "Fifty years ago this year, Earl Bakken started the company in a garage in South Minneapolis," said Bill George at the groundbreaking ceremony, "also between Quincy and Jackson Streets."

It took just over 18 months to complete the strategic real estate plan, the purchase arrangements, the development agreement and to finalize the site master plan. During that time, Medtronic announced four major acquisitions and nearly doubled its size. Yet, with the flexibility this new headquarters campus provides, Medtronic remains well-positioned for continued aggressive growth into the next millennium.



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