

## **Creative Class vs. Low Taxes: The Sticky World of Deciding Where to Locate Your Business**

“There is no perfect location. There are always tradeoffs,” says John Boyd, founder of The Boyd Company, a site selection consultancy with over 30 years of experience helping firms make location decisions.

In a “flat” world, with so much buzz about the “creative class,” what is behind the decision by Yahoo to open a \$150 million data center in the Buffalo, New York, metropolitan area? Why would McQuay International decide to open a 49,000 square foot facility for research and development of advanced heating, ventilation and air conditioning (HVAC) in the Twin Cities, located in high-tax Minnesota? For either company, why not choose Portland, or the Sun Belt, or India?

The lowest cost of doing business is always important, but is not the only factor in a company’s decision to locate an office, warehouse or manufacturing facility. In addition to the bottom line considerations like cost of labor, cost of real estate, and taxes, as well as incentives, there is also availability of qualified labor, proximity to transportation, infrastructure, proximity to suppliers, and other less tangible “quality of life issues.” All of them are weighed differently depending on the company. John Boyd explains, “Incentives last five or ten years, and then you better be in the right location.”

### **Companies Follow Talent**

“Talent does gravitate to certain markets, particularly in the Sunbelt region,” says John Boyd. He cites places like Phoenix, Orlando, Charlotte, and Atlanta as examples. “Let’s be honest here, climate has much to do with it and the transient element needs to be watched.”

Denver is another example of a city to which talent is drawn, for its good climate and access to the Rocky Mountains and the recreational opportunities they provide. Colorado and the Denver region appeared in many “Top 10” or “Top 20” lists in 2009, according to Forbes magazine.

Forbes ranked three Colorado cities (Denver, Boulder, and Fort Collins) in the top 20 for business and careers. They consider the cost of living, cost of doing business, crime rates and cultural attributes. Denver also appeared in the top 10 cities where people are relocating, according to Forbes.

Are companies following this talent? DaVita, a Fortune 500 kidney care provider, announced in May of this year that they were relocating their headquarters from El Segundo, California to Denver, Colorado. The primary reasons given by the company are Denver’s geographic location, which provides good access to all 50 states (due to a major international hub airport), relatively lower costs for companies and families, and a high quality of life.

On a local level, Holland & Hart, a law firm based in downtown Denver, announced in 2009 that they were moving their suburban Denver office to a more accessible suburban location at a light rail transit station, and that the new office there would be built in an environmentally friendly manner. The managing partner was quoted in the Denver Business Journal indicating the reason for the move is using green building practices and being near a transit station will better help attract the best and brightest talent.

## **Weird in Austin**

It would be simplistic to assume that companies choose to locate in Austin because of its quality of life. The campaign to “Keep Austin Weird” is an effort by the Austin Independent Business Alliance to support local businesses and keep the city from being over-commercialized, but it is also a symbol of the city’s success in attracting creative talent in technology, software, and the arts.

According to Tony Schum, director of economic development with the Austin Chamber of Commerce, being weird is exactly what makes Austin attractive to people. That certainly gets the attention of companies. “It is absolutely fact that quality of life comes in to the conversation,” says Schum, referring to dialogue with prospective companies. Austin is known for its parks, family-friendly environment, and culture.

Because of a large talent pool and still affordable cost of living, companies like Twisted Pixel and Red Oxygen, which both create video games, are attracted to Austin. In Austin these and other firms believe they will have good employee retention and cross-pollenization of ideas. Of course, Texas is one of very few states with no income tax, which makes Dallas or Houston equally attractive for someone not endeared to Austin.

Michael Wilford, CEO of Twisted Pixel, indicates the fact that Austin area has a good quality of life was one of many reasons for their relocating there from Madison, Indiana. They develop games for Xbox and Nintendo, and considered a number of other places before picking Austin, including Raleigh and Seattle. “Ultimately we settled on Austin because it had everything: great weather, quality of life, low crime, (low) cost of living, (low) cost of doing business, talent pool, substantial digital media scene, university interest and collaboration, incentives for our industry, and industry support from the governor,” says Wilford. He notes that other places had many of these things, and some others were sometimes better than what Austin offered. But, he says, “Austin was the only place that had a respectable score on every single one of these factors.”

When Red Oxygen, a Brisbane, Australia-based company that creates text messaging software, decided to open an American headquarters, they chose Austin over the Bay Area. The deciding factors were a good technology and entrepreneurial environment, cost of living, and a progressive population. Plus, CEO Tom Sheahan is a native Texan who wanted to maintain roots there.

While the examples of companies moving to talent-rich cities such as Denver or Austin certainly indicate quality of life was a factor, the bottom line wasn't ignored. "Keep in mind, qualitative factors are highly subjective," says Boyd. "Some of our clients like vanilla, some chocolate when it comes down to lifestyle considerations. Cost structures, however, are real, unbending, and go straight to the bottom line." Still, DaVita is just the latest of a long line of firms that have moved from high-cost, high-regulation California to a city in the intermountain west with a lower cost of living. Often, quality of life is the icing on the cake, although cost of living is one of many quality of life measures.

### **Quality of Life or the Bottom Line?**

For many companies, quality of life and pursuit of creative talent hardly registers. Automobile manufacturing is one example. In what John Boyd calls a "trophy project," Kia is opening a 2,500 employee automobile manufacturing plant at the end of 2009 in West Point, Georgia, approximately 80 miles southwest of Atlanta. According to JoAnne Mabrey, assistant manager of public relations at Kia, major state and local incentives, a state sponsored training facility on-site, available labor in the area, and good transportation access were the main drivers in Kia's decision.

The Memphis Chamber cites one in four jobs in the metro area is tied in some way to the presence of FedEx, primarily to the access it provides. According to Jim Covington, vice-president of logistics and aerotropolis development for the Greater Memphis Chamber, "Anything time sensitive comes down to these two cities," referring to the unique access provided by UPS in Louisville and FedEx in Memphis.

DealerTrack is one recent example of a company that located a facility in Memphis due to the presence of FedEx and the economies of scale it provides for their operation. DealerTrack supports document imaging for automobile financing contracts. Being located near the FedEx hub allows them to receive packages just after midnight rather than the following morning. Kathy Kassinos, Senior Director of Operations at DealerTrack, calls it "early extraction." "They pull our packages right off the plane in Memphis," she says. The time savings is the primary location consideration for DealerTrack, and Kassinos indicates they really only considered Louisville and Memphis.

Safelite, the auto glass company, is another example of needing to have superior access to logistics. They recently opened a 282,000 square foot warehouse with 50 employees in the city of Ontario, California, primarily because of the proximity to the nearby port in Long Beach/Los Angeles.

According to Randy Randolph, vice-president of quality assurance and retail support at Safelite, "there is no right answer for everybody. You must look at your own operations." For Safelite, being located near the marine port, but with also within a reasonable distance by truck to 23 of the 80-plus markets in which they work, was a key deciding factor for their decision.

For Kia, DealerTrack and Safelite, quality of life was only a very minor consideration in each company's decision to locate where they did, and DealerTrack may be the most pure example of a company being tied to another by virtue of location. Interestingly, Fred Smith, founder, chairman, president and CEO of FedEx, in a recent article in the Memphis Commercial Appeal, insisted that public safety be the number one priority for ensuring a good quality of life in Memphis, with education not far behind. Although location and access to transportation trumps quality of life issues for many companies, Mr. Smith's comments should be taken to heart. In other words, he seems to be saying that lack of quality of life can be perceived as a threat or a negative to companies.

## **Critical Mass**

Michael Wilford of Twisted Pixel indicates that a good relationship with the University of Texas and support from the state are two of the many reasons they chose Austin. The same thing is occurring in Buffalo, New York, which is emerging as a location for not only back office/call center facilities like Yahoo, but also biosciences.

AndroBioSys, a spinoff company of the Roswell Park Cancer Institute in Buffalo, develops drugs to fight prostate cancer. Michael Zwick, president of AndroBioSys, indicates that his firm could have chosen any number of other locations, but cites the primary reason for choosing Buffalo is the collaborative institutions and support for research at the Buffalo Niagara Medical Campus, located just outside of the downtown.

A colleague of Zwick, Trevor Twose, chose Madison, Wisconsin, as a location for his firm to conduct research and development of Alzheimer's drugs. Asked why he chose Madison, Twose cites very good access to venture capital, and good support from the University of Wisconsin and its Alumni Research Foundation, which is very efficient at transferring technology to the marketplace. Twose explains the decision to locate in Madison as somewhat serendipitous, as the quality of life there is a huge plus, but that he had a variety of location options.

Joe Cortright, president of Impresa Economics, a Portland, Oregon based consulting firm specializing in metropolitan economies and knowledge-based industries, explains that the Silicon Valley grew up in part because of the availability of venture capital, coupled with strong relationships with educational institutions cultivate talent and are able to move a product from research to market. That is one reason why Buffalo and Madison could well join more established bioscience markets as Boston, San Diego and the Research Triangle in North Carolina, and why Austin has become a magnet for video game creators and other sectors of the technology industry.

Cortright uses the example of the QWERTY keyboard as why some places are chosen over others simply by precedent. "Once something gets established, it is not easily dislodged," says Cortright. UPS and FedEx, as well as the Silicon Valley, are examples of this. Although the Silicon Valley is located in the high-cost Bay Area in California, it is an institution that won't be dislodged, in part because of its foundations but also for its

“buzz” and cross-breeding of ideas and startups. “You can’t buy that anywhere else,” says Cortright. But cost was the primary reason Red Oxygen chose Austin, which is evidence the high-cost Bay Area’s cost of entry isn’t for everyone. Although the Silicon Valley has many positive quality of life aspects, its high cost of doing business drives many companies away.

“Companies have more location choices than they ever did,” says Bill Blazar, senior vice-president of business development and public affairs at the Minnesota Chamber of Commerce. “You can do R&D in Minnesota, or you can do it for less in Singapore. Anyone who thinks companies are going to stay in Minnesota just for the hometown team has been asleep for the last 20 years.”

When pressed, Blazar cannot come up with an overwhelming reason why a company would want to locate in Minnesota, given its high cost of doing business. So why did McQuay International choose Minnesota? John Boyd believes bottom line considerations will always be fundamental to a company’s location decision, particularly in this down economy. But, he says, “Labor tends to dominate. Labor availability, labor cost, and labor management and relations.” As quoted in the Minneapolis Star Tribune, Takenori Miyamoto, general manager of the McQuay facility, indicated that the significant pool of talented engineers in the Twin Cities was a primary reason for choosing that location.

Labor and the talent pool is certainly a factor in a place like the Twin Cities, but so is high the quality of life. Austin and Madison exemplify this, as they are third-tier cities in size but well-known for a high quality of life. “There are qualitative things we look at,” Boyd says. Those things include the quality of public education and public safety, the housing market, and cultural and recreational amenities.

Cortright points out that chambers of commerce and economic development agencies often look at it the wrong way, because, he says, when a company chooses to move or expand it is because it has *already* achieved success, not the other way around. Therefore, the key is to find the right entrepreneurial environment that supports new growth, not necessarily the one with the lowest taxes or best incentives.

Also, once established it is hard to move, as Cortright points out, because it is disruptive. Boyd agrees. “It is increasingly difficult to entice people to move.” Can spouses find a job in new locations, can people sell their existing home, have grown kids moved back in to the home, and is there a need to care for parents? “If the cadre doesn’t buy in to the plan, it fails.”

“The trouble is, the world isn’t flat,” says Cortright. “Companies have different needs.” The private sector is proving that quality of life almost always enters the discussion at some level, but it is rarely the primary reason for a company to move or expand. They must carefully balance the issues of taxes, real estate, transportation/infrastructure, and quality of life, as if pieces of a pie, when choosing if or where to move. Austin and Denver demonstrate that quality of life is perhaps higher on the list of reasons for companies moving there, but that even then the bottom line rules.