

Following the Talent: How the Search for Highly Skilled Workers Affects a Location Decision

Companies that seek highly educated, talented labor need to consider locating in places that attract this caliber of worker.

Sam Newberg (June/July 09)

"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 in Minnesota's high-tax Twin Cities? For either company, why not choose Oregon, or the Sun Belt, or India?

The 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 — cost of labor, cost of real estate, and taxes, as well as incentives — there is also availability of qualified labor, and finding that labor is often tied into less tangible "quality of life" issues. "Incentives last five or 10 years," says Boyd, "and then you'd better be in the right location."

Talent Follows Quality of Life

"Talent does gravitate to certain markets, particularly in the Sunbelt region," says Boyd, citing places like Phoenix, Arizona; Orlando, Florida; Charlotte, North Carolina; and Atlanta, Georgia, as examples. "Let's be honest here, climate has much to do with it and the transient element needs to be watched."

Denver, Colorado, is another example of a city to which talent is drawn, for its climate and access to the Rocky Mountains and the recreational opportunities they provide. Forbes ranked three Colorado cities — Denver, Boulder, and Fort Collins — in the top 20 for business and careers, taking into consideration the cost of living, cost of doing business, crime rates, and cultural attributes. Denver also appeared on Forbes' list of the top 10 cities to which people are relocating.

Some companies choose to locate in places where they know they'll find the talent they need. DaVita, a Fortune 500 kidney care provider, recently announced that it is relocating its headquarters from El Segundo, California, to Denver. The primary reasons given by the company are Denver's high quality of life, as well as a geographic location that provides good access to all 50 states and relatively lower costs for companies and families.

Holland & Hart, a law firm based in downtown Denver, announced earlier this year that it would move a suburban Denver office to a more accessible location at a light rail transit station, and that the new office there would be built in an environmentally friendly manner. The managing partner told the Denver Business Journal that among the reasons for the move is the company's belief that using green building practices and being near a transit station will better help attract the best and brightest talent.

Joe Cortright, president of Impresa Economics, a Portland, Oregon-based consulting firm, believes that chambers of commerce and economic development agencies often overlook quality of life 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.

Companies Go Where Talent Grows

Some industries, such as information technology and biotechnology, rely on the proximity of universities and research institutions, so they tend to cluster in specific geographic locations near those institutions, which provide a steady stream of educated workers and potential workers. Cortright says the Silicon Valley grew in part because of strong relationships with educational institutions that cultivate talent and are able to move a product from research to market. That is one reason why Buffalo, New York; and Madison, Wisconsin, could join such established bioscience markets as Boston, Massachusetts; San Diego, California; and the Research Triangle in North Carolina, and why Austin, Texas, has become a magnet for video game creators and other sectors of the technology industry.

AndroBioSys, a spinoff company of the Roswell Park Cancer Institute in Buffalo, develops drugs to fight prostate cancer. Michael Zwick, the company's president, says his firm could have chosen any number of other locations, but went with Buffalo because of the collaborative institutions and support for research at the Buffalo Niagara Medical Campus, located just outside of downtown. Zwick's colleague, Trevor Twose, selected Madison, Wisconsin, as a location for his firm to conduct research and development of Alzheimer's drugs. He says Madison offers very good access to venture capital, and strong support from the University of Wisconsin and its Alumni Research Foundation, which is very efficient at transferring technology to the marketplace.

As for McQuay International in the Twin Cities, Takenori Miyamoto, general manager of the McQuay facility, quoted in the Minneapolis Star Tribune, said that the significant pool of talented engineers in the Twin Cities was a primary reason for choosing that location. "Labor tends to dominate," says Boyd, "labor availability, labor cost, and labor management and relations."

Bottom Line First

Quality of life and pursuit of creative talent are not as high on the priority list for some industries. In what 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. JoAnne Mabrey, assistant manager of public relations at Kia, cites major state and local incentives, a state sponsored training facility on-site, and good transportation access as the main drivers in Kia’s decision.

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

DealerTrack is one recent example of a company that located a facility in Memphis due to the presence of FedEx. 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, says the company only considered Louisville and Memphis.

Auto glass company Safelite is another example in which superior access to logistics takes precedence over talent. 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 and within a reasonable distance by truck to 23 of the company’s markets was the key deciding factor for their decision to locate there.

The Austin Example

It would be simplistic to assume that companies choose to locate in Austin only because of its quality of life. But such factors as “Keep Austin Weird,” an effort by the Austin Independent Business Alliance to support local businesses and keep the city from becoming over-commercialized, demonstrate a commitment to attracting creative talent in technology, software, and the arts. Tony Schum, director of economic development with the Austin Chamber of Commerce, says this is a good part of what makes Austin attractive to talented, educated workers — and that gets the attention of companies like high-tech companies Twisted Pixel and Red Oxygen. In Austin, these and other firms believe they will have good employee retention and cross-pollination of ideas.

Michael Wilford, CEO of Twisted Pixel, which makes video games, says the fact that Austin area has a good quality of life was one of many reasons for their relocating there from Madison, Indiana. The company considered a number of other places before picking Austin, including Raleigh, North Carolina; and Seattle, Washington. “Ultimately we settled on Austin because it had everything,” he says. “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.” He says other places had many of these things and 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, it chose Austin over the Bay Area. Among the deciding factors were a progressive population and an entrepreneurial environment. Plus, CEO Tom Sheahan is a native Texan who wanted to maintain roots there.

Weighing the Factors

A company must decide if locating based on talent is indeed the most important factor for its long-term success. On one hand, while the examples of companies moving to talent-rich cities like Denver or Austin certainly indicate quality of life as a key factor, the bottom line isn’t always 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.”

On the other hand, Boyd says it is increasingly difficult to convince people to move. Can spouses find work in new locations? Can people sell their existing home? Are there other personal considerations that tie those talented workers to where they are? It may be necessary for a company to consider locating near those workers to ensure that they will not have to entice relocation to have the high-caliber labor they need on hand.

“The trouble is,” says Cortright, “the world isn’t flat.”