

# NEW RULES FOR SOFTWARE AND INFORMATION INDUSTRY SITE SELECTION

FOR SUCCESSFUL SITE SELECTION, CALCULATE QUANTITATIVE AND QUALITATIVE FACTORS TO REDUCE OPERATING COSTS WHILE MAINTAINING EMPLOYEE SATISFACTION.

By John H. Boyd, President, The Boyd Company

How do you decide where to locate your next software development office or IT service center? For good reasons, comparative operating costs are now entering the site selection process during the recessionary and uncertain 2002

economy. Repercussions from the terrorist attacks of September 11, a weakened global

economy and the dot-com crash have forced many high-tech clients to refocus their business plans on the fundamentals of doing business, including the relative cost of labor, office rents, power and taxes. Highly leveraged survivors of the dot-com fallout are increasingly being urged by their venture capital backers to reduce costs and start showing a profit.

NAFTA (expected to extend into Latin America by the end of 2003) and the growth of other global free trade pacts are also forcing many U.S. software and IT firms to take a global perspective on their competition and to conclude that they must be as cost-efficient and lean as possible. In the post-NAFTA U.S., a study we conducted, indicates this trend is reflected in the growing popularity of smaller, more manageable and less costly metropolitan areas, especially those housing a college or university with a nationally ranked IT department. The optimum city in this location cost study is Sioux Falls, SD, with a population 175,000 and home of Dakota State University whose IT graduates are coveted by corporate recruiters nationwide.

In Europe, lower cost locations such as Spain, Ireland and the Tagus Valley in Portugal are emerging as preferred sites by major segments of the software and information technology industry. Also, the introduction of the Euro in January 2002 has created price transparencies there. That is to say, software location planners can now more easily compare operating cost structures among the 11 European Union countries using the common Euro currency as a benchmark.

## “In Europe, lower cost locations such as Spain, Ireland and the Tagus Valley in Portugal are emerging as preferred sites”

We predict the adoption of a more cost-conscious approach to site selection by even the large, cash-rich software players such as Microsoft, Oracle, Cisco and others. Wall Street’s prodding of these so-called “growth” stocks to start paying shareholder dividends would be a contributing factor here and will likely color their investment decisions in new plant and equipment and future operating site decisions.

### SITE SELECTION BY THE NUMBERS

The recent Boyd study compares the cost of operating a representative software development center in 36 different U.S. cities. The study analyzes major geographically-variable operating costs that are most pivotal to a corporation’s decision where to locate or expand their information technology offices. Such costs include labor (including workers with advanced degrees in software engineering and other information science fields), Class-A office lease rates, utilities, corporate travel and other business operating costs.

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## TOTAL ANNUAL OPERATING COST RANKINGS

High-Technology Location	Total Annual Operating Cost
San Jose, CA	\$12,473,118
Boston, MA	\$11,746,411
Fairfield County, CT	\$11,594,129
Princeton, NJ	\$11,414,895
Orange County, CA	\$11,306,118
Santa Barbara, CA	\$11,093,369
Fairfax County, VA	\$11,079,471
San Diego, CA	\$10,970,852
Philadelphia, PA	\$10,935,440
Sacramento, CA	\$10,893,686
Wilmington, DE	\$10,707,756
Denver, CO	\$10,660,297
Houston, TX	\$10,643,942
Dallas, TX	\$10,549,946
Rochester, NY	\$10,537,581
Riverside/San Bernardino, CA	\$10,529,087
St. Louis, MO	\$10,508,171
Las Vegas, NV	\$10,466,987
Reno/Sparks, NV	\$10,418,507
Minneapolis/St. Paul, MN	\$10,369,476
Ann Arbor, MI	\$10,325,913
Atlanta, GA	\$10,290,527
Broward County, FL	\$10,268,260
Columbus, OH	\$10,239,873
Phoenix, AZ	\$10,128,118
Austin, TX	\$10,127,723
Provo, UT	\$10,036,440
Raleigh/Durham, NC	\$10,016,697
Colorado Springs, CO	\$ 9,870,154
Salt Lake City, UT	\$ 9,849,983
Tucson, AZ	\$ 9,828,799
Madison, WI	\$ 9,764,811
Tampa, FL	\$ 9,654,055
Albuquerque, NM	\$ 9,457,349
Melbourne/Titusville, FL	\$ 9,281,457
Sioux Falls, SD	\$ 8,841,143

NOTES: Includes all major geographically-variable operating costs for a typical 125-worker software development center. Cost differentials reflect a first-quarter 2002 time frame.

Source: The Boyd Company, Inc., Princeton, NJ

## COMPARATIVE ANNUAL OPERATING COST ITEMIZATION

	San Jose Metro Area	Boston Metro Area	Princeton Metro Area
<b>Labor Costs</b>			
Weighted Average Monthly Earnings	\$4,893	\$4,597	\$4,641
Annual Base Payroll Costs	\$7,339,500	\$6,895,500	\$6,961,500
Fringe Benefits	\$2,201,850	\$2,068,650	\$2,088,450
<b>Total Annual Labor Costs</b>	<b>\$9,541,350</b>	<b>\$8,964,150</b>	<b>\$9,049,950</b>
<b>Electric Power Costs</b>	<b>\$53,244</b>	<b>\$57,360</b>	<b>\$50,880</b>
<b>Office Rent Costs</b>	<b>\$1,645,000</b>	<b>\$1,400,000</b>	<b>\$1,085,000</b>
<b>Equipment Amortization Costs</b>	<b>\$895,500</b>	<b>\$895,500</b>	<b>\$895,500</b>
<b>Heating &amp; Air Conditioning Costs</b>	<b>\$35,134</b>	<b>\$75,395</b>	<b>\$67,387</b>
<b>Corporate Travel Costs</b>	<b>\$302,890</b>	<b>\$354,006</b>	<b>\$266,178</b>
<b>Total Annual Geographically-Variable Operating Costs</b>	<b>\$12,473,118</b>	<b>\$11,746,411</b>	<b>\$11,414,895</b>

**NOTES:**

*Includes all major geographically-variable operating costs for a typical 125-worker software development center. Cost differentials reflect a first-quarter 2002 time frame.*

**Source: The Boyd Company, Inc., Princeton, NJ**

**“Among the 36 U.S. high-tech locations surveyed by Boyd, San Jose, CA is the most expensive at \$12.4 million in total operating costs per year...least costly site is Sioux Falls, SD.”**

The 36 U.S. cities analyzed in our study are those which house large concentrations of corporate and entrepreneurial start-up information technology investment. Total annual operating costs in the study are scaled to a hypothetical software center occupying 35,000 square feet of Class-A office space and employing 125 workers with key IT job titles such as:

- Software Engineer I, II, & III
- Project Lead, Software Engineer
- Software Engineering Manager
- Technical Support Analyst I, II, & III
- Programmer I, II, & III
- Database Analyst I, II, & III
- Hardware Engineer I, II, & III
- LAN Support I, II, & III
- Computer Operator I, II, & III
- Telecommunications Engineer I, II, & III
- Web Design I, II, & III
- Administrative Assistant
- Executive Secretary

Among the 36 U.S. high-tech locations surveyed, San Jose, CA is the most expensive at \$12.4 million in total operating costs per year. The least costly site is Sioux Falls, SD,

Fairfax County Metro Area	Dallas Metro Area	Minneapolis/St. Paul Metro Area	Colorado Springs Metro Area	Sioux Falls Metro Area
\$4,480	\$4,315	\$4,440	\$4,103	\$3,654
\$6,720,000	\$6,472,500	\$6,660,000	\$6,154,500	\$5,481,000
\$2,016,000	\$1,941,750	\$1,998,000	\$1,846,350	\$1,644,300
\$8,736,000	\$8,414,250	\$8,658,000	\$8,000,850	\$7,125,300
\$26,448	\$33,312	\$25,104	\$21,542	\$23,688
\$1,050,000	\$848,750	\$525,000	\$700,000	\$577,500
\$895,500	\$895,500	\$895,500	\$895,500	\$895,500
\$35,145	\$52,274	\$43,582	\$29,816	\$41,190
\$336,378	\$305,854	\$222,290	\$222,446	\$177,965
<b>\$11,079,471</b>	<b>\$10,549,940</b>	<b>\$10,369,476</b>	<b>\$9,870,154</b>	<b>\$8,841,143</b>

at \$8.8 million in annual operating costs. Annual costs for the other locations are detailed in the accompanying tables.

#### OTHER SITE SELECTION TRENDS

In addition to quantitative, cost-related factors driving the IT site selection process, other more qualitative issues are also coming into play. An increasing client concern is the trend of employee immobility and their growing reluctance to accept a transfer. Our corporate clients have more and more reasons to move their facilities, but their employees have fewer and fewer reasons to agree to a move.”

Corporations are rationalizing their facility relocations and realignments on a growing number of fronts, including tapping new labor markets, lowering costs, reacting to NAFTA, getting closer to customers, mergers and other reasons. Workers, however, are turning down transfers in record numbers due to such reasons as:

- 1) Proliferation of the two-income family.
- 2) Decline in worker loyalty (i.e., Why transfer if I might be the victim of the next downsizing eight months later?).

3) Elder care concerns linked to the transformation in our nation’s health care system and the growing influence of HMOs, and post-September 11-related reluctance to travel, move and leave one’s familiar surroundings.

To counter employee immobility trends, locational searches are increasingly focusing on those communities that offer some type of carrot to the reluctant transferee and his or her family. Such inducements may be locations that do not carry a personal income tax (such as Florida, Nevada, South Dakota or Texas), enabling the transferee to keep more of what he or she earns. Cities with a lower cost of living, communities with less crime and congestion and those which offer more house for the money for the generally younger professional transferee and family can also be considered valuable incentives to increase employee job satisfaction. ■

*The Boyd Company, founded in 1975 and based in Princeton, NJ, provides independent location counsel to leading U.S. and overseas corporations. For additional information, please contact John H. Boyd at [jhb@theboydcompany.com](mailto:jhb@theboydcompany.com) or visit [www.theboydcompany.com](http://www.theboydcompany.com).*