

When deciding where to put a business, companies better not ignore the obvious: Where would employees like to live?

For the founders of Fulcrum Microsystems, deciding where to start their new company wasn't complicated. They simply put down stakes in Uri Cummings's apartment in Pasadena, Calif.

The subsequent two moves weren't all that complicated, either: to a 1,300-square-foot office in the same neighborhood and then on to their current 7,000 square feet of space near Pasadena's main intersection.

All of the locations are within a half-mile of the nearby California Institute of Technology campus. As graduate students at Caltech in the late 1990s, Mr. Cummings and Andrew Lines had developed a method to design semiconductors that they say will produce faster chips. They eventually licensed the technology from Caltech. And when they started their own company in January 2000, they saw no reason to leave their college town, located less than 10 miles north of downtown Los Angeles.

Time for Change

But now, Fulcrum Microsystems is pulling up stakes. At 40 employees, the company has outgrown its current digs. And perhaps more important, says Chief Executive Robert Nunn, Add Semiconductor is emerging from its technology-development phase and entering its product-development and marketing phases.

Pasadena is teeming with engineers, thanks to the presence of Caltech, the engineering firm Jacobs Engineering Group Inc. and the nearby Jet Propulsion Laboratory, a division of NASA that is managed by Caltech. But, says Mr. Nunn, the city is short on design and marketing executives.

To lure seasoned executives in these fields, Mr. Nunn feels Fulcrum Microsystems should move west -- along the Ventura Freeway, also known as U.S. Rt. 101. The highway extends beyond Los Angeles into areas where commercial and residential real estate is more affordable. And the corridor, he notes, is home to dozens of technology companies that present a talent pool from which Fulcrum Microsystems could hire.

Says Mr. Nunn, "A lot of experienced people don't really want to come work in Pasadena" -- a busy, built-out college town with lots of night life, but little affordable family housing.

So after months of research, weighing the pros and cons of several communities, Add Semiconductor has decided to move lock, stock and barrel to Calabasas, Calif., in eastern L.A. County. "We ultimately decided the company, in the long term, is better off within reach of one of the tech corridors in the Southern California area," says Mike Zeile, vice president of marketing.

Fulcrum Microsystems' search for a new home helps illustrate a critical stage in the life cycle of a technology product. No matter how promising a new technology is, at some early point, the choice of a home can be fatal if the location lacks the right labor force or has a burdensome tax environment or high rents.

John Boyd, president of Boyd Co., a Princeton, N.J., firm that advises relocating companies, says important considerations for a new location include low business and personal-income taxes -- or none at all -- and good transportation infrastructures.

On top of that, companies shouldn't ignore what might be even the most obvious criteria: A company's home should also be a place that current and future employees will like, says Dan Malachuk, director of business-location services at Arthur Andersen LLP in New York.

To please its work force, a company should choose a city or town with a strong economy that's diverse enough to provide opportunities for two-career households, Mr. Malachuk says. The new location should also have good schools and affordable housing. Regions with short commuting times and welcoming attitudes to people from diverse ethnic and racial groups are also good draws, he says.

Site Inspection

Some of the key criteria that corporate site consultants look for in choosing a spot for a business

- Economy rich and diverse enough to provide career opportunities for two-career households
- Good schools
- Affordable housing
- Reasonable commuting length. An efficient mass transit system is desirable
- A place welcoming to ethnic, racial and religious diversity
- States with low personal and business income taxes -- or none at all
- Physical proximity to other employers in your field, which provide talent pools
- Proximity to a critical mass of venture capital firms
- Proximity to north-south transportation corridors, which have become increasingly important in the Nafta age
- Cities that are regional centers of influence, which tend to draw labor from surrounding states

Sources: Arthur Andersen LLP; Boyd Co.

And even in this age of breathtaking telecommunications technology, it's still important for companies to be physically near some key constituents. These include competitors and other companies in related fields, as well as the venture-capital firms who back them.

Physical proximity is one reason why Silicon Valley is the high-tech capital of the world. Tech stalwarts like Hewlett-Packard Co. and Cisco Systems Inc. produce not only ex-workers who start companies, but also prospective employees once the start-ups are off the ground. And there are dozens of venture-capital firms sharing the same buildings along Sand Hill Road in Menlo Park, Calif. That makes it easy for technology entrepreneurs to visit several prospects at once when looking for financing.

As a clincher, companies can consider economic incentives like tax breaks, say corporate-relocation consultants. But often economic incentives are low on the priority list, behind other considerations such as the quality of a city's labor force. "We counsel our clients to view incentives as a method of writing down the cost of the project once the final communities are selected," says Mr. Boyd.

Fulcrum Microsystems began exploring its move shortly after Mr. Nunn took over as chief executive in April. Company executives acknowledge that Pasadena has had its appeal. Many of Fulcrum Microsystems' employees are recent college grads in their 20s who live in nearby apartments and walk to work. The city has restaurants, a nightlife and other cultural amenities. Says Mr. Cummings of the office culture at Fulcrum Microsystems: "The whole cliche about flex time, long hair, Birkenstocks is more or less true for us."

But the disadvantages of the city aren't negligible. For one, finding attractive yet affordable housing is a challenge. Mr. Nunn says the city is home to many older neighborhoods with sky-high housing prices, as well as some "run-down" areas where he wouldn't expect his employees to live, and not enough in

between. So while Fulcrum Microsystems executives continued to consider keeping some or all of the operations in Pasadena, they began looking for a new town that could be a good fit for the growing company.

One region that held no allure for company executives was that ultimate tech hotbed, Silicon Valley. "I really didn't want to live in San Jose," says co-founder Mr. Cummings, who is now the vice president of product development. "Every time I went up there, the concrete jungle got me down."

On the other hand, areas of Los Angeles County and Ventura County offered a more laid-back way of life. Plus, the region is home to other semiconductor firms, like Vitesse Semiconductor Corp. and Semiconductor Equipment Corp., as well as potential business customers.

An early contender was Simi Valley. It's less than 10 miles north of the Rt. 101 corridor, and it has developed a reputation as having one of the lowest crime rates in the U.S. In June, Mr. Nunn met with city economic-development officials who are encouraging technology companies to move there. Mr. Nunn says the Simi Valley officials discussed economic incentives "of a general nature." But he ultimately decided against a move there, partly because it lacked adequate office and laboratory space, he says. "It's a real nice city, but it doesn't have the high-tech label on it," he adds.

The Choices Narrow

By August, Mr. Nunn had narrowed his search to two top candidates: Calabasas and Westlake Village, located in Ventura County. Calabasas is a relatively wealthy, well-educated community that's home to a division of Alcatel SA, the French network-equipment maker. Westlake Village, further west, is a smaller city that offers wide views of the Santa Monica Mountains.

Incorporated as cities only within the past 20 years, both Calabasas and Westlake Village are suburban in nature. Pasadena, on the other hand, was incorporated in the 1880s and has a more urban feel to it.

For its part, Pasadena concedes that it has difficulty keeping and attracting start-ups. Stephanie Yanchinski, executive director of Pasadena Entretec, a nonprofit organization that helps entrepreneurs get started, says that nearly two-thirds of businesses started by Caltech graduates eventually leave.

"We have to do a better job of selling Pasadena as a community," she says. "Historically, it's a fairly conservative place and not used to the idea of having to hard sell in competing with other regions."

The city of Pasadena is taking steps in that direction. It has approved zoning changes in some areas that are designed to encourage the construction of more office and lab space. The city also is considering reducing permit fees and waiving its construction tax, says Eric Duyshart, business-development officer for the city.

But for Fulcrum Microsystems, it is too late. The company has already chosen to rent 15,000 square feet of space in a Calabasas office park along Rt. 101, near the offices of several big tech names, including Alcatel, Lucent Technologies and National Semiconductor Corp.

The company must now pay for upgrades to the new office space, as well as commuting and relocation expenses for some employees. But Mr. Zeile notes that the rent in Calabasas is cheaper, which makes the overall issue of cost "a wash." The company expects to move by mid-December.

"The most key element of building a technology business is attracting the right people to the company," Mr. Nunn says. "It's a combination of experience, skill set, raw intelligence and energy. The most important thing is to be somewhere where you have a pool of people to draw that."