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Does Community Size Matter in Business Success?

From new business incentives to hand-to-hand combat, smaller cities are competing in this recession; but a community's size — large or small — does not tell all.

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Just five years ago, economic developers in small cities could argue that "smaller is better" for businesses looking for low costs and available labor. In 2009, however, the recession has changed the playing field. Industrial and commercial rents are down, and vacancies are up nationwide. Talented workers abound in big cities, and wages have leveled off as well. Nationally, state tax revenues are anemic, and legislatures have slashed economic development budgets. When the going gets this tough, economic developers are working harder and smarter to preserve and attract jobs and investment. Officials from Boise to Richmond have adapted to meet the challenges, innovating with new business incentives, marketing strategies, and old-fashioned relationship building.

Size is Not Destiny

The objectives of examining trends in smaller cities (Tier II and Tier III) versus larger cities (Tier I) are to identify particular challenges that smaller cities face and to understand how economic developers can make the most of their resources — and how companies can take advantages of those resources. For the purposes of this article, a Tier I city has a population of approximately one million within 20 miles; a Tier II city has a 20-mile population below one million but above 500,000; and a Tier III city has a 20-mile population under 500,000.

Of course, size is not destiny. Population numbers tell us nothing about the business climate, and say little of value about the labor market. Tier I Salt Lake City, Tier II Omaha, and Tier III Fargo all show unemployment rates well below the national average, for example. Tier I San Antonio defies the high cost stereotype attached to large metros and offers a cost of living more than 6 percent below the national average. Its strong business climate is responsible for attracting five new employers with 2,000 jobs in the second quarter of 2009 alone, according to the San Antonio Economic Development Foundation. Tier I Boston has certainly felt the effects of the recession — unemployment is over 9 percent and commercial vacancies are rising — but the region is poised to recover faster than others thanks to increasing business spending, strong financial institutions, a diverse mix of industries with a heavy focus on exporting, and a healthy housing market, according to the Federal Reserve Bank of Boston. Meanwhile, Tier II Richmond competes successfully for headquarters operations against much larger Tier I cities.

The most important predictor of where your company will be successful is not population size, but a combination of the diversity of the economy, presence of universities, skill sets of the work force, and business costs, among other factors. In this recession, housing markets once considered boring are now considered beautiful: cities with conservative bankers and bubble-free real estate sectors are steadier than the competition.

Low Costs + Diverse Economy = Stability

Oklahoma City and Omaha are Tier I and Tier II cities, respectively, whose similar stories show that size does not determine success. With unemployment at just 6 percent (compared to the national average of 9.7 percent as of August 2009) and personal income growth of nearly 7 percent in 2008, Oklahoma City "defied recession" according to USA Today, which named the city the top-growing large metro in the country. In Omaha, unemployment is just 5.3 percent. These areas offer a diverse economic base, including a strong military and government presence, alongside a range of private industries. Both escaped the housing bubble fueled by subprime loans.

"Oklahoma City has a much more diverse economic base today than during the oil bust of the 1980s," said Robin L. Roberts Krieger, executive vice president for economic development with the Greater Oklahoma City Chamber of Commerce. "Energy is important, but we are also the headquarters city for Sonic and Hobby Lobby, and we have a very large military and government presence with Tinker Air Force Base and the FAA. "

According to Roberts Krieger, alternative energy is the next frontier in the economic diversification of the Oklahoma City region, located in the heart of the North American wind corridor. With 831 megawatts of installed wind capacity and 402 megawatts coming online, economic developers plan to capitalize on the technical skills of the existing aircraft maintenance work force to attract businesses to maintain and repair the wind turbines.

Omaha offers a similar tale of stable growth and progress in the alternative energy sector. With 10,000 jobs, the Air Force is the region's largest employer, and other institutional employers include the University of Nebraska. The city offers a favorable climate for financial services, and its telecommunications infrastructure makes Omaha an attractive home for data center facilities.

"Companies here find low rents, generous business incentives, and low power costs. Nebraska is the only public power state," said Rod Moseman, vice president of economic development for the Greater Omaha Economic Development Partnership. Generation and distribution of electricity are provided by a not-for-profit, quasi-governmental entity.

The Omaha region is aggressively recruiting in the renewable energy sector. In March, Denmark-based Novozymes broke ground in Blair, north of Omaha, on a $200 million facility to produce enzymes for corn-based ethanol and cellulosic ethanol production. The project will add 100 high-wage jobs. Novozymes chose the region after a worldwide search that included locations across the Midwest and in China.

Innovations in Incentives

While cities with diverse economies are holding their own, communities dominated by the auto industry are struggling with job losses, such as Tier III Bowling Green. Local leaders have responded to the crisis, focusing on building the logistics sector and the alternative energy sector, particularly hybrid battery manufacturing. Such business recruitment efforts may take months or years to pay dividends. In the short-term, according to Jim Hizer, president of the Bowling Green Area Chamber of Commerce, Kentucky's best move has been the streamlining and modernization of its business incentives programs.

"The biggest trend in the last two years has been consolidation. When business incentives are only geared toward new job creation, your region is at a disadvantage," said Hizer. "As employers look at various scenarios, they may not be adding jobs but may be reinvesting in a facility. Previously we did not have tools to give them the incentive to reinvest in their Kentucky facilities, and as they figured out how to move their pieces on the chessboard, Kentucky could become a candidate for closure. With these new incentives, we have the opportunity to be the winner."

The new Incentives for a New Kentucky (INK) program offers tax credits for employers who are re-investing in facilities but not necessarily adding new jobs, and for companies making only small gains in employment.

Investing in Work Force

Investments in human capital may take longer to develop than a new incentive program but are sure to have lasting effects on a community, as Tier III Kingsport, Tenn., has shown with its "Educate and Grow" campaign, an initiative designed to address obstacles to economic development, such as overreliance on heavy manufacturing, an aging population, shrinking younger work force, and dropping education levels.

Through the "Educate and Grow" campaign, business and government leaders launched several programs to improve the work force, including a K-to-14 program, the first in the country, which extends public high school by an optional two years. Kingsport's high school students have the opportunity to take college-level classes, and any Kingsport high school graduate is eligible for a four-semester scholarship at Northeast State Technical Community College.

The community has invested in bricks and mortar as well, building an "academic village" that includes a Regional Center for Advanced Manufacturing and a Regional Center for Health Professionals. These investments are paying off with increased tax revenues, rising property values, and growth in the population of young families and young adults, along with a 2 percent increase in the number of residents earning college degrees.

While Tier III Kingsport invests in its young people, Tier III Boise is seeing the fruits of investment in research at Boise State University, a resource that helps this small city compete against Tier I cities of Salt Lake City, Portland, and Phoenix. New research at Boise State will drive diversification of the local economy beyond its base in information technology and high-tech manufacturing, as the school wins research grants for a range of studies, from breast cancer metastases to electric propulsion systems for NASA.

Culture Matters

Richmond — a Tier II metro — wins headquarters projects against much larger Tier I competitors, such as Charlotte and Atlanta. In headquarters site selection, quality of life plays a larger role in the ultimate decision than in most industrial projects, since many employees will relocate from outside the region. To beat Atlanta for MeadWestvaco's headquarters, Richmond officials convinced the company that the area could offer all the cultural and educational amenities employees could want, with shorter commutes and lower housing costs. The area offers 10 colleges and universities, a fine arts museum, a science museum, and 400 years of history and architecture.

"Richmond is smaller than our competitors, but we have the highest concentration of Fortune 1000 employers per capita outside of San Jose," said Greg Wingfield, president of the Greater Richmond Partnership.

Marketing to New and Existing Companies

As economic development organizations in cities of every size cope with budget cuts and staff reductions, they have changed their marketing strategies, focusing more on networking within the existing business community. In tough times, protecting existing industry is priority one.

Tier II Columbia, S.C., has attracted $560 million in new investment and 2,600 jobs in the last year, according to Mark Simmons, executive vice president of the CentralSC Alliance. "We're competing by staying very close to our existing industries and looking for opportunities to bring their suppliers and vendors to the region. If we hear that one of our employers is facing consolidation nationally, we'll help them make the case for consolidating in Columbia," said Simmons.

Rod Moseman of Omaha concurred. "This is the year of the existing customer," he said. His organization deploys a team of ambassadors to make 300 visits with area companies to identify growth opportunities or uncover plans for downsizing.

When business attraction is the goal, organizations focus scarce resources on targeted marketing. For example, the Omaha Economic Development Partnership has shuffled its outreach efforts. "We're in hand-to-hand combat focused on specific industries where Omaha has a story to tell," said Moseman, reflecting the intense competition for every project.

Tier III cities often face a competitive disadvantage in the form of smaller budgets and leaner staffs. To attract advanced manufacturing projects in the solar industry, Boise must compete against its larger and better-known Tier II competitor, Albuquerque.

"Downsizing in semiconductors and computer manufacturing has left Boise with large manufacturing spaces and skilled workers ready to transfer their knowledge to a new industry," said Jana Chalfant, director of economic development services for the Boise Valley Economic Partnership. "We spend a lot of time on the road meeting with companies and investing in relationship building."

The challenges facing cities and their economic developers are not likely to disappear any time soon. Economic indicators show the recession is lifting, but job growth will continue to lag, perhaps for years to come. Whatever the size of their populations, business and government leaders will succeed based on their ability to understand how their regions can support existing and emerging industries and their ability to develop the business and cultural assets that employers value.

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