

## **Can the Workforce in Tier II and Tier III Cities Outperform the Workforce in Tier I Cities?**

**By Tim Myllykangas and Mitch Jacoby  
CresaPartners Boston**

Many companies today are rethinking their site selection strategy, a trend that affects cities and businesses globally. Companies are looking at rebalancing, consolidating, and/or reducing costs for a growing list of job titles in larger Tier I cities. For certain jobs, they are actually shifting their focus toward smaller cities such as Detroit, Nashville, and even Dubuque, IA, where IBM announced last year it will relocate and consolidate over 1,400 people. Another recent example is the national consolidation of 1,300 HP sales and support positions to Conway, AR.

Historically, companies have established locations in large cities to increase brand recognition and gain access to abundant labor. But once-preferred Tier I cities are no longer viewed as the only ones worth considering, even for jobs requiring four-year degrees and industry experience.

### **Smaller Can Be Better**

By growing in smaller Tier II and Tier III locations, companies can lower labor and operating costs and improve labor quality. Characteristics in smaller communities include:

- Lower-sector saturation
- Stronger recruitment
- Reduced turnover
- Decreased labor costs
- Lower business operating costs

Sound too good to be true? Well, lower labor costs, coupled with higher quality, is a reality in small communities. Given the growing list of diverse project types in smaller cities (e.g., headquarters, tech support, R&D, IT, customer support, manufacturing, and distribution), companies are frequently amazed at the improved workforce performance and operational savings, as well as impressive economic incentive packages available in Tier II and Tier III cities.

In the past, herd mentality drove many site selection projects. The thought was, if the competition and more than 1 million people are already there, then the workforce must be ample, good quality, and priced at market value. But the result was that so many

companies located in these Tier I cities that they became oversaturated for their respective sectors and population.

While businesses should and will continue to identify ways to improve productivity and lower operating costs while maintaining some presence in larger metro centers, for most companies, not all job functions really need to be there. Previously pigeonholed for only low-end or "back-office" functions, smaller cities are now able to fill those needs, providing equally talented and loyal workforces for mid and higher-level jobs.

### **Evidence Shows that Size Does Matter**

How can one argue with large city success? For years, companies grew in existing locations. The problem is that they generally haven't measured performance, i.e., wage, recruitment, turnover, and saturation. Consequently, few realize that they've run out of cost-effective labor. For example, cities like Salt Lake City and Phoenix, once thought ideal for customer support, are no longer optimal since competitors entered the market, expanded, and pushed sector saturation levels upward. If companies were keeping an eye on these saturation levels, they would be looking for new, less saturated areas that could save from 20%-30% on current labor and operating costs.

Other reasons companies cite for relocating certain jobs to smaller communities include:

- Tele-commuting
- High-speed Internet availability
- Business continuity
- Disaster recovery
- Time zone coverage
- Expanded business hours
- Commute time
- Footprint optimization

There is also a significant difference in the mindset of small city employees versus large city counterparts. A higher percentage of small city workers values jobs more than their Tier I peers since fewer employment alternatives exist. Small city workers generally choose to stay for the "quality of life," and commute times can be 50% shorter than in large cities. These workers value stability and longer-term employment, thereby reducing turnover for companies by 20%-50% in many cases.

To be competitive, companies must look more objectively at their workforce footprint options and consider a smaller city business strategy. New jobs are more meaningful in smaller cities. These cities are far more motivated to compete for new projects and do whatever is necessary to win new jobs. They also typically provide larger incentive packages than larger cities. Moreover, Tier II and Tier III cities often have more cost-effective real estate.

An example of this shift from larger cities involved a global outsourcer with over 30,000 employees. The company determined that it could realize labor savings by relocating entry-level tech support from a Tier I MSA to a rural community. It considered a short list of five communities in the Northeast, all of which would yield considerable labor savings. The finalist community was located in upstate New York, which yielded labor savings of \$19.5M over five years. In addition, there was over \$14M in cash/operational savings (including a \$0 triple net base rent), plus nearly \$8.2M in reduced fringe benefits, and approximately \$5.4M in wage inflation reduction on top of reduced merit increases equal to \$3.5M. In total, the company benefited from more than \$50M in savings resulting from the relocation from a Tier I city to a smaller community.

### **How Do You Measure Up?**

Ultimately, not every project works in smaller cities, but those that do benefit from improved workforce quality, reduced operating costs, and added benefits like cheaper real estate and higher incentives. To reduce costs and improve profitability, companies must consider:

- How are our locations performing compared to industry metrics/best practices?
- What job functions could be considered for possible consolidation/relocation?
- What are the potential labor cost savings?
- What are competitors doing to improve labor costs and profitability?
- How are we measuring performance in our location selection process?
- What incentives are we leaving on the table?

We encourage companies to address these questions, and we expect they will be surprised by the answers. Increasingly, companies have also been pleasantly surprised by the high level of savings they have achieved and even more surprised by the high level of labor quality they have found.

*Tim Myllykangas and Mitch Jacoby are Principals at CresaPartners in Boston, the headquarters of CresaPartners LLP. Myllykangas is also the founder and manager of the firm's Workforce & Location Planning practice. CresaPartners LLC is an international corporate real estate advisory firm that exclusively represents tenants and specializes in the delivery of fully integrated real estate services, including transaction Management, Project Management, Relocation Planning and Management, Strategic Planning, Workforce and Location Planning, Subleases and Dispositions, Lease Administration, Capital Markets, Sustainability, Supply Chain and Facilities Consulting. With more than 55 North American offices, CresaPartners is the largest tenant representation firm in North America. Internationally, CresaPartners has more than 250 offices worldwide. For more information, visit [www.cresapartners.com](http://www.cresapartners.com).*

[Tmyllykangas@cresapartners.com](mailto:Tmyllykangas@cresapartners.com)

[Mjacoby@cresapartners.com](mailto:Mjacoby@cresapartners.com)