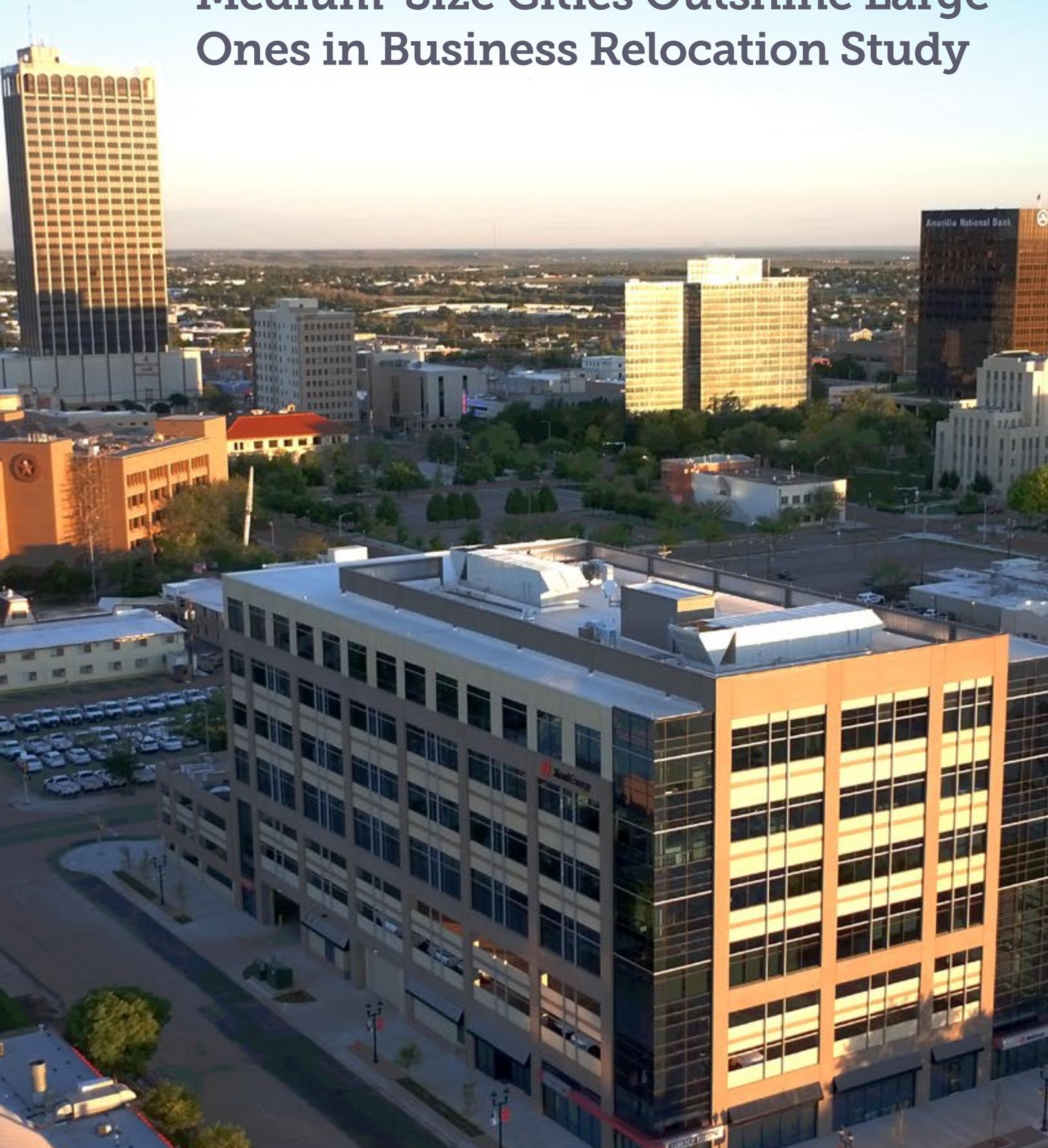


Medium-Size Cities Outshine Large Ones in Business Relocation Study



INTRODUCTION

We've all heard the famous mantra of the real estate business: "location, location, location."

While it may be a cliché, it is one built on a foundation of truth. The right location can make all the difference in where you live and where you work. But how does one define "the right location?"

That's the question that researchers sought to answer in conducting the "**Leveling the Playing Field between Mid-sized and Large Cities**" study.

Developed by Inc. Media and the PhD Resource Group, LLC and administered through Qualtrics in conjunction with Texas Tech University and the Amarillo Economic Development Corporation, the study sought to identify the factors business owners and senior decision-makers believed led to the potential success of their businesses.



Once those factors were identified, respondents provided answers indicating how satisfied they were regarding those factors in the current location. Armed with that data and knowing the size of each respondents' home cities, researchers were able to compare satisfaction levels in businesses located in large cities versus mid-sized cities.

As you will see, the results were striking.

On virtually every factor examined, owners of businesses located in mid-sized cities were substantially more satisfied than their large-city counterparts. Whether it was quality of life, cost of living, access to universities and research centers, or the general promise of the business environment, mid-sized cities ranked considerably higher in terms of business owner and leader satisfaction.

This "mid-sized location advantage" should be an eye-opener both for large city-based companies contemplating relocation and for mid-sized cities trying to attract expanding businesses or startups.

The Perceived “Big-City Advantage”

Thinking about relocating or starting a business in a mid-sized city requires overcoming the long-held belief that big cities hold many advantages over smaller ones. Many assume that big cities offer more direct access to suppliers, a deeper pool of customers and prospects, and massive infrastructures designed to support businesses. To some, big cities seem to offer greater cultural richness and openness to new ideas, attracting millennials and other talent. In fact, when Kiplinger recently presented its

[“10 Great Cities for Starting a Business”](#)

report, the organization didn’t even consider cities with populations under 500,000.

Commute time, sky-high real estate prices, traffic congestion, distribution challenges, and cost of living are just a few of the negatives associated with doing business in cities over 500,000 in population.

This big-city mystique glosses over many of the downsides of doing business in a large metropolitan area. Commute time, sky-high real estate prices, traffic congestion, distribution challenges, and cost of living are just a few of the negatives associated with doing business in cities over 500,000 in population.

The Seismic Shift: Technology Levels the Playing Field

Many of the negatives previously associated with being in a smaller city have been eliminated through myriad technological advances including cloud solutions, information technology, connectivity, and improvements in supply chain management. Through connectivity, businesses in even the smallest towns can access suppliers, partners, and customers across the globe with a single click of a mouse. Meetings bringing together parties from around the country can be conducted effortlessly (and cost-effectively) with collaboration hardware and software.

Today, a startup working out of an incubator in a mid-sized city can disrupt an industry populated by enterprise companies. Today’s technology and distribution mechanisms are more creative and flexible. Those tools, along with quick, decisive action, make it possible to launch your business successfully from virtually anywhere.

In addition to providing a good product or service at a competitive price, successful companies also need skilled and talented employees, affordable commercial property, access to information technology, and a reliable supply chain network. Access to

universities and research hubs can be an important ingredient in the success formula for companies that need skilled labor or which create and market information, technology, or other research-based products and services.

Finding locations that can fit all of these requirements and afford their workers a relatively low cost of living and excellent quality of life is a challenge. However, with the economy more service-based than ever before, both startups and established businesses can take advantage of environments more conducive to both a happy life and a healthy bottom line.

The Study: Some Background

In the summer of 2017, a nationwide survey was conducted with the purpose of examining and discerning what factors are important in business location and relocation decisions. The primary focus was on differences in responses of entrepreneurs and business executives by city size and to gain insight into how mid-sized cities may level the playing field with larger cities in terms of attracting and retaining businesses.

The survey focused on individual respondents that identified themselves as either the primary decision-maker in matters of relocation or had significant input into such decisions. Nearly two-thirds had an ownership interest in the company and almost a third were the founder, president, or CEO.

Respondents were asked a number of questions with respect to their business (e.g. what state they were in, how long they had been in business, the primary industry in which they operate, etc.) and about the area or city in which their business resides – specifically, regarding the city’s population and description as to whether it would be considered urban, suburban, rural, etc.

Most firms remained where their company was started (65 percent) while the rest had moved or added a location at one time or another. More than a quarter of the companies were initially located where the founders lived or grew up. Interestingly, this percentage is higher in larger cities than in mid-sized cities.

This observation implies companies in mid-sized cities are more likely to have moved or added locations at one time or another, which, presumably, may be related to the level of satisfaction with their location choice. That is, many companies may start in larger cities, but a number of them then move to mid-sized cities.

The Questions

Respondents were asked to rate their answers to 21 questions pertaining to their current location using a 5-point scale, ranging from a rank of 5 (meaning very satisfied) to 1 (equating very unsatisfied). The questions covered a variety of subjects regarding:

- **Costs of operating their business – commercial real estate, cost of living, cost of health care and employees**
- **Access to various resources – skilled and/or talented workforce; access to markets and transportation hubs**
- **Access to universities and research hubs**
- **Quality of the local environment – infrastructure (roads, power, water), health care and hospitals, educational system**
- **Quality of the business environment – state and local taxes, regulatory environment, state government support, local government support**
- **Quality of life/lifestyle – access to outdoor activities, great place to raise a family, overall quality of life, local education**

A large city was defined as one with a population of 500,000 or more and a mid-sized city as one with a population of 100,000 to 499,999. Of the total respondents, 102 were in mid-sized cities and 97 in large cities.

KEY FINDINGS

Satisfaction with Current Location

What the survey found was that, on the surface, there aren't many differences between entrepreneurs in mid-sized versus large cities in terms of the independent variables that describe them, (such as years in business, number of employees, sales revenue, etc.) but, there seems to be some differences in how satisfied they are with their location choice.

While researchers were aware of earlier studies and articles that pointed to business advantages in having your business located in a mid-sized city over a large city, the

differences in levels of satisfaction found in this study told a story about the advantages and promise of mid-sized cities.

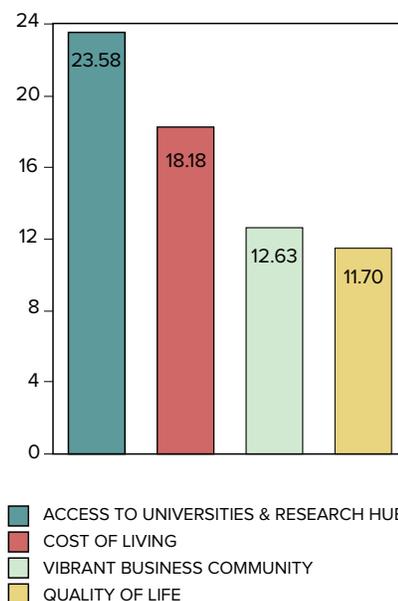
In Chart I, mid-sized cities were rated higher in access to universities and research facilities, outdoing their large city counterparts by 24 percent. Similarly, mid-sized cities were 18 percent more favorable in terms of cost of living, 13 percent more favorable in terms of a vibrant business community, and 12 percent more favorable in terms of quality of life.

When broader categories were used, the results also favored satisfaction levels in mid-sized cities. When it came to access to resources, the mid-sized city satisfaction level was 27 percent higher than for big cities. In specific areas, the breakdown was:

- **23 percent higher for costs and access**
- **19 percent higher for overall costs**
- **16 percent higher over a general business index**
- **13 percent higher for environment**
- **10 percent higher for lifestyle**

For any large-city business currently contemplating a move or one that just wasn't aware of these differences, these statistics should be eye-opening. The survey went on to probe into the factors that would lead a company to consider relocating or adding new offices.

Chart I
Single Indexes: Percentage Gain in Satisfaction for Mid-Size City over Larger City



Average growth of business revenue was the single biggest metric in judging the business environment of a potential new location.

The findings here were equally illuminating. Among the most noteworthy were:

- **Average growth of business revenue was the single biggest metric in judging the business environment of a potential new location, followed by the average growth in number of small businesses and five-year business survival rate.**
- **Access to resources was extremely important to the respondents when contemplating a move to a new location. The top three factors, virtually tied across the top of the list, were the number of job openings per number of civilians in the labor force and unemployment rate, working age population growth, and access to financing/total number of small business loans.**
- **Lifestyle factors mattered greatly to the respondents. For them, the single most important lifestyle-related factor was the overall quality of life, which was the No. 1 factor (33 percent), followed by cost of living (20 percent), public safety/low crime, and great place to raise a family (both at 11 percent).**

Survey Results Dovetail with Earlier Research

The findings of the Inc./Texas Tech study are echoed in many ways with some pre-existing studies of entrepreneurship.

Access to various resources (e.g. technology such as broadband) and the existence of a supportive infrastructure, (including adequate highways and transportation) hubs, are related to the degree of entrepreneurial activity in an area according to a noted 2011 study.¹ The study also noted that other features of a region such as education, quality of life, and a climate that is supportive of a creative class of businesses also play an important role in economic development.

Better regional economic performance is typically found in areas where firms have access to universities and research hubs.² In particular, commercializing knowledge is a characteristic of entrepreneurs and the ability to translate knowledge into economic impacts is positively related to research-rich communities. In fact, evaluating rural entrepreneurial policy with respect to growth, a 2010 study found that greater numbers of scientists and researchers were a positive factor in policy success.³

¹Gallardo, R. and R. Scammahorn (2011), Determinants of Innovative Versus Non-Innovative Entrepreneurs in Three Southern States, [The Review of Regional Studies](#), Volume 41, 103-117.

²Mueller, P. (2006), Drive Economic Growth, [Research Policy](#), Volume 35, 1499-1508.

³Goetz, S., M. Partridge, S. Deller, and D. Fleming (2010), Evaluating U.S. Rural Entrepreneurship Policy, [The Journal of Regional Analysis and Policy](#), Volume 40, 20-33.

Takeaways

What do these findings mean for companies looking to relocate and for economic developers looking to attract new firms to their region?

Choosing a location is possibly the most important decision a business will face.

First, the results show the attributes firms value in their location choices. Armed with this information, the economic developer or policymaker can attract new firms by (1) focusing their efforts on marketing their city's attributes which directly tie into location satisfaction, and (2) where the city currently falls short, by developing and maintaining the institutions and characteristics that comprise elements in these indexes. Similar strategies can be used to retain existing firms in the region.

It is important to note the empirical results indicate that, all else equal, firms that are in mid-sized cities are actually more satisfied with their location than those in large firms. Another interpretation is that while many firms in large cities are satisfied with their location, they would likely be more satisfied, all else equal, in a mid-sized city.

A Few Concluding Comments

Choosing a location is possibly the most important decision a business will face. The success of the business is inherently linked to where it operates. The degree to which the entrepreneur or business executive is satisfied with their location tells us a great deal about how they view the overall success of their business. The new metrics developed and analyzed in this white paper show exactly how mid-sized cities are able to level the playing field with large cities when it comes to attracting and retaining businesses.

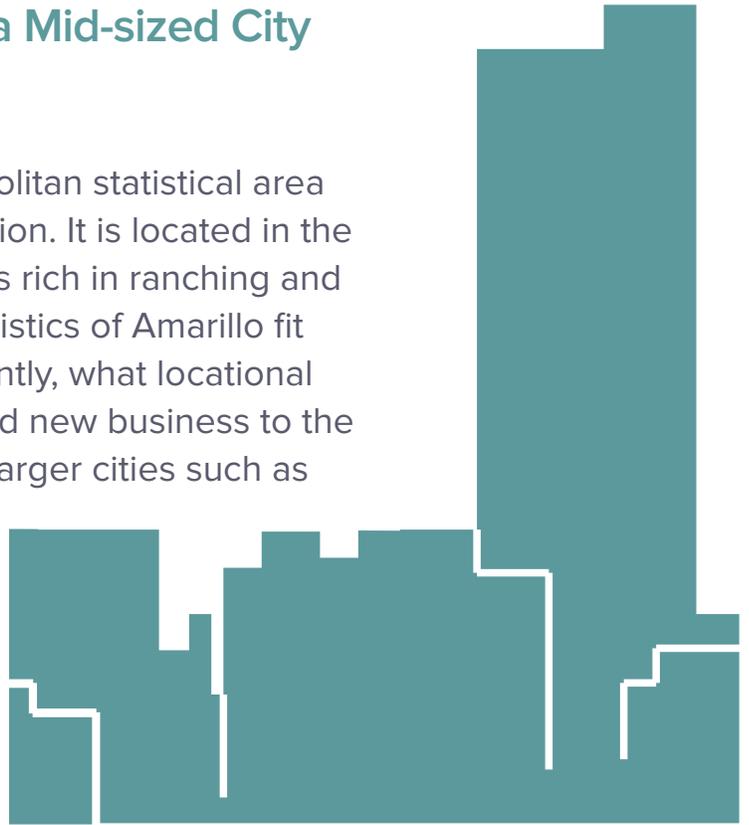
There is a mid-sized city location advantage that exists and can be exploited by economic developers and policymakers to enrich their region or city with businesses that generate economic performance.

The lessons learned from the results of this study should provide the economic development groups in mid-sized cities plenty of ammunition to convince businesses to start thinking about moving their headquarters or adding branch offices in smaller but more welcoming and success-conducive cities.

Amarillo is a Perfect Example of a Mid-sized City Covering All the Bases

Amarillo is a mid-sized city with a metropolitan statistical area (MSA) population of around a quarter million. It is located in the northwest portion of Texas, an area that is rich in ranching and agricultural history. How do the characteristics of Amarillo fit into the findings of this study? Put differently, what locational attributes would attract entrepreneurs and new business to the city and make Amarillo competitive with larger cities such as Dallas, Houston, and Oklahoma City, to name a few?

Based on the findings presented in this white paper, Amarillo can be seen as a perfect example of a mid-sized city that offers many of the advantages of doing business in a large city, while possessing most, if not all of the features that are directly linked to satisfaction location choice.



For instance, the city has the Amarillo Economic Development Corporation, which works through a number of programs and initiatives to create and maintain a vibrant business community conducive to entrepreneurial activity. Amarillo is home to the WT Enterprise Center, an international award-winning business incubator, whose mission is to help people build great companies. The city also has a regional Small Business Development Center (SBDC), which provides training, research, and other services to small businesses.

The city has a moderate to low cost of living and a high quality of life — average home price is around

\$115,000 — an ample supply of public and private schools, and access to outdoor activities. For example, Palo Duro Canyon is minutes away. Such features are the types of quality of life aspects survey respondents said were important to them.

Amarilloans are known for supporting and celebrating businesses located in their community.

Amarillo also has access to resources entrepreneurs need and value. There is a highly skilled workforce (almost one-third is college-educated) and the median household

income, which is often considered an indicator of labor costs, is around \$50,000. Renowned institutions like Texas Tech University, TTU Health Sciences Center and School of Pharmacy, West Texas A&M University, and others contribute to a highly educated and skilled workforce. In addition, Amarillo's education network includes community and two-year colleges, as well as plans for a new veterinary medicine school.

Access to capital is also a benefit for entrepreneurs in Amarillo. A unique aspect of the community is the participation of local banks, which invest heavily in growth-oriented businesses in the area. Entrepreneurs have the opportunity to receive grants and micro-loans from several community organizations and a \$500,000 business plan competition funded by the Amarillo EDC. The West Texas Angel Network is also an advocate for funding Amarillo-based businesses.

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Amarillo is located at the crossroads of two major interstate highways and has a rail line, international airport, and a business park. These infrastructure features make Amarillo a convenient location for travel and transport — key features for business owners who need to move goods or people to various locations.

While the numbers highlighted Amarillo's many advantages, there was also a story they didn't tell about the people of Amarillo. Amarillo has often been referred to as the biggest small town in Texas. A large part of the metaphor comes from the relationships built there. Amarilloans are known for supporting and celebrating businesses located in their community that are adding jobs and enhancing the quality of life.

In the end, this study clearly demonstrates that choice of where to locate your business has been greatly broadened. With the big-city advantage revealed as a myth, businesses can open their eyes to mid-sized cities and look to see which of those cities possess the business climate, the work/life balance and the kind of family-friendly atmosphere that support success in business and success in life.

This study and the resulting white paper were commissioned by AEDC and Inc. Media and conducted by the PhD Resource Group, LLC (a private company specializing in economic analysis, consulting and applied research) in conjunction with Inc. Media's research team and Texas Tech University. PhD Resource Group is led by Bradley T. Ewing, PhD, who holds the C.T. McLaughlin Chair of Free Enterprise and is a professor in the Department of Energy, Economics and Law in the Rawls College of Business at Texas Tech University.