



2010 Technology Forecast For San Luis Obispo, California

Prepared by the Technology Advocacy Committee of the San Luis Obispo Chamber of Commerce and drafted by SLO Chamber Internet Services and Publications Director Whitney Diaz

Intro

Technology companies are an increasingly important part of the Central Coast's economic make-up. To enhance and support this segment, the San Luis Obispo Chamber of Commerce's Technology Advocacy Committee (TAC) conducted a survey in spring/summer of 2010 and analyzed the data to determine whether any actions are advisable.

The goal is that the information contained in this report can be used as an economic development tool that can help the Chamber achieve its revised six-point economic strategy outlined in the 2010 Economic Vision document, specifically the third point: Nurture and attract future-oriented companies, especially businesses that embrace sustainability.

The local technology industry, too, may benefit from the information. But what exactly does the technology industry consist of? The TAC defines the technology industry as companies that design, manufacture, market and/or maintain high-tech products and services. (Please visit www.tac.slochamber.org for more information on the Central Coast technology industry.)

Following the previous Technology Forecast in 2008, the nation experienced a severe economic recession, the effects of which are still being felt. The TAC chose to take this opportunity to determine how the Central Coast's technology industry fared during this recession and determine what opportunities have come from it.

Demographics

Before we can understand the analysis of the data from the Technology Survey, we must first understand who took the survey and who this report focuses on.

The survey focused on businesses on California's Central Coast, an area defined as the region between Paso Robles and Santa Maria. When the Technology Survey closed, 215 individuals had responded. Of those, 181 indicated that their businesses definitively were or were not related to the technology industry, and 34 gave other responses that did not easily qualify as either related or not related to technology (therefore, these 34

responses were not included in the data analysis). Of the 181 respondents, 49.2% were related to the technology industry. This report focuses primarily on that group.

A large portion of the 181 respondents said they live in San Luis Obispo (43.8%), followed by the Five Cities area and Atascadero. By far, the respondents indicated that San Luis Obispo is the location of their business (85.4%) and the primary target market of their business is San Luis Obispo followed closely by South County.

A large majority of the technology-related respondents said

- they are from privately owned businesses (84.7%) and 89% are in a leadership position in their company,
- 26.7% claimed the approximate revenue for their Central Coast operations is less than \$250,000
- 20% said the revenue is between \$250,000 and \$1 million
- 53.3% said the revenue is more than \$1 million.

Why create a technology forecast?

Technology-related businesses are a desirable element of the Central Coast's economy.

Local technology-related businesses generally:

- are clean and environmentally friendly
- provide head-of-household jobs
- represent diversification of an economy largely dependent on agriculture and tourism – both of which are seasonal, cyclical and mostly low-paying – as well as government (including California Polytechnic State University San Luis Obispo and Cuesta College), which is more stable but still subject to state budget ebbs and flows.

The TAC was established to develop recommendations to the Chamber supporting and enhancing technology-based businesses in and around San Luis Obispo. Early on, however, it became clear that the TAC had little information about such businesses in the area. Census and Department of Commerce data was too aggregated to be useful, and other information available was largely anecdotal.

In 2005, the TAC conducted its first Technology Survey to gather information about the types of technology-related businesses in the area, whether they were doing well and what business-related advantages and disadvantages they perceived the Central Coast had. That survey, plus a "SWOT" analysis became the basis for the first Technology Forecast.

In spring 2008, the TAC conducted a follow-up survey to gauge how the situation had changed and formulate an updated forecast. However, the survey was conducted before

the economic recession in September 2008, and it was impossible to guess how the economy of the time would affect responses.

2010 survey and results

As in 2005 and 2008, a web-based survey system was used to gather information about the respondents as well as their opinions.

The survey featured both traditional, multiple-choice questions and two Dialogr topics, or an online idea exchange that incorporated respondents' comments and reactions to the questions. Respondents seeded answers and ranked them and/or added comments. The statements that did not generate much interest or response eventually dropped off the list, while the more popular responses rose to the top. In all, as stated before, there were 215 completed surveys.

Economic Impact

The economic downturn has had a negative impact on nearly every industry in some way, and the technology industry is no exception.

About half of the 2010 survey respondents indicated that their businesses were negatively impacted by the economic climate of the last two years, but surprisingly 41.5% claimed that the economy has had no effect or a positive or very positive effect on business (7.9% did not know how the economy affected their business).

By comparison, a large majority (76.9%) of government/university respondents claimed their businesses were negatively affected by the economic downturn, and 71.8% of private sector businesses not related to technology claimed their businesses were negatively or very negatively impacted by the economic downturn.

Just over half of the technology-related respondents agreed that the economic environment on the Central Coast has improved over the last five years, and that those who were less negatively affected by the economic downturn will see an increase in full-time employees next year.

Those who were affected negatively indicated that their employee pool would not decrease next year, but will instead remain the same as the current year. This indicates the technology industry overall will see an increase in the number of employees in this coming year.

SWOT Analysis

A SWOT analysis is a strategic planning method used to evaluate the strengths, weaknesses, opportunities, and threats involved in a project. This analysis was derived from the 2010 survey results.

Strengths

The Central Coast, specifically San Luis Obispo, has an extremely high quality of life. The small-town atmosphere, enhanced by a variety of cultural opportunities, mild climate and proximity to the coast, as well as the convenient distance to and from larger metropolitan areas like San Francisco and Los Angeles, all contribute to making San Luis Obispo a location where many people would love to live.

Technology-related businesses on the Central Coast have an important resource that other communities similar to San Luis Obispo do not have: Cal Poly. In fact, 92% of respondents in the technology industry indicated that Cal Poly is important to the development of technology companies on the Central Coast.

The highly educated workforce here, partly due to the presence of Cal Poly and other universities and colleges nearby, such as Cuesta College, Hancock College, Laurus College, Brandman University, and the University of La Verne, is not typical of a small town. This pool of talent attracts many companies seeking a large portion of “knowledge workers,” or workers who are highly educated in particular field.

Geographically, Central Coast businesses are naturally isolated from the rest of the state and nation. The area has a micro-economy that is not as reliant on, and seems to be less affected by, the state and federal economies. In fact, the survey results indicate that the relative negative impact of the economic recession was low on the local technology industry compared to other industries.

Local city and county governments seem to have a positive attitude toward technology-based businesses, in particular those that provide head-of-household jobs for highly skilled employees and those that use or develop green technology. As in the previous surveys, government regulation does not appear to be a significant impediment for technology-based businesses on the Central Coast.

Although San Luis Obispo has a high cost of living, due primarily to the cost of housing, the overall cost of doing business on the Central Coast is somewhat lower than in Silicon Valley, Los Angeles, Orange County, and Santa Barbara. It is still possible for someone to work in San Luis Obispo and live in relatively affordable housing nearby.

The City of San Luis Obispo appears to be the preferred place to do business for technology related companies on the Central Coast.

Weaknesses

San Luis Obispo seems to have a demand for a more robust communication infrastructure. While 37.2% of the respondents related to the technology industry indicated that a poor local infrastructure is a significant or meaningful obstacle to doing business on the Central Coast, the respondents indicated that bandwidth, or information technology infrastructure, is the technology trend that has and will have impact on the economic vitality and growth of the technology industry on the Central Coast.

So why is the information technology infrastructure such a perceived obstacle for so many technology companies? The Google fiber initiative and the changes in the technology landscape including “cloud computing” and telecommuting may have increased awareness of the need for high-speed connectivity over previous years. However, major telecommunications and data carriers have established a presence on the Central Coast, and data center facilities are available.

The cost of housing and real estate is still a hindrance for technology companies on the Central Coast. Even survey respondents whose businesses were not negatively impacted by the recent economic downturn saw the cost of real estate as a very significant or meaningful obstacle to doing business on the Central Coast. To the point, San Luis Obispo’s affordable housing index was 48 in the second quarter of 2010.¹

Even though the Central Coast’s location is seen as a unique advantage for technology businesses, the lack of adequate air transportation to and from other areas is a significant obstacle. Many technology-related businesses based in San Luis Obispo have clients in other areas. While telecommuting is easier and more convenient now than in previous years, companies must still bring in clients or visit their locations. The survey indicates that 62.5% of the technology-related respondents consider air transportation to and from San Luis Obispo a very significant or meaningful obstacle.

Opportunities

The Central Coast offers many opportunities that either are actively being developed or close to completion. There seem to be more opportunities for technology-related business employees and entrepreneurs to make connections through networking groups on the Central Coast.

In 2008, the lack of networking among entrepreneurs and employees was marked as a weakness, but there are several established technology networking groups that continue to grow, including Softec. While some members of the technology industry still identify

¹ The San Luis Obispo County Housing Affordability Index is based on first-time buyers and can be found at <http://www.car.org/marketdata/data/ftbhaj/>.

networking as an obstacle, a large majority see it as an insignificant obstacle or not an obstacle at all.

In 2008, Cal Poly was referred to as an untapped resource, based on the survey respondents. The respondents of this survey, as well as anecdotal evidence gathered during the last two years, suggests this is no longer the case. In fact, the university is more connected to the local technology community than ever before. There is an effort among the City of San Luis Obispo, the business community and Cal Poly to create an entrepreneurial ecosystem in San Luis Obispo.

Cal Poly is still rated as good or excellent on its active support of the development of technology companies on the Central Coast, and with the recent completion of the Cal Poly Tech Park, technology companies may see many more opportunities for collaboration and more availability of Cal Poly graduates to local businesses in the near future.

The perceived lack of high-speed Internet connectivity has been a noteworthy topic in the technology industry recently. The development of more fiber services for businesses, either through Google's fiber initiative or Digital West Network, Inc.'s efforts to develop Metrofiber, will be a trend worth watching.

Threats

Historically in San Luis Obispo, as firms grow, they may move out of the region to major industry or venture capital centers, or be bought by larger, out-of-the-area companies. Similarly, if air transportation does not improve on the Central Coast, companies looking to grow may move out of the area to places that have easy-access to air transportation to do business.

Technology companies based in larger, metropolitan areas have a competitive advantage in labor pools, which make them preferable to San Luis Obispo for technology businesses looking to relocate or experiencing significant growth. The relative inflexibility of the labor pool means that it will be difficult to for the technology industry here to grow.

Despite the high number of Cal Poly graduates each year, San Luis Obispo lacks a fluid, skilled employment market. Recruiting is slower and more expensive, and many individuals are reluctant to move to an area where there may only be one employer who needs their specific set of skills. While there is an abundance of knowledge workers here, the availability of skilled employees is seen as a very significant or meaningful obstacle by a majority of the technology industry (59.8%).

Conclusion

Perhaps the most significant finding of the survey is that technology-related businesses on the Central Coast were significantly less negatively impacted by the economic downturn that began in fall 2008 than other types of businesses, including government and other businesses not related to technology.

As in 2005 and 2008, the cost of doing business on the Central Coast (including the cost of living and housing) was cited numerous times as the largest obstacle to developing a technology business on the Central Coast. But unlike 2005 and 2008, many 2010 respondents indicated that the lack of high-speed Internet connectivity, when compared to metropolitan areas, would have a negative impact on the economic vitality and growth of the technology industry on the Central Coast.

The survey results also indicated that many companies that see six or more employees telecommute may also see some growth in the number of full-time employees next year. Incidentally, just as in 2005 and 2008, the most cited advantages of the Central Coast for a technology businesses were quality of life (28 responses), followed by the local universities and colleges, such as Cal Poly (20).

Recommended actions

Based on the survey, Dialogr results and analysis, the TAC recommends the following actions:

- Continue to support initiatives, programs, etc. to develop and enhance high-speed Internet connectivity, to allow for more telecommuting and industry growth.
- Foster further collaboration with the Central Coast technology industry and local colleges and universities to help develop the local labor pool, specifically skilled employees, while gearing education in college classes to support local technology companies.
- Enhance air transportation, so Central Coast technology companies can invite clients or easily visit potential clients out of the area.
- Technology companies could make a stronger effort to seek out the networking opportunities that are here and growing, and in so doing enhance these networking groups, creating a stronger sense of community among technology businesses.
- Support the effort to “put out a welcome mat” for technology companies by creating a process where technology companies looking to move here can work



easily with the city's Economic Development department and Cal Poly's Tech Park to find an affordable place to set up shop.

- Continue to conduct the Technology Survey and dialogue every two years.
- Work on enhancing the contact information on the Chamber's TAC website.