

BACK OFFICES AND DATA CENTERS: WIRED FOR SUCCESS

COMMUNITIES ARE PARTNERING WITH INDUSTRY TO MANAGE THEIR BITS AND BYTES.

➤➤ Although the demand for goods and services across many industries remains erratic, the supply of information — thanks in part to widespread adoption of new data-based devices — continues to grow in volume and importance. Offshoring of data management and business processes still dominates the IT world, especially among multinational companies, yet changes in technology and market forces are creating an opening for a variety of areas domestically. Indeed, a combination of infrastructure upgrades, incentives and proactive service

providers is positioning rural and smaller metro areas as increasingly attractive locations for back office operations and data centers.

Many communities across the country — seeking to secure jobs and build tax bases — are responding to the flourishing need for managing bits and bytes with forward-looking thinking and competitive packaging of local assets. “This industry has great potential,” says John Bradley, senior vice president of economic development, Tennessee Valley Authority (TVA). “A community that wants to be part of the digital economy, understands

this market and is willing to develop suitable sites and offer incentives which add value to a project, can be competitive in this sector.”

Data centers in particular — specially designed to house computer, telecommunication and data-storage systems for Internet companies, financial transaction processors and various high-tech industries — are finding their way to suburban and rural areas where business can be conducted at lower costs with less risk. Colocation data centers (which house data for multiple companies) are tending to locate in urban or

suburban areas, Bradley explains, primarily because some of the customers that house in these facilities want to have access to their data assets, while some of the larger enterprise or Internet data centers are more will-ing to consider rural locations.

Some IT companies have based their business model on maximizing ROI by intentionally leveraging clusters of highly-skilled, U.S.-based resources. “CGI has seen a growing trend among U.S. companies moving some of their IT operations and support back onshore; the labor price point for offshore resources remains compelling and will likely continue,” says Ray Harris, vice president of economic development, CGI Group Inc. “However, many companies are realizing there is benefit in diversification and risk mitigation, in keeping a part of the operation closer to

devices, the demand in the United States and around the world is driving the need for increased application and storage space.

Cost control is a paramount factor as well. To gain a competitive advantage, large data center operations are moving to more of a factory model in a bid to squeeze costs and become more efficient (especially in how they consume electricity) in facility design, construction and management, Bradley says. At the same time, these companies are trying to become as “green” as possible.

“Any alternative to on-site project teams and data center operations is driven by the need for companies to reduce operating costs,” Harris confirms. While an offshore approach continues to deliver the largest cost savings, he says CGI’s onshore delivery

workforce and an already-strong presence in banking, finance and telecom. “If enough factors are present to attract a data center, it probably also means that it’s a positive business climate for others. But with Sprint, U.S. Bank, and other derivatives that have grown over time, we have IT and telecom folks that overlap and are good at running and staffing these types of operations,” says Lavern Squier, senior vice president of economic development, Overland Park (Kan.) Chamber of Commerce. “We’ve got a proven track record and are becoming a market for larger and larger data centers.”

Farther east, innovative private-public partnerships tied to a favorable crossroads location are breathing new life into existing infrastructure. Indiana-based Project Future is the driver of Metronet Zing, a dark

CGI’S ONSHORE DELIVERY APPROACH DELIVERS UP TO 30 PERCENT SAVINGS OVER ONSITE RESOURCES IN MAJOR METROPOLITAN AREAS.

home. Rural American communities represent a compelling alternative: a stable business and political environment, access to a well-qualified workforce, reduced time zone issues and lower cost of operation.”

Based on that strategy, Harris’ company has already created more than 500 high-quality IT jobs in its rural onshore centers at its U.S. Centers of Excellence in Troy, Ala., and Lebanon, Va., and is expected to open a third U.S. center in in 2011.

INCREASING APPS AND DECREASING COSTS

The move toward “insourcing” or “farmshoring” of back office operations and data centers is characterized by the shift toward “cloud computing” and a voracious appetite for data storage and bandwidth. As more and more people engage in e-commerce and use smartphones, tablets, and other data-intensive

approach delivers up to 30 percent savings over onsite resources in major metropolitan areas.

COMMUNITIES PICK UP THE PACE

Some communities have been building up their back office and data center activity for years, while others are just beginning to ramp up. However, their common thread is optimism about the sector, even though approaches and capabilities differ. “We don’t have a large group of data centers, but we certainly have the potential for it,” says Carolyn Kennett, economic development director, City of Parsons (Kan.). “We’re small, yet we do have a highly educated and cost-effective workforce, low-cost electricity and water, and a very low exposure to seismic activity and other environmental factors.”

Elsewhere in Kansas, the Overland Park area is building on its specialized

fiber network that offers state-of-the-art telecommunications connectivity that is also benefiting data centers. Metronet subscribers can not only choose among competing service providers, but pricing is based on a flat rate, instead of on distance or bandwidth. “It’s significantly reduced the cost of operations in our community,” says Patrick McMahon, executive director, Project Future. “Offering such a network, combined with reliable power and the state’s removal of a property tax barrier, has really increased our attractiveness both inside and outside the area.”

The Tennessee Valley is another destination for enterprise data centers and technology companies based on a number of strengths, including competitive electric rates, robust power reliability and capacity, dual-feed capability and a business-friendly climate. After assessing more than 50 locations across its

seven-state, 80,000 square-mile service area, the TVA has identified 16 sites as prime locations for developing the region's growing data center industry. Bolstered by partnerships with local power distributors and other stakeholders, the sites range in size from 25 acres to over 200 acres, with more sites to be added in the coming months.

PRIMING THE PUMP

Incentives and subsidies are important to encouraging companies to move operations back onshore, note Harris and others. They help mitigate the costs of creating local infrastructure, building and equipping new facilities, and identifying, recruiting and training a local workforce.

In recent years, customized incentive packages have been a key factor in the site selection process for many domestic projects, especially large-scale ones. North Carolina grabbed headlines in 2007, when Google selected Lenoir as the location for a \$600 million data center, and again in 2009, when Apple Inc. announced plans to build a \$1 billion data storage site in the town of Maiden.

Since then, escalating budget deficits have spurred states to scrutinize and often cut back their incentives, but government support has expanded the geography of the data center industry. In addition to North Carolina, other states that have passed data center incentive packages and are seeing increased activity in this sector include: Tennessee, Virginia, Nebraska, Iowa, Texas and New York.

Back office operations and data centers may essentially boil down to ones and zeroes, but they rely on a specific mix of physical resources, capabilities and cooperation on the ground. Increasing data usage, along with targeted U.S. investments in this area indicate a transition to a digital economy that is sure to grow in decades to come.

The TVA's initiative is but one example of growing success at the local level. "Technology keeps changing so fast, but we already know that pursuing a data infra-

structure strategy with our local, state, and regional partners, like the TVA, was a very good investment — much more than we had projected," says Mike Browder, CEO, Bristol Tennessee Essential Services. "We've already exceeded our 15-year plan." ❏

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The advertisement features a stylized globe with a grid of dots. A map of the Tennessee Valley region is highlighted in green, with several small black icons representing data center sites. The text is centered and uses a mix of green and grey colors.