

## How tech giants make location decisions: Amazon vs. Apple

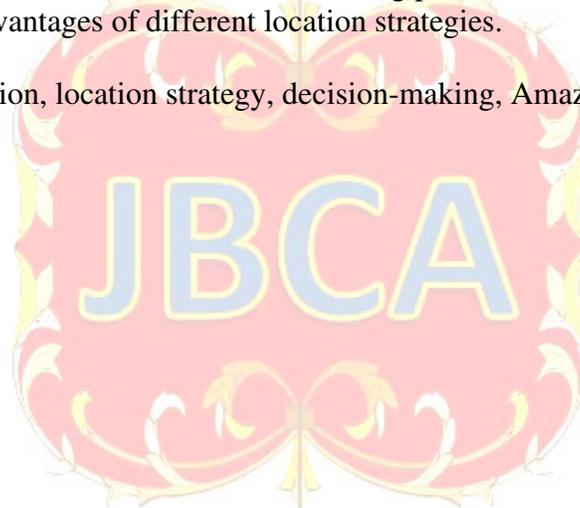
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### ABSTRACT

This case introduces how two companies, Amazon and Apple, decided on new facilities' locations. Making a location decision is often very complex as it involves several economic factors such as real estate costs, labor costs, or tax structure and non-economic factors like climate or government regulations. This case primarily illustrates how the two companies took different approaches to collect information and select candidate locations. Students are encouraged to compare and evaluate the decision-making process of each company and discuss the advantages and disadvantages of different location strategies.

Keywords: location decision, location strategy, decision-making, Amazon, Apple



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## INTRODUCTION

Business site selection is one of the most critical decisions that can shape a company's future in the long run. Location decisions often involve careful analysis of several economic and non-economic factors. Recently, Amazon.com, Inc. (Amazon) and Apple, Inc. (Apple) built new facilities in Arlington, Virginia, and Austin, Texas, respectively. They used distinctively different strategies to make the site selection decisions, and it is noteworthy to look at the differences in the processes.

## AMAZON'S LOCATION DECISION

In September 2017, Amazon announced that the company was looking for a location in North America for its new second headquarters (HQ2) (Amazon, 2017). Amazon also announced that it would accept proposals from cities and states interested in this second headquarters project.

Through the search process, Amazon received bids from 238 metro areas. Each package had detailed information about the labor market, transportation infrastructure, quality of life, and potential incentives such as tax breaks. The company took time to evaluate its received information to narrow it down to a smaller number.

On January 8, 2018, Amazon announced a list of 20 cities with which the company decided to continue the selection process (Amazon, 2018a). Amazon carefully evaluated each proposal package based on the requirements in the initial request for proposal and created a list of 20 candidate locations. Amazon stated that they would work with each prospective city to review the details of their proposals, gather additional information, and finally evaluate the viability of a future partnership that aligns with the company's plan for hiring new employees and supporting the local community. The shortlist revealed the presence of two distinct groups of locations: major, high-cost technology hubs located on the coast and smaller, lower-cost regional business centers located in the inner part of the country (Parilla, 2018).

In November 2018, Amazon announced that it would establish two new headquarters following discussions with the 20 cities that made the shortlist. The two locations chosen were New York City, NY, and Arlington, VA. Amazon added that it would be investing \$5 billion and creating over 50,000 jobs for the two new locations, possibly more than 25,000 jobs created at each location (Amazon, 2018b).

The agreement between New York and Amazon generated intense public discussion. Several politicians, legislators, activists, and union representatives argued that Amazon was not worthy of receiving approximately \$3 billion in government incentives. The primary concerns raised by these individuals were the use of public subsidies to attract large companies, gentrification, and an increase in living costs. Amazon eventually abandoned its plans for its second headquarters in New York (Goodman, 2019).

Many people stood against Amazon's plan to build a corporate campus in New York, but there were also supporters. The city's business sector, including some unions and public housing residents, anticipated that the arrival of the new campus would bring a significant number of new job opportunities. A poll from major media showed widespread support for the move throughout the city and state (Vielkind, 2019).

However, Amazon did not wholly give up on New York City. A few months after withdrawing its investment in HQ2, the company announced in December 2019 that it would

open an office in Manhattan with a workforce of 1,500 employees and added that it is not getting any financial incentives or tax benefits for the new facility project (Kim, 2019).

The investment plan of building two HQ2 towers moved forward as planned and was approved unanimously by Arlington County. The construction of the towers began in early 2020, intending to complete it by 2023 (Graf & Salazar, 2019).

## **APPLE'S LOCATION DECISION**

In January 2018, Apple announced that it is planning to make significant investments in three areas that can impact job creation in the United States: direct employment provided by Apple, the spending and investment with Apple's domestic suppliers and manufacturers, and the stimulation of the rapidly expanding app economy. (Apple, 2018a). However, Apple did not specifically mention what type of new facilities to build and the possible candidates for the location.

In March 2018, Apple's Chief-Executive Officer, Tim Cook, spoke about the new campus during a television interview. He mentioned that the new campus's location would be somewhere other than California and Texas, where the company already has many employees (Mickle, 2018). He also added that Apple is not accepting proposals from the public like Amazon, which he described as "the beauty contest thing," because he does not want to make a winner and many losers (Mickle, 2018). Mr. Cook again mentioned that Apple's process is designed to avoid "putting people through a ton of work to select one" city. "The best things we can do in business is find the win-win" (Mickle & Bauerlein, 2018).

In May 2018, Mr. Cook had a private meeting with North Carolina Governor Roy Cooper to discuss possibly building a new campus in the Raleigh-Durham area (Balakrishnan, 2018). Although it was unclear what the new facility would be used for, Apple hinted that it would mainly be for customer-support representatives. Apple did not disclose the details about the project nor possible incentives from the North Carolina state they are negotiating.

In December 2018, Apple announced that it had chosen Austin, TX, for the new facility's location (Apple, 2018b). It was surprising news as Apple already has an operation in Austin, and Mr. Cook previously excluded the possibility of choosing Austin. The announcement also indicated that the new Austin campus would be situated less than a mile from the existing facilities. It will initially create additional 5,000 jobs and eventually grow to 15,000. With the additional jobs, Apple will be the largest private employer in Austin. The new campus will accommodate various functions such as operations, finance, engineering, R&D, and customer support (Apple, 2018b).

Apple revealed that it intends to construct new facilities in Seattle, San Diego, and Culver City and will also increase its operations in New York, Boulder, and Pittsburgh in the next three years (Apple, 2018b). The announcement is noteworthy that the company is interested in expanding its existing operations as it is happening in Austin and other cities mentioned in the announcement.

## **LEARNING OUTCOMES**

Students will be able to

1. Understand the process of making location decisions in real-world industries.

2. Comprehend why companies choose different location strategies and the advantages/disadvantages of different location strategies.

### **DISCUSSION QUESTIONS**

- What is the main difference between the two location strategies implemented by Amazon and Apple?
- What are the pros and cons of each location strategy?
- Which strategy do you prefer? And why?
- Overall, did each company make the right decision?



## TEACHING NOTES

### 1. Economic factors and non-economic factors in locating new facilities

Instructors may ask students what critical economic and non-economic factors are when companies make location decisions. Table 2 shows some examples.

Instructors may discuss how some of these factors affected Amazon and Apple in their decision-making processes. For example, why did Amazon withdraw its plan to locate one of its second headquarters in New York?

### 2. Amazon's movement after the HQ2 search

Amazon made several more investments in new facilities after building the second headquarters. Below is a list of movements in recent years (Levy & Nickelsburg, 2019).

- In 2019, Amazon announced that it would build a \$40 million facility in Boston, where they plan to focus on robotics innovation. The new facility opened in June 2022 and hired more than 2,000 new employees.
- In 2022, Amazon signed a lease for a one-million-square-foot warehouse in Joliet, a suburb of Chicago.
- Amazon opened a tech hub in Houston, TX, in 2019. This facility is about 25,000-square-foot and is primarily for Amazon Web Services (AWS) employees.
- In 2019, Amazon opened a new, nearly 10,000-square-foot office in Denver. The company hired 400 new workers over the 350 employees they already had.
- Amazon said it will create more than 2000 corporate and tech jobs in Austin by 2024. The company has more than 3000 employees in the area.
- Amazon expanded its tech hub in Toronto in 2021. The expansion created 600 new jobs in machine learning, artificial intelligence, and other fields.
- In 2018, Amazon opened a new office with a capacity of 500 people in San Diego. This facility houses new jobs in machine learning, software development, cloud computing, and digital entertainment.
- In 2018, Amazon announced that it would create 125 additional jobs at its engineering center in Pittsburgh.
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Many of these investments were made in the top 20 candidate locations for HQ2. The information packages the company collected during the HQ2 search helped the company make further investments to expand operations. Instructors may want to share this with students and discuss the effectiveness of Amazon's strategy.

### 3. Apple's movement after the new campus location search

As mentioned above, Apple did consider North Carolina as one of the places for a new facility. Although Apple decided to go to Texas, Apple did not completely turn away from North Carolina. In 2021, Apple stated that its first East Coast campus would be located in Raleigh-Durham's Research Triangle Park (Apple, 2021). The investment is estimated to be \$ 1 billion, creating at least 3,000 new jobs in artificial intelligence, software engineering, and other areas.

Apple also announced that it would establish a \$100-million fund to help schools and community initiatives throughout the state and plans to invest over \$110 million in infrastructure (Apple, 2021).



**APPENDIX****Table 1: 20 Candidates for Amazon's Second Headquarters**

Atlanta, GA	Montgomery County, MD
Austin, TX	Nashville, TN
Boston, MA	Newark, NJ
Chicago, IL	New York City, NY
Columbus, OH	Northern Virginia, VA
Dallas, TX	Philadelphia, PA
Denver, CO	Pittsburgh, PA
Indianapolis, IN	Raleigh, NC
Los Angeles, CA	Toronto, ON
Miami, FL	Washington D.C.

**Table 2: Example of economic and non-economic factors of location decision**

Economic factors	Non-economic factors
Shipping and transportation costs	The climate of the area
Land availability and costs	Quality of life
Proximity to markets	Government regulations
Proximity to customers and suppliers	Preference of top management
Proximity to resources	Local crime rate
Proximity to parent company's facilities	Community's attitude toward business
Utilities	State and local legal/political factors
Tax structure	
Incentives	

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