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Perspectives on Seattle as a Globally Competitive Region

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AT A GLANCE

BCG, in partnership with the Seattle Chamber of Commerce, studied the global competitiveness of the greater Seattle region compared with eight peer regions as part of the broader five-year Global Cities Initiative sponsored by the Brookings Institute and JPMorgan Chase.

RESULTS: SEATTLE ON THE GLOBAL STAGE

Seattle ranks fifth among its peers, due to its strengths in human capital and innovation and weaknesses in infrastructure and global connectedness. Given its solid starting point, Seattle can only benefit from a cohesive regional strategy that brings government and business leaders to the table.

COMPETITIVENESS IMPERATIVE

To move forward, leaders in the greater Seattle region must pivot their focus toward coordinated action. BCG has identified five competitiveness imperatives that Seattle region leaders must address to make sustained competitiveness progress.

METROPOLITAN CITY-REGIONS ARE INCREASINGLY becoming the new unit of global competition. Interconnectedness among international markets and continued outsourcing of production and operations has blurred the lines between domestic and international competition. Many markets once known for low-cost labor now are centers of technological innovation and manufacturing. In this new paradigm, businesses make investment and growth decisions on a global scale with increasing focus on specific city-regions as the key to reduced cost, improved efficiency, and ongoing innovation. Indeed, in 2012, the world's top 300 metropolitan areas accounted for 50 percent of global GDP despite having only 19 percent of the world's population.¹

“There is, in essence, no American (or Chinese or German or Brazilian) economy; rather, a national economy is a network of metropolitan economies.”

—Bruce Katz and Jennifer Bradley²

The fluid nature of international business requires that city-regions proactively manage their global competitiveness in order to secure and build economic prosperity. As the home to notable Fortune 500 companies, a thriving innovation engine, and striking natural beauty, Seattle is a medium-sized economy with all the prerequisites to effectively compete on the global stage.

BCG, in partnership with the Seattle Chamber of Commerce, studied the global competitiveness of the greater Seattle region compared with eight peer regions as part of the broader five-year Global Cities Initiative sponsored by the Brookings Institute and JPMorgan Chase. This paper summarizes our findings and highlights actions Seattle can take to improve its global competitiveness over the next 20-plus years and become one of the best medium-sized economies in the world.

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Drivers of Global Competitiveness

“Talent will be the most important determining factor of a city's ability to compete at the global level.”

—Enrique Rueda-Sabater, BCG senior advisor
and former World Bank director

Maintaining and building global competitiveness over any significant span of time is a dynamic and adaptive process. Unforeseen challenges will arise, industry relevance may cycle, and the specific areas of competition for any city-region will change. Consequently, BCG takes a holistic view of competitiveness that focuses on

drivers (such as access to a dynamic talent pool) that predict great outcomes rather than just on the outcomes themselves (such as GDP growth).

BCG has developed a forward-looking competitiveness framework that assesses city-regions across five broad drivers that are weighted based on impact to current competitiveness and importance to future adaptability. (See Exhibit 1.)³

BCG believes that the ability of a city-region to generate, attract, and retain high quality human talent is the single most important factor in long-term competitiveness. Talent drives innovation, enables growth, and ensures adaptability in the face of future challenges. Increasingly, triple bottom-line concepts, such as clean environment and social justice, are key inputs to the value proposition that an area must offer a globally mobile talent pool.

Furthermore, businesses make location decisions based on access to high quality talent, the overall health of the region, and the relative hard and frictional costs of doing business. Long term regional competitiveness depends on a region’s ability to adapt to and address future challenges. This requires a core nucleus of talent, businesses with presence in the global market, and local leadership with the vision and willingness to make strategic investments and tough political decisions.

Results: Seattle on the Global Stage

Seattle’s competitiveness was assessed against eight developed, dynamic, medium-sized city-regions: San Francisco, Boston, Vancouver, Singapore, Amsterdam,

EXHIBIT 1 | Five Drivers of Global Competitiveness for Developed City-Regions

	Human capital	Business environment	Capital & innovation ecosystem	Global connectedness	Infrastructure
Driver	Ability to build, attract, and retain the world’s best talent	Reliable regulatory and institutional environment where business can thrive	Ability to renew and create new areas of competitive advantage	Presence in global markets for goods, services, information, and people	Foundational building block of physical and digital infrastructure
Weight	30%	20%	20%	15%	15%
Sub-drivers	Demographics Education Livability Social health Natural Environment	Economic health Business processes Cost of doing business	Access to capital Innovation	Movement of goods & people Global business influence	Physical infrastructure Transportation Communications infrastructure

Source: BCG analysis

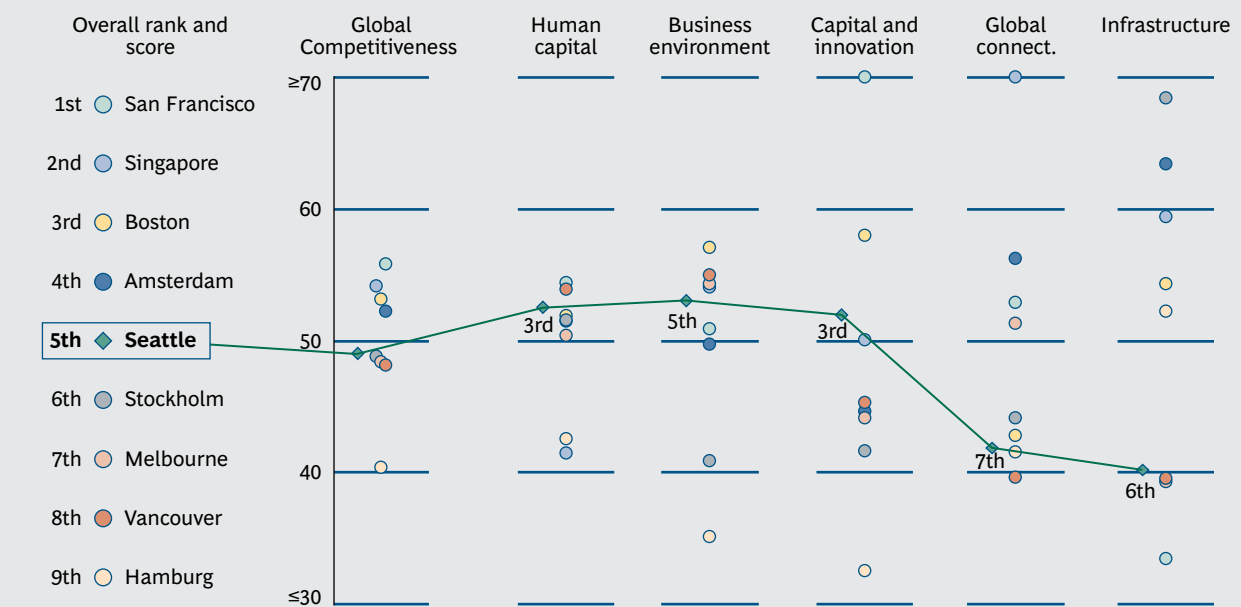
Stockholm, Hamburg, and Melbourne. Overall, Seattle ranks fifth, due to its strengths in human capital and innovation, and weaknesses in infrastructure and global connectedness. (See Exhibit 2.)

Despite significant variance in the underlying drivers, Seattle and the eight peer cities are relatively tightly grouped when it comes to competitiveness. Seattle is solidly mid-pack, but only slightly ahead of Stockholm, Melbourne, and Vancouver in overall competitiveness. Each of these regions is actively addressing competitiveness and developing long-term strategic plans. Given its solid starting point, Seattle can only benefit from a cohesive regional strategy that brings government and business leaders to the table.

Based on the benchmark analysis as well as input from several Seattle-area business leaders, BCG has identified the following areas of focus for the Seattle region:

Education and Social Health. Seattle has one of the nation’s most educated populations, but there is significant variability in high school graduation rates, regardless of per-capita funding levels. Graduation rates in the greater Seattle area vary between 67 and 96 percent, resulting in downstream workforce-quality implications and potential long-term social mobility consequences. Indeed, between 1999 and 2009, Seattle’s Gini coefficient, a measure of income inequality, increased from 0.39 to 0.44, due in part to the erosion of middle-income households. This increase in inequality is 80 percent larger than what New York City experienced over the same time frame.

EXHIBIT 2 | Seattle Ranks Fifth Among Peer Cities for Overall Global Competitiveness over More Than 20+ years



Source: BCG analysis

The University of Washington is consistently ranked as one of the world's best research universities, but even so, area employers are experiencing a persistent and growing shortage in the availability of workers with STEM (science, technology, engineering, and mathematics) degrees. BCG, in conjunction with the Washington Roundtable, has estimated that the net shortage of skilled workers in Washington will reach 50,000 by 2017.

To maintain ongoing competitiveness, it is critical that Seattle have an educated and appropriately skilled workforce. The Northwest's striking natural beauty may attract workers to the area, but to meet growing business needs and support high median incomes, Seattle must generate an increasing number of skilled workers.

Employment Dynamics. Seattle-area employment is driven by several major employers. Various estimates suggest that up to 175,000 Washington workers are directly employed by Boeing, Microsoft, University of Washington, and Amazon. Additionally, up to 20 percent of employment in the region may be indirectly due to the multiplier effect of high- and medium-paying jobs created by these companies.

While Seattle must take steps to encourage large employers to come to the region and stay, it must also foster greater economic diversity by encouraging the growth of medium-sized businesses.

Such employment statistics should be a source of both pride and concern for regional leaders. They highlight the tremendous growth and success of Seattle-region businesses, but they also show the region's concentrated reliance on large employers. Seattle must take steps to encourage large employers to come to the region and remain in the region, while simultaneously fostering greater economic diversity by actively attracting and encouraging the growth of medium-sized businesses.

The Innovation Engine. In the five years between 2007 and 2011, Seattle generated approximately three and a half startups per 100,000 inhabitants – second only to San Francisco among the benchmark cities. This high level of startup productivity highlights Seattle's innovative culture, but there are potential warning signs on the horizon. In the last five years, the growth of Seattle startup-generation has slowed and is now falling behind domestic competitors such as Boston and New York. This is reflected in statistics from the National Venture Capital Association, which show Seattle receiving \$890M in 2012 VC funding, which is only one tenth of the amount secured by the San Francisco Bay Area and significantly behind Boston, New York, Los Angeles, and even San Diego.

Innovation is a key component in the generation of new small to medium-sized businesses and a critical aspect of long-term regional adaptability in the face of global competition. Seattle must actively encourage innovation through dedicated support for startup activity, partnership with the business community, and active outreach to VC funding sources.

Transportation Infrastructure. Seattle ranks last of the benchmark cities in transportation infrastructure. Increasing traffic congestion is indicative of the region's heavy reliance on the automobile for commuting. Despite a regional bus system and new light rail, only eight percent of the population commutes by public transportation. Even with relatively short commuting distances, Seattle-area residents spend an average of 35 hours per year stuck in traffic. Eight key regional corridors,

such as the I-405 through Bellevue and I-5 in Seattle, rank among the countries worst, according to traffic data published by Intrix.

Cities such as San Francisco, Vancouver, and Singapore have invested in expansive regional rail systems, while others such as Amsterdam and Stockholm encourage commuting by bicycle or on foot to limit the impact of congestion.

Continued congestion will limit Seattle's ability to support businesses and attract and retain the best human capital. Whether through regional rail, increased road capacity, or other investments, political leaders in the greater Seattle area must develop a cohesive regional transportation strategy to avoid growth-limiting gridlock.

Competitiveness Imperative

Specific policy recommendations can highlight what must occur, but Seattle faces the broader challenge of how to move forward. Many of the issues raised during interviews with local leaders and highlighted by the benchmark study are well known to Seattle-area residents and have been discussed for years. Yet action is still elusive. To move forward, leaders in the greater-Seattle region must pivot their focus toward coordinated action. BCG has identified five competitiveness imperatives that Seattle-region leaders must address to make sustained competitiveness progress. (See Exhibit 3.)

- *A Regional Vision and Strategy for the Future.* Develop a coordinated strategy that cuts across city and municipal boundaries and tackles regional issues such as transportation and business investment.



With limited resources and time, leadership must be willing to make decisions that will be unpopular with some interest groups and constituents.

- *Strong Leadership with the Ability and Courage to Make Tough Decisions.* Effective leadership requires prioritization and direct action. With limited resources and time, leadership must be willing to make decisions that will be unpopular with some interest groups and constituents.
- *Business Leaders Actively Engaged in Shaping the Region's Future.* Business leaders must take an active role in addressing regional issues through direct political engagement and business-led organizations. They must identify opportunities to build cross-business partnerships and invest in setting the regional agenda.
- *Active Management of the Talent Pipeline.* Build, attract, and retain the best human capital. Invest in K-12 and university education and ensure that the number of STEM graduates meets the growing needs of local businesses. Build private/public outreach programs to attract the best domestic and international talent.
- *Targeted Engagement with the Global Business Community.* Create a compelling global identity for the Seattle region. Invest in programs and incentives that promote emerging Seattle-region businesses internationally, and encourage foreign investment in the region.

SEATTLE IS A sophisticated, diverse, and vibrant international city with the potential to become one of the best medium-sized economies in the world. However, it will require focused leadership, ongoing investment, and adaptability in the face of increasing global competition. Seattle's future will be bright, but only if business and government leaders choose to overcome emerging challenges to its competitiveness.

NOTES

1. Brookings Institute: "The 10 Traits of Globally Fluent Metro Areas."
2. "The Metropolitan Revolution: How Cities and Metros are fixing our Broken Politics and Fragile Economy"
3. While many studies compare narrowly defined metropolitan regions, we believe that competitiveness is best measured at the city-region level to fully capture relevant resources and dynamics.

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