BABSON COLLEGE
2020 BCERC DOCTORAL CONSORTIUM
Research Translation Showcase

Setting Your Start-Up For Success: Building A Strong Foundation By Choosing The Right Location

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It is a well-known fact that most startups will fail. While the media is full of advice on what you need to avoid failure, most of this advice does not take into consideration how the location of a startup can increase new firm survival. Yet, whether you are a physical place or an online business, the location of your startup can play a fundamental role in the success of your business.

An average business in a premium location can be more successful than a top business in an average location. Yet, a premium location comes with a high sticker price. It is estimated that businesses located in large urban core areas pay up to a 30 percent premium in nominal wages for workers and pay higher rent.[i] The high wages and input prices of large urban areas make it costlier to operate a given business in these locations and have been linked with high new firm failure rates across all the industry sectors—including manufacturing and services in both high-tech and conventional sectors.[ii]

Does it mean that as a young start-up looking to grow your business, you should avoid these prime locations? Not necessarily, researchers at Western University in Canada examined the survival rates of new firms in urban areas in the United States found that there are several features in some urban areas that can offset the high operating cost of locating in large core urban areas.[iii] So, if you are in the market for a prime location for your entrepreneurial venture, there are three things that you should keep in mind before committing to any particular location.

Look for areas with innovative capacity:

In the early stages of an entrepreneurial venture, your business like many new firms tend to be resource-constrained. This resource constraint limits your business capability to explore new market niches that can help your business diversify your product/service offering. Location plays an important role in providing the external resources needed for your firm to remain competitive. Locations with higher innovative capacity are characterized by many universities and easy access to top talent.[iv] Being located in these areas means you can increase the likelihood of acquiring talented employees that can make your business more competitive and exploit the knowledge that universities produce.

Many tech companies are well aware of the advantages of locating in these innovative areas to exploit these external resources. But even if your company is not in the high tech sector, locating in areas with innovative capacity can also be beneficial to your firm. For instance, many business schools conduct innovative research in areas such as marketing, operations and finance. Locating your business in areas close to these institutions means you can leverage this external knowledge and adopt these innovative practices that can help you set yourself apart from your competition.

Look for areas with a diversified industry:

Proximity to other businesses in different industries can be of great benefit to your business. Being close to other businesses from different industries could lead to sharing and combining different expertise and capabilities from several different local industries to incorporate new products or services into your business.[v] Take for example the many new product and service creation that has occurred between collaborations between the high-tech industries and services industries. From the creation of smart billboards that use AI that provide targeted advertisements to energy exchange programs powered by blockchain are some examples of these innovative products and services that can occur from combining expertise from different industries. But the creation of new services and products are not limited only to exchanges between high-tech and non-tech industries. The creation of new products or services has occurred among several industries that are non-tech. For instance, collaborations between the food and the music industry have been creating countless business opportunities. From the pairing of wineries with local music artists to rock band bars.

Look for areas that facilitate pivoting:

Many new ventures have to pivot—radically transform what they are about—because their original approach has failed. Pivoting is a last resort strategy that can help salvage your business; however, pivoting must be done with considerable planning and thoughtful execution otherwise pivoting can create a whole new set of survival-threatening troubles. Pivoting is a last resort strategy because it requires not only to deal with an untried new business idea, but also incur into extra costs associated with getting new permits, ensuring your new business complies with existing regulations and making sure you pay all the relevant taxes for your new business. Being in a location with a favorable regulatory environment and ease of doing business can facilitate rather than hinder the survival of your business by enabling to pivot seamlessly to a different business. For instance, during the COVID-19 lockdown of non-essential business, the favorable regulatory environment in London, Canada enabled a venture producing dog biscuits to survive by pivoting its business into the production of bakery goods.[vi] Such a pivot might not have been possible in locations with more stringent regulations in place.

In conclusion, the importance of the location of your business cannot be stressed enough. Locating in areas with higher innovative capacity, greater industrial diversity and areas that facilitate pivoting can significantly increase the survival chances of your venture. Now that you know why location matter, it's time to put the location for your new business at the top of your to-do list.

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