

# Impact of Location on New Startup Ventures

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Does the location of a start up really make a difference in a world dominated by products purchased and delivered via the Internet? Or does location matter.



We studied the culture, infrastructure and ecosystems of our selected Startup Hub Cities: Boston, NYC, Washington DC and Chicago. We analyzed the startup experience in each location in terms of staffing, civic incentives, office facilities, communities, human capital, investment capital, incubators/accelerators, and the area quality of life.

Silicon Valley, undeniably, has a strong legacy of launching successful technology ventures. There is something unique about the energy and culture of the area. But have other US areas gained traction and now offer advantages that are more compelling than those of the “Valley”.

Our working hypothesis was that while there used to be very practical considerations that pulled companies to Silicon Valley, those have significantly dissipated over the past decade. The maturity of the Silicon Valley ecosystem has been counterbalanced by high costs and a narrow culture that doesn't necessarily reflect broad opportunities. In today's global economy, does the non-Valley based startup have advantages.



## ABOUT VIEWPOINTS SERIES™ RESEARCH

Silicon Valley Research Group's Viewpoints Series™ research studies and reports are designed to provide in depth analysis and strategic directions too some of the most important decisions technology executives need to make in their respective fields. We do not seek to replicate or disrupt the work done by syndicated research firms like Gartner, IDC and Forrester. Rather, we delve deeper into the trends using qualitative in-depth interview techniques that typically comprise smaller sample sizes, and long form exploratory conversations versus short form surveys.

Where possible, we include a global panel, working with a great team of simultaneous translators to enable our interviews to take place in multiple languages. One way to view or work is that while the syndicated firm research that defines WHAT (what is the overall trend), we seek to answer the HOW (how the industry is adapting and how are players creating market success).

We carefully select the topic areas for our studies by looking at what is trending in social media and what are some of the questions being asked in technology blogs and discussion forums as well what we learn from attending various conferences and trade-shows. These reports are complementary to those that participate in our studies. In addition, our principal analysts also conduct complementary executive strategy sessions on our research findings to qualified prospective and existing clients and may be arranged by contacting.

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# Executive Summary



1. Most startups, while happy with their location also concede that this is becoming less important. "Anywhere with an internet connection means you are a just a click away from everything you need to start a business".

2. After starting a company, the challenge becomes assembling and retaining the team. It can be more challenging for a new startup in Northern California to compete for talent than in most other locations. However, locations like Washington DC often compete for hiring against the government that is characterized by high wages and a shorter

workweek.

3. Most locations provide a good source of capital although investors are seen as more conservative than their Silicon Valley counterparts. Outside the valley, VCs are often not familiar with the newest technologies or business models and take a more conservative approach to funding these ventures. Therefore many company founders and executives that reside outside the Bay Area spend time in the Valley to meet with Silicon Valley VCs. With the "quicker decision making" VCs indicative of the West Coast, the funding process can be done in as little as 6 weeks according to several interviewees, and 8-10 weeks a common duration.
4. Hiring Talent outside of the Valley was often the number one challenge. There is a shortage of experienced tech workers in general, and front end coders/designers in particular. Lots of talent is often found at major universities (MIT, Harvard...) One advantage to hiring locally is that hiring is less costly compared to Silicon Valley. Engineers tend to be less arrogant outside the valley and less prone to frequently switch companies.
5. Valuations of startups is higher on the West Coast because the Sand Hill VCs are more connected with potential strategic partners that help with the exit strategy or even acquire the startup business. Local VCs are not as connected and less effective in arranging these enterprise relationships that help build higher valuations.
6. Most startup founders establish their ventures where they reside because of their established network of technical talent, experienced mentors, peer entrepreneurs and potential investors. And their new business is often closely aligned with the local area business culture and technology assets. For example, a security software business in



## New York City



Even when the high cost of living is taken into account, NYC is still one of the best cities for startups. Over the past decade, the city has become a hotbed of startup talent with successes like Tumblr, Etsy, and Shutterstock. Today, the city hosts more fast-growing companies than any other in a variety of industries.

Although the largest United States cities are known for their well-established business centers, those looking to start a new business venture should also consider smaller metro areas, which can provide a less competitive climate and access to unique resources and talent. Favorable tax laws and a strong local economy are also important factors to consider prior to

selecting a location to launch a startup

- See more at: <http://www.paychex.com/articles/finance/5-best-cities-for-startups#sthash.vK0iY3jq.dpuf> Founders interviewed were already located in NYC area before starting new venture. Startups in NY find synergy with similar tech companies based in NYC ( AOL, Double Click, ...).

The culture differences between NY and Silicon Valley companies are striking. NYC has cultural focus on business and business analytics vs the technology centric culture of the Valley. NYC lacks the engineering Prima Donna often found on the West Coast. The start up mentality/descriptors: Energetic, striving, "failure is not an option".

A couple of years after the Internet bust, NYC ( aka Silicon Alley) began making its comeback with the help of NY Tech Meetup and NextNY.

Since 2003, Silicon Alley has seen a steady growth in the number of startups and has joined the ranks of Silicon Valley and Boston as one of the three leading technology centers in the United States. As of 2009, New York's Silicon Alley had become the startup leader in advertising, new media, financial technologies such as MediaMind, Shutterstock, DoubleClick IAC, meetup.com and a slew of web\_2.0 companies.

As of 2013, Google's second largest office was located in New York. Many of New York's 236 fast-growing companies cater to business or retail customers. But the city also offers unique niches for companies like Mark Fisher Fitness, which sell fitness classes to Broadway performers.

"Our founder was in the emerging email industry and he was located in NY. We have maintained our NY headquarters with a large office in CO because of a company acquisition. Also other spinoffs related to our business in NY ( AOL, double click, ...) were located in NY and we have been funded by a major NY investor."



# Boston



Founders typically from that area. More affordable cost of living than Silicon Valley Founders report a strong and unique culture of Boston/New England area. Government incentives for locating in Boston Innovation District are attracting new startups to the Boston area from areas like Cambridge's Kendall Square. Boston is characterized by a very high concentration of top rated Universities including MIT, Harvard, BC, Tufts, and Brandeis, And a plethora of outstanding healthcare facilities ( MGH, Children's Hospital, ...) that serve to attract health related start up ventures.

“ We are based in Boston because we all grew up in Boston. Our lead investors proposed going to the Silicon Valley from a talent perspective. In Boston there exists B2B niche skills in hospital care. And many of our healthcare customers are also located in

Boston. We can apply a high-touch approach when working with our customers locally.”

“We are in Innovation District of Boston. Five years ago this district did not exist. It used to be the Kendall Square area of Cambridge/Boston but the VCs drove up the real estate prices so that now everyone has moved to the Boston Innovation District for startups. This area was funded by state and city government. Boston has done a great job of providing space for us and has built a community center called District Hall for a lot events held there and office space. Some of the government healthcare initiatives are also very effective. There has been a lot of investment by Boston in healthcare.”

Funding Start ups in Boston is more difficult than on West Coast. Boston VCs described as “ conservative” “ slower moving” and “avoid new unproven technologies/business strategies”

## How does Boston compare with Silicon Valley?

“Boston funding was disappointing. It was more speedy on the West Coast. Boston VCs are more conservative and not open to investing in digital health. Boston did not want to be the pioneer on this. We spent 95% of our time for getting funds on the West Coast. There is a more competitive dynamics on the West Coast. Boston VCs did not want to invest in areas not familiar to them. even with healthcare VC's. They were not willing to understand the industry. You do need to understand the business before you invest in a company like us. Lead in last round was located on the West Coast.”



Gaining media awareness in Boston is more difficult than on West Coast. Marquee names in Silicon Valley give it more cache and market buzz compared to locations such as Boston.

## What is the disadvantage of not being in the valley, but rather in Boston?

“Boston struggles with media awareness and market awareness. Many marquee names reside in the valley. In Boston we have the lesser know companies. We have to invest more to get market buzz. We have to invest more in marketing. On the talent side, we have a lot of back end talent but lack the front end engineering talent typically found in the Valley.”



# Seattle



Seattle is also a top city for tech funding with an above-average ratio of startups. The home of Microsoft and Amazon attracts legions of talent that shape the area's overall employee pool, and has enticed other tech giants like Google, Facebook, and Twitter to open engineering offices in the city. Some of the startup incubators in the city include TechStars and Microsoft Ventures, which offers a mentor-driven program for entrepreneurs. -

Start up mentality/descriptors: “Rebel city”-gay marriage, marijuana legal, \$15 min. wage. Easy to rally a team together around a cause” Less individualistic and more co-operative than Silicon Valley

Our findings: Access to capital is a problem: “ Local entrepreneurs like Bill Gates give to charity, but I wish they gave back to start ups.”

One Seattle angel investor characterizes Seattle as follows:

**Pros:**

- Fewer taxes vs. California
- Lower cost of living than Silicon Valley
- Solid talent from MSFT and Amazon

**Cons:**

- Less of a 'workaholic' culture than the Bay Area (which some attribute to success)
- Weak connections to investment capital and risk-averse talent pool compared to the Valley (people go to the Bay Area specifically to take risk, while I'd say people go to Seattle for stable tech jobs)

According to a VC investor “Capital flow to the Northwest — with Seattle being the startup epicenter of the region — has stayed relatively steady while New York and L.A. have seen significant increases. In fact, New York has experienced a whopping 185 percent increase in deals over the past five years. The Pacific Northwest, on the other hand, shows a modest haul in investments while deals are flat. We appear to be stuck in neutral, while other regions are accelerating.”



# Chicago



Overview: Currently, Chicago hosts as many as 104 private companies on the Inc. 5000 (last year, it counted 95), landing second place on the list of Top Cities for Fast-Growing Companies. Of those 104 businesses in Chicago, 38 fall under the IT services sector.

- In a 2015 report from investment firm CBRE, Chicago ranked as the 5th largest and 11th fastest-growing tech market in the country. Over the past four years, the capital city has created more than 40,000 tech jobs. Indeed is a business incubator that currently works with 425 companies and 1,600 clients.

Inc Magazine reports: Of the 104 2015 Inc. 5000 companies based there, business services like Invoyent and the WFC Group have seen particularly fast growth.

Our findings: Difficult and very expensive to hire the right talent. Not enough Technical Talent for technology start ups in Chicago.

A startup executive in Chicago commented: “Being in Chicago, it is hard to find good talent. The problem is breath of talent. A lot of tech companies are located here. ( salesforce, Google). Chicago offers an amazing incubator, 1871, that is doing a good job supporting startups. But talent remains an issue; there is not enough tech talent available. It is extremely competitive hiring people. Hiring is my largest pain point of being in Chicago.”

## The Chicago VC Community

The Chicago VCs tend to use venture debt funding model more often than West coast VCs The VCs are more conservative and risk adverse than West Coast counterparts. Chicago is better for early round Angel investments than funding growth in later rounds.

Another Chicago founder that raised two rounds commented:

“Chicago has become more of a challenge in the later rounds. There are fewer and fewer funds to tap into. California VCs can view the future better for valuing the company and share in the risk. Chicago is the most conservative of all VCs and do not want the risk . They use venture debt models. They have a low tolerance for risk in the scaling of the startups for their growth stage. Chicago area VCs are more tuned to startups with manufacturing and keep a conservative approach with (pure) technology ventures.”

“ In a high growth stage, if we were based in Silicon Valley, we would accept the high cost of talent. Based in Chicago, we are forced to go to second tier cities to find talent at a lower price.”



# Los Angeles



Los Angeles is emerging as one of the biggest startup hubs.

One Angel investor thinks it will eventually surpass New York and Silicon Valley as the tech capital of the world.

"Los Angeles understands people," The investor thinks L.A.'s understanding of what's cool and what's not and how to promote people and products will put them ahead of the pack in the long term.

Some startups in Silicon Beach are becoming important tech companies, and they're attracting a lot of investor dollars. A few have raised more than \$50 million. Most of the companies being founded focus on video, e-commerce or fashion.

A VC investor comments: "So Cal is much less efficient than Northern Cal in its organization. You can find a diamond in the rough and you don't know where great advice and good investment money comes from."

In the past few years, Google, Microsoft, Facebook and YouTube have opened offices on the west side of Los Angeles from Santa Monica south to Venice and Playa del Rey. They are joined by hundreds of startups including Hulu, Demand Media and Snapchat, which nixed a \$3 billion takeover offer from Facebook.

Major Hollywood players such as Walt Disney Co. and Time Warner Inc.'s Warner Bros. have launched startup accelerators to help local tech entrepreneurs. The city of Los Angeles even hired its first chief technology officer, former Qualcomm executive Peter Marx, this year.

"Historically, Silicon Valley has been the center of gravity for tech and startups, but I think more and more, these types of companies can be built anywhere," said a company founder, who moved from San Francisco to Los Angeles with his entrepreneurial partner several years ago.

One accelerator is described as: "The vibe is eclectic. No office-park chic here. Companies allocate ample space for bikes and surfboards so employees can hit the beach after work."

One CEO of a rapidly growing company in Beverly Hills said: "Prices like those are one more reason that less expensive, but still enticing, places such as Los Angeles make sense to tech entrepreneurs", "It's more affordable to live almost anywhere in Los Angeles, and you still get a great variety of life here with an amazing culture, super beaches and great hiking, And the sun is almost always shining. The only thing that remains as a major benchmark for Los Angeles is to give birth to a city-defining company in the same way that Facebook, Google and Apple have defined Silicon Valley, or how Amazon and Microsoft have reshaped Seattle."



# Austin



Austin tech scene is hot. A report from Forbes has named Austin the number one city for tech growth, narrowly beating out Raleigh, North Carolina.

Austin's tech scene has grown by an incredible 73.9 percent — more than any other major city in the United States. There has been a 36.4 percent increase in Science Technology Engineering and Math (aka STEM ) jobs in the city, and there are now just over 86,000 Austonians employed in STEM jobs. Clearly it's a good time to be in technology in Austin.

Just last year Austin tech startups saw almost a billion dollars in funding, and over \$400 million from exits. According to a comparison between Built in Austin's data and historical data from Thomson Reuters, in 2014 Austin startups received 123 percent more funding than the year before.

Even though Austin's tech scene is growing the fastest, in comparison to the Bay Area, we find there are still almost 5 times more people working in STEM jobs in the San Francisco area.

The total funding raised by Austin startups in 2014 was \$993M or 123% higher than the prior year. It was distributed across more than 115 different startups. Dollars from exiting companies was strong in 2014 with over \$437M from 29 acquisitions and 2 IPOs.

Start up mentality/descriptors: Local, pride in own culture-music scene, proud to live here and striving for success.

We found that the Austin quality of life to be a key aspect of locating in this city. The interviewees from Austin wanted to stay local. Techsters and Capital Factory we found to be the key influencers even among more mature start-ups. In comparison to other larger startup Hub cities, we would describe Austin as a smaller, more highly connected community.

Austin Startup Statistics in 2014



# Washington DC



Washington DC is a hotbed of startup activity, particularly in areas related to security, education, healthcare and energy. Many of the city's startups have ties to the federal government, whether because the founders once worked for Uncle Sam, have a potential solution for a big government problem, or both.

Those companies with no direct government ties find the stable economy, highly educated population and revitalized urban core make Washington an ideal spot for launching a company.

There are many accelerators, incubators, co-working spaces and other resources for entrepreneurs in Washington -- as

well in nearby cities in Virginia and Maryland. Many D.C. startups and related organizations got their start in Virginia and Maryland and later move into the city.

There is a large tech community in the DC area. Younger startups gravitate downtown, creating Incubators like 1776 (where 200 tech startups are based) and shared office spaces are also creating micro hubs where startups can get short-term leases; Government contractors and larger commercial tech firms gravitate to 'burbs like the Reston-Herndon corridor to get access to large-block space & access to a more experienced labor pool. There are clusters of startups downtown in areas like Farragut Square, Dupont Circle, throughout the CBD and East End to Chinatown. Locations like Georgetown are starting to attract lots of startups.

DC Metro Area attracts start ups in education and businesses relying on Government as customer or policy maker.

A startup CEO comments on locating in DC: "Our founders lived in DC. There was a conscientious decision to locate in DC. Mayor of DC had a business development executive that attracted startups. DC is a very affluent area with much government largess. Many business have been built around the government. We have one of the highest per capita income with the DC angel investor community."

Another CEO described the advantages of DC: "In the education space, does DC offer advantages. There is a lot of government involvement in education. Most of the DC startups have some kind of government connection. DC startups have involvement with public policy."

We also found:

DC has been revitalized in downtown area. A lot more co working space and living space. Great bars and restaurants. Public transportation is challenging. For example Metro is not available in Georgetown but there are abundant transportation services.



# Market Landscape Comparisons

*Respondents convey the following key benefits of being located in their local area as compared to being in Silicon Valley.*

Customer development is made easier if located places where your target customer resides. Validating your product idea with customers who conveniently live up the street or across town is easier, cheaper and better to ensure ideal product/market fit.

Most startups, while happy with their location also concede that this is becoming less important. "Anywhere with an internet connection means you are a just a click away from everything you need to start a business".

After starting a company, the challenge becomes assembling and retaining the team. It can be more challenging for a new startup in Northern California to compete for talent than in most other locations.

Most locations provide a good source of capital although investors seen as more conservative and less risk taking than Silicon Valley based investors.

Other comments regarding funding by startups interviewed:

"Some entrepreneurs have moved out to SV because of funding. Talent is more expensive out there. Really just being connected to that world is beneficial but not critical to our success."

"Our founder is well connected with access to people and funds. In DC there is a lot of angel investors and successful entrepreneurs that have come into the investment world. Funding is not a problem for us. That is what our CEO does."

"I'm convinced that we're beginning to see a regional 'rise of the rest' as cities like Washington D.C., Denver, Chicago, Atlanta, Raleigh, Cleveland, Detroit and many others experience unprecedented growth in startups," wrote Steve Case in a recent article on startups.

However, there is a consensus that the Bay Area's preeminence will likely continue, fueled by its unique concentration of engineers, entrepreneurs, and risk capital. Silicon Valley and San Francisco are luring many top performers from Wall Street. Google alone has 1,200 employees who formerly worked for large U.S. investment banks, and migration from the Big Apple to California is now at its highest level since 2006.

The general sentiment we found was that in the coming years the engineering-centered Valley is better positioned to seize on the challenges posed by the "Internet of things," including systems for heating and cooling and autonomous cars, as well as biotechnology. In the long run, the Valley's hegemony is threatened not by any one place, but by several locations that offer significant technical expertise, with far lower housing costs. San Francisco is already by far the nation's least affordable metro area. Only 11% of residents making the median annual income can afford to buy a home, according to the NAHB/Wells Fargo Housing Opportunity Index – and the median income in the San Francisco area is a hefty \$100,400. The Valley is not far behind at 21.8%. The high prices throughout the Bay Area has become a concern of tech executives, who fear they will have troubles attracting more experienced engineers and managers.



## Conclusion



Some feel that the effect of founding a startup in Silicon Valley is similar to attending MIT or Stanford. It's not a requirement for success in the tech industry, but it helps. A company moving to the Bay Area will find some unrivaled advantages that are unique to that community.

Silicon Valley has a strong legacy of growing and sustaining tech talent. Technology and the Silicon Valley is like finance and New York. There is something very unique about the

energy and culture of the area—great tech minds are often cultivated in the Silicon Valley and amazing new products are created.

However, the density of technology companies in the Bay Area has led to fierce competition for talented employees, driving up wages and increasing turnover. The density has also contributed to an increasing cost of living, with San Francisco recently surpassing New York as the most expensive city in America in which to rent a one-bedroom apartment.

One start up venture that created an armband for wireless control of technology with gestures and motion, reported that although he admires the culture and energy of Silicon Valley, but does not believe that only one such location can exist.

“I think that there's room for tech companies to push technology forward from all corners of the world. The vibe in Silicon Valley is admirable—it has this incredible culture and energy, attracting brilliant minds and venture capitalists to bring first-class technology to life. It's an important part of tech culture and innovation, and while I'm excited to see the history that continues to be made in that amazing region, I'm also excited to see what we can learn from Silicon Valley and take to other parts of the country.”

The issue of choosing a location to found and grow a startup is not trivial and should be given more than a passing thought. But pragmatic business decisions are made based on needs and available resources—not subjective concepts. While there used to be very practical considerations that pulled companies to Silicon Valley, those have significantly dissipated over the past decade. The maturity of the Silicon Valley ecosystem has been counterbalanced by high costs and a narrow focus on technology opportunities. In today's global economy, the non-Valley based startup may have advantages over the Silicon Valley startup company.



# Impact of Location on Startup Success



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