

STARTUP CITIES

WHY ONLY A FEW CITIES DOMINATE THE
GLOBAL STARTUP SCENE AND WHAT
THE REST SHOULD DO ABOUT IT

Peter S. Cohan

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Startup Cities: Why Only a Few Cities Dominate the Global Startup Scene and What the Rest Should Do About It

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To Robin, Sarah, and Adam.

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About the Author



Peter S. Cohan is Lecturer of Strategy at Babson College. He teaches strategy and entrepreneurship to undergraduate and MBA students at Babson College. He is the founding principal of Peter S. Cohan & Associates, a management consulting and venture capital firm. He has completed over 150 growth strategy consulting projects for global technology companies and invested in seven startups—three of which were sold for over \$2 billion. Peter has written 12 books and writes columns on entrepreneurship for *Forbes*, *Inc.*, and *The Worcester Telegram & Gazette*. Prior to starting his firm, he worked as a case team leader for Harvard Business School

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Introduction

Who I Am and Why I Wrote This Book

I was the poster child for a confused adolescent. In college, I stumbled through a series of seemingly random career aspirations—concert pianist, poet, and architect—before realizing in my senior year that I wanted a career that combined my interests in computers and business strategy. So I set my sights on becoming a strategy consultant to help companies identify, evaluate, and profit from growth opportunities, which I have done in various guises ever since.

Back then, consulting firms hired newly minted MBAs rather than college graduates as they do these days.

While doing graduate studies in computer science at MIT, I met with the director of career counseling at its Sloan School of Management who introduced me to Index Systems, a consulting firm founded by three former Sloan School professors. I found out that consulting firms hired very talented people and provided opportunities for traveling and working on a variety of interesting projects. Index focused on helping managers use technology to boost business performance.

I decided that I was most interested in strategy work so after earning an MBA at The Wharton School, I went to work for Monitor Company, a strategy consulting firm co-founded by Harvard Business School strategy guru Michael Porter. My years there were a supremely intense learning experience. Thanks to what partners saw as a talent for turning Porter's ideas into processes for leading client teams, I was quickly promoted to managing consultant teams. Ultimately, the demanding travel burned me out and I spent the next few years working as an internal consultant in the banking and insurance industries.

In 1994, I took a chance and started my own consulting firm that provided strategy consulting for large high technology companies. This happened at a lucky time in economic history; the Internet was emerging as a major force for business growth. My consulting business boomed, I wrote several books, including *Net Profit*, which made me a regular on TV networks such as CNBC and an in-demand speaker at business conferences around the world. I also began investing in startups; since then, I have funded seven private companies. Three of them were sold for over \$2 billion.

In 2001, I began teaching at Babson College, which *U.S. News and World Report* has ranked the top U.S. entrepreneurship school for the last two decades. After teaching part-time, I became a full-time lecturer in 2014 and was promoted to a Lecturer of Strategy in 2016. I teach MBA and undergraduate courses such as Strategy and the CEO, Strategic Decision Making, Strategic Problem Solving, and Foundations of Entrepreneurial Management. I also created and lead Electives Abroad to Hong Kong and Singapore, Israel, Spain and Portugal, and Paris.

This brings me to why I wrote this book—the idea that despite the wide popularity of the “World is Flat” mindset, when it comes to startups the opposite is true. Namely, where you locate a startup matters, and as you’ll see below, location can make a big difference in whether a startup succeeds or fails.

This topic is of more than academic interest to me. I was born in Worcester, Mass. and come from a long line of entrepreneurs. For example, my great-grandfather started an ice and oil delivery business in the late 1800s. One of my grandfathers started a jewelry retailing business; my other grandfather started and built one of the largest independent accounting firms in central Massachusetts. And with his MIT roommate, Amar Bose, my uncle founded Bose Corporation. While my parents’ generation operated many successful businesses in Worcester, my generation left town to seek our fortunes elsewhere. For example, one of my classmates moved to New Hampshire to start Cabletron Systems, a publicly-traded network equipment maker that was closed in 2013 while another started Acme Packet, a Bedford, Mass.-based, publicly-traded telecommunications equipment maker bought by Oracle that same year, leading to the question of why. More specifically, given that Worcester is the second largest city in New England and that it has 11 institutions of higher learning, why did so many of its most talented people leave town? I began looking into this question when I became a columnist for the local newspaper, Worcester’s *Telegram & Gazette*, in 2011. In May 2013, I hosted an event at Worcester’s DCU Center called the Worcester Startup Common Forum to look into this question and to urge changes that would reverse this leakage of talent.

At the same time, I was interviewing entrepreneurs and investors around the country for my eleventh book, *Hungry Startup Strategy*. In December 2011, I interviewed Kevin Hartz, co-founder of Eventbrite, an event ticket-seller. A graduate of Stanford who earned a Master’s degree from Oxford, Hartz vaguely described something that he called “Silicon Valley’s startup commons.” Likening it to open source software, he described this startup commons as an ecosystem of mentors and young entrepreneurs that could learn from each other and ratchet up the entrepreneurial effectiveness of the region. I thought about this idea and began conducting more interviews focused specifically on developing the elements of what I call here the Startup Common. In so doing, I began to realize that the relative strength or weakness of a city’s Startup Common had a major influence on whether valuable startup talent would be attracted to or repelled from a specific city.

The Startup Common idea was very helpful for my Babson Electives Abroad which addresses three questions:

- Why do some countries attract more private capital flows than others?
- Why is startup activity so concentrated in a small number of cities?
- What makes the difference between the small number of highly successful startups and the rest?

I have written books that address the first and third questions (*Capital Rising*, co-authored with Srin Rangan, and *Hungry Startup Strategy*, respectively). However, while I have published articles about the second, I wanted to investigate it further and *Startup Cities* is the result. This raises another question: who do I think should care about this question and what does this book offer them? Here are some thoughts:

- **Government policymakers:** Provides valuable lessons to city leaders on how to boost regional startup activity based on successful and failed efforts from cities around the world.
- **Entrepreneurs:** Supplies key insights into which criteria they should use to evaluate where to locate critical business functions.
- **Universities:** Equips university administrators and faculty with key insights from the most and least successful cities on how best to spur local entrepreneurship.
- **Capital providers:** Offers capital providers valuable lessons in how to select emerging regions in which to invest with the most attractive returns and how to build networks that supply access to the most promising ventures.

How I Researched the Startup Common

I began researching the Startup Common in 2011. It was an idea that emerged from an interview with the CEO of Eventbrite, one of about 160 startups I interviewed for *Hungry Startup Strategy*. Since then, I have developed the Startup Common concept, conducting many additional interviews to explore how entrepreneurs and investors have approached it. I published several papers on the concept and in 2012 began using the Startup Common concept with students in my Electives Abroad. During our annual visits, I have interviewed entrepreneurs, investors, university leaders, policymakers, and leaders of startup accelerators to deepen my understanding of the Startup Common in these locations.

To write this book, I compared pairs of cities in regions around the world. These pairs consisted of cities like Cambridge, which has enjoyed robust startup success, to Worcester, the second largest city in Massachusetts, which has been less successful. The other city pairs include Beijing and Hong Kong in China, Paris and Lyon in France, Tel Aviv and Haifa in Israel, Stockholm and Lund in Sweden, and Silicon Valley and Los Angeles in California. Within each city, I interviewed entrepreneurs, investors, university leaders, policymakers, and leaders of startup accelerators.

The Startup Common Roadmap

This book presents the findings of this research in two sections.

Part I. Exploring the Startup Common

Chapters 2 through 7 examine more deeply each of the six elements of the Startup Common: pillar companies (Chapter 2), universities (Chapter 3), human capital (Chapter 4), investment capital (Chapter 5), mentor networks (Chapter 6), and values (Chapter 7).

For each of these chapters, Section I covers the following topics:

- Definition of the Startup Common element
- Summary of the chapter's key takeaways for Startup Common participants
- Case studies of successful and less successful efforts to use the Startup Common element to spur startups
- Lessons learned from the cases about what to do and what to avoid
- Questions to spur action by Startup Common participants
- Conclusion

Part II. Implications for Cities

This second section of the book consists of its concluding chapter in which I summarize the key insights from the preceding chapters to help cities boost their economic growth.

In Chapter Eight, I do the following:

- Summarize key insights from Chapters 2 through 7
- Supply case studies of cities that have revived their economic growth by applying some of these insights

- Draw lessons from the successes and challenges presented in the case studies
- Present a methodology for leaders seeking to strengthen their Startup Common

If you want to do more to boost your city's economic vitality, turn the page to get started.