



WHAT DO THE BEST ENTREPRENEURS WANT IN A CITY?

Lessons from the Founders of America's
Fastest-Growing Companies

a report from:

endeavor
INSIGHT

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We believe that the magic formula for attracting and retaining the best entrepreneurs is this: a great place to live plus a talented pool of potential employees, and excellent access to customers and suppliers.



EXECUTIVE SUMMARY

The founders of high-growth companies are among the most important job creators in the world. In order to learn how cities can attract and retain these entrepreneurs, Endeavor Insight conducted surveys and interviews with 150 founders from some of the fastest-growing companies in the U.S. Our initial analysis identified two interesting patterns:

- **The vast majority of entrepreneurs in our study started their companies in metropolitan areas with at least one million residents.**
- **These entrepreneurs are highly mobile as young adults, but once they launch a company in a specific city they are very likely to remain there.**

In light of these facts, we asked the entrepreneurs why they chose to start their companies in the respective cities where they did so. Their responses revealed four lessons on what leads these founders to establish businesses in certain cities and not others:

- **Entrepreneurs at fast-growing firms usually decide where to live based on personal connections and quality of life factors many years before they start their firms.**
- **These founders value a pool of talented employees more than any other business-related resource that cities can offer.**
- **Access to customers and suppliers is the second most valuable business-related resource that cities can provide, according to these entrepreneurs.**
- **The founders in our study rarely cite low tax rates or business-friendly regulations as reasons for starting a business in a specific city.**

This report was created by Rhett Morris in December 2013. He wishes to thank John Bowman, who conducted research surveys and interviews for this project, as well as Fernando Fabre, Mike Goodwin, and Joanna Harries who provided critical input and feedback. This research was inspired by "The Ascent of America's High-Growth Companies" series of publications released by the Kauffman Foundation in 2012. For additional information on this research, please contact Rhett Morris at rhett.morris@endeavor.org.

INTRODUCTION

The founders of high-growth companies are important job creators. They tend to start their firms in cities and rarely relocate them.

Research shows that a relatively small number of fast-growing firms have the ability to create a large number of new jobs. For example, between 1994 and 2006, the fastest-growing American companies represented less than 3% of all firms, but generated almost all U.S. employment and revenue growth.¹

In order to learn how cities can attract and retain the best entrepreneurs, Endeavor Insight conducted surveys and interviews with 150 entrepreneurs who lead some of America's fastest-growing firms. The companies of these entrepreneurs were listed on the Inc. 500 list of fastest-growing U.S. firms in 2010, 2011, or 2012. At the time they were included on the Inc. 500, the companies had an average of approximately 100 employees and \$20 million in annual revenues, and each had experienced revenue growth of more than 600% during the previous three years.

These companies work in dozens of different industries and are located everywhere from Portland, Maine to Los Angeles, California. They include media companies in Chicago and San Francisco, software companies in Atlanta and Boulder, and food and beverage firms in Seattle and New York. Some are only a few years old, while others have existed for more than a decade.

Most of the entrepreneurs who lead these companies live in cities. About 40% of our respondents live in the ten largest metropolitan areas of the country, each of which have 4.5 million or more residents. An additional 40% live in other metropolitan areas with populations between 1 and 4.5 million.

Previous research from the Kauffman Foundation has shown that the founders of Inc. 500 companies are highly mobile as young adults. Seventy-five percent of these entrepreneurs started their company in a different city from the one where they received their final university degree.² However, our analysis shows that after an entrepreneur launched her company in a city, she rarely relocated the firm to a new metropolitan area. Nearly 90% of the entrepreneurs in our study (131 out of 150) continued to locate their companies in the individual cities where they were founded.

We analyzed the responses of these 131 entrepreneurs in order to identify the factors that enable cities to attract and retain entrepreneurs who create fast-growing companies. The next pages share four important lessons for local policymakers and business leaders.



LESSON #1

Entrepreneurs at fast-growing firms usually decide where to live based on personal connections and quality of life factors many years before they start their firms.

- Key findings:**
- 80% of entrepreneurs had lived in their city for at least two years before founding their company.
 - Close to half of respondents cited their current residence as a factor in deciding where to launch their company.

As the introduction noted, entrepreneurs who lead fast-growing firms are highly mobile during their young adult years. However, our research identified an interesting trend: most of the founders in our study moved to their current city many years before they decided to start their company. Eighty percent of the entrepreneurs we surveyed had lived in their city for more than two years before founding their business, and the typical respondent had lived in his city for over seven years before starting his firm.

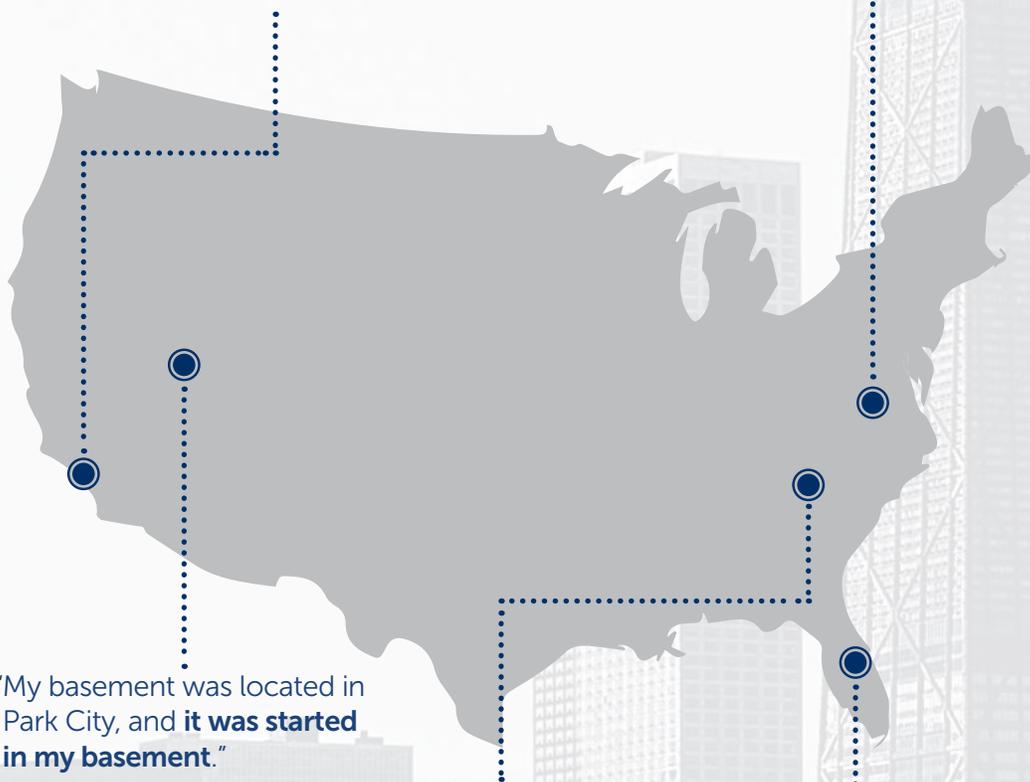
The most common reason cited by entrepreneurs for launching their business in a given city was that it was where they lived at the time. The entrepreneurs who cited this reason usually mentioned their personal connections to their city or specific quality of life factors, such as access to nature or local cultural attractions, as the quotations on the opposite page illustrate. Interestingly, quality of life factors were also cited frequently by the entire sample of entrepreneurs that we surveyed. One out of every five respondents discussed these factors as important criteria in deciding where to launch their companies.

SELECTED QUOTATIONS FROM SURVEYED ENTREPRENEURS

Why did you choose to found your company in the city where you did so?

"I was able to place my office two blocks from my house, and one block away from the school my wife teaches at and my children attend."

"I already happily lived here. I also had a good feeling that Richmond was where I was planning to stay for the foreseeable future."



"My basement was located in Park City, and it was started in my basement."

"I lived here prior to starting my business. Asheville has a great quality of life, including a vibrant downtown, beautiful nature, and a good community for raising a family."

"I have lived in Orlando for many years, so it just made sense to start the company here."

Source: Endeavor Insight Survey of Fast-Growing U.S. Entrepreneurs, 2013. Quotations are drawn from respondents who cited their current residence as a factor in deciding where to found their company.

LESSON #2

Founders of high-growth companies value a pool of talented employees more than any other business-related resource that cities can offer.

- Key findings:**
- 31% of founders cited access to talent as a factor in their decision on where to launch their company.
 - 20% of entrepreneurs who cited access to talent specifically mentioned the availability of technically skilled employees.

Though our respondents often emphasized the personal factors that influenced their decisions, their responses also highlighted specific business-related resources that entrepreneurs need to build a successful company. Almost one-third of the entrepreneurs we surveyed cited access to talent as a factor in determining where to start their companies. In fact, a local pool of employees was the most frequently mentioned business-related resource among the founders in our study.

Technical employees are particularly important to these entrepreneurs. One out of every five entrepreneurs who cited access to talent specifically mentioned technical professionals, such as engineers and software developers. Healthcare workers, marketing professionals, and management talent were also mentioned by multiple respondents in our study. A number of founders also highlighted the link between the ability to attract talented employees and a city's quality of life.

SELECTED QUOTATIONS FROM SURVEYED ENTREPRENEURS

Why did you choose to found your company in the city where you did so?

"Employees want to live and work here. We knew that when we moved here and later started the company."

"Human capital is the most essential common ingredient of all startups...We had to tackle technical and financial challenges. New York City was the only place that offered **outstanding resources for both.**"

"San Diego has a wonderful blend of tech talent coming out of Qualcomm, the defense contractors, and especially UCSD."

"It's a great place to recruit local talent and great place to invite other potential employees to move to."

"I chose Boston because of the cultural life: symphony, colleges, theater, beautiful architecture, etc. **These things attract the kind of intelligent people we'd like to employ.**"

Source: Endeavor Insight Survey of Fast-Growing U.S. Entrepreneurs, 2013. Quotations are drawn from respondents who cited access to talent as a factor in deciding where to found their company.

LESSON #3

Access to customers and suppliers is the second most valuable business-related resource that cities can provide, according to the founders of rapidly expanding firms.

- Key findings:**
- Approximately one in five entrepreneurs cited access to clients and suppliers as a factor in deciding where to launch their company.
 - Twenty-one percent of respondents in our study cited geographic factors, such as proximity to other large population centers.

Access to talent was not the only business-related resource mentioned by the entrepreneurs in our study. Nineteen percent of the respondents also cited access to markets, in the form of clients or suppliers, as a factor in their decision to locate their company in the specific city where they did so. This response was most common among entrepreneurs leading companies that sell to other businesses, rather than individual consumers.

The importance of access to customers and suppliers can also be seen among founders who highlight the availability of local transportation options that make it easier to reach other markets. These include both airports and highways. Twenty-one percent of respondents in our study cited factors such as these, or general proximity to other large population centers.

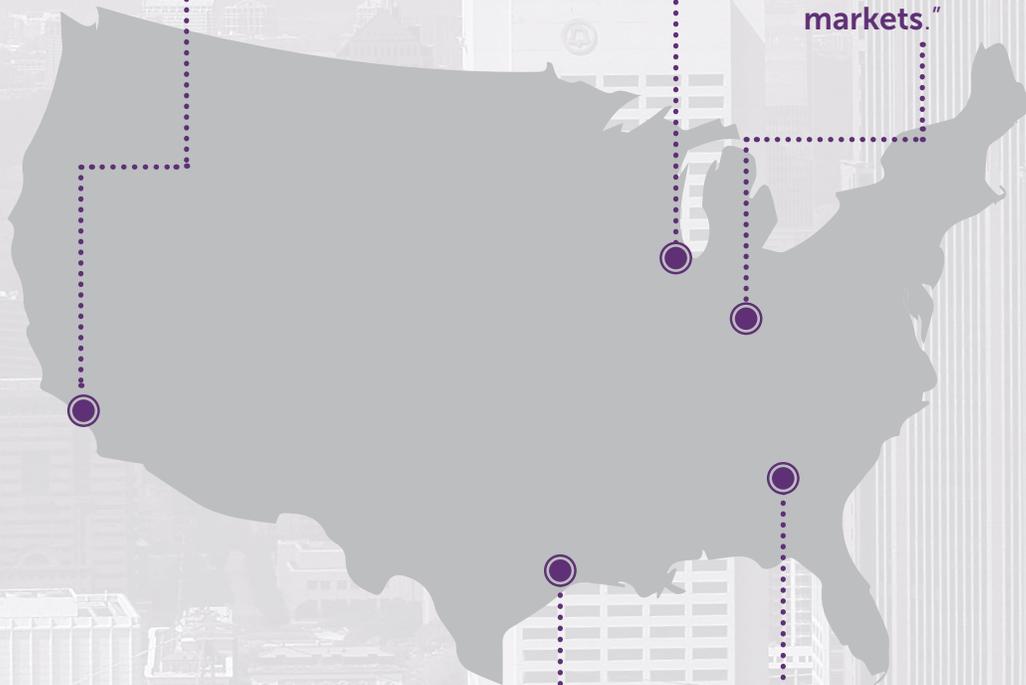
SELECTED QUOTATIONS FROM SURVEYED ENTREPRENEURS

Why did you choose to found your company in the city where you did so?

"Studios, such as Disney, Warner Brothers, and Dreamworks, are **our customers and are in or near Burbank**...we also manufacture and many of our vendors are in Burbank."

"**Central location.** We are able to meet with anyone in the United States at 9 a.m."

"It's located in the Midwest making it **closer to many markets.**"



"Houston is the **global hub for many clients** in the oil and gas industry."

"Atlanta is appealing because **there are a lot of companies** we can provide our services to in a variety of industries."

Source: Endeavor Insight Survey of Fast-Growing U.S. Entrepreneurs, 2013. Quotations are drawn from respondents who cited access to clients and suppliers as a factor in deciding where to found their company.

LESSON #4

Entrepreneurs who lead fast-growing companies rarely cite low tax rates or business-friendly regulations as reasons for starting businesses in a specific city.

- Key findings:**
- Only 5% of entrepreneurs cited low tax rates as a factor in deciding where to launch their company.
 - Only 2% of respondents mentioned business-friendly regulations or policies when discussing why they founded their company in a specific city.

While it is important to focus on the factors that entrepreneurs cited most frequently, we should also take note of what entrepreneurs did not mention. Two factors that are often discussed by policymakers and business leaders — low tax rates and business-friendly regulations — were mentioned only a handful of times in our surveys and interviews. In fact, words related to specific quality of life factors, such as “park” and “restaurants,” were discussed more frequently than terms related to taxes and regulations, as the list on page 13 illustrates.

All of the entrepreneurs in this study lead fast-growing companies in the U.S. and therefore operate under relatively similar regulatory policies and taxation codes. We believe that the lack of discussion of these factors indicates that marginal differences in these areas at the state or municipal level have little influence on great entrepreneurs’ decision-making processes.

MOST COMMON DESCRIPTIVE WORDS IN ENTREPRENEURS' RESPONSES LISTED IN DESCENDING ORDER OF FREQUENCY

Why did you choose to found your company in the city where you did so?

talent	airport	stay
lived	building	traffic
home	center	universities
people	day	wife
community	local	world
live	near	balanced
years	park	basement
living	professionals	beautiful
close	restaurants	chamber
cost	technology	cheap
family	travel	country
town	ability	diverse
employees	affordable	draw
office	attract	drive
proximity	build	enterprise
tech	businesses	facilities
clients	capital	grew
companies	central	highways
space	choice	hours
work	culture	house
college	global	impact
quality	graduated	income
school	growing	medicine
time	industries	members
life	industry	mortgage
pool	market	mountains
residence	schools	national
back	services	network
grow	tax	opportunities
hub	girlfriend	parents
move	homes	program
moved	honest	vendors
reasonable	job	weather
rent	media	working
resources	opportunity	young
		zone

Source: Endeavor Insight Survey of Fast-Growing U.S. Entrepreneurs, 2013. Note: Non-descriptive words, such as "like," "also," and "first," have been removed from this list. Responses were drawn from the 131 entrepreneurs who continued to locate their individual companies in the cities where the firms were founded.

CONCLUSION

Cities that wish to foster high-growth entrepreneurship should work to improve quality of life factors, increase the supply of talent, and expand access to clients and vendors.

We believe that the magic formula for attracting and retaining the best entrepreneurs is this: a great place to live plus a talented pool of potential employees, and excellent access to customers and suppliers. According to the entrepreneurs in our study, cities that offer these resources are more likely to benefit from fast-growing companies that create jobs and increase prosperity in their communities.

Evidence supporting this conclusion can be found in Washington, D.C. and New York City, the two U.S. cities that have generated the largest number of Inc. 500 companies according to analysis from the Kauffman Foundation.³ Washington has been ranked as the fifth best city for quality of life in the U.S. and its workforce has a greater percentage of college graduates than any other U.S. metropolitan area.⁴ Access to customers and suppliers is hard to assess with city-level rankings, but it is worth noting that greater Washington ranks among the top U.S. metropolitan areas for the number of local Fortune 500 companies.⁵

New York's performance is quite similar. It is ranked as the sixth best city for quality of life in the U.S.⁶ In terms of its percentage of college-educated residents, it is the number 12 city in the country and, on an absolute basis, New York has more college graduates than any other metropolitan area.⁷ New York also has more Fortune 500 companies than any other metropolitan area in the world.⁸

Though Washington and New York perform quite well in measures that assess the attributes valued by high-growth entrepreneurs, the tax and regulatory environments of these cities are rated quite poorly compared to the rest of the country. The 2012 Business Tax Index ranked Washington D.C. as the worst performing area in the U.S. and the state of New York ranked 48th in the nation.⁹ (Individual cities are not typically evaluated by indices that rank tax and regulatory policies, since most of the differences among locations are due to state-level legislation.)

Though the data from Washington D.C. and New York City supports the analysis in this study, we believe that further research is needed in this area to confirm and deepen these findings and to understand how the importance of these factors might differ in cities outside of the U.S. Our team at Endeavor Insight plans to conduct further research in this area through our work in the Americas, Africa, Asia, Europe, and the Middle East.

ENDNOTES

1. Zoltan J. Acs, William Parsons, and Spencer Tracy, *High-Impact Firms: Gazelles Revisited*, (Washington: Small Business Administration Office of Advocacy, 2008) 2.
2. Kate Maxwell and Samuel Arbesman, *The Ascent of America's High-Growth Companies: Founder Mobility*, (Kansas City: Kauffman Foundation, September 2012) 4.
3. Ibid.
4. Miriam Siscovick, "2012 Quality of Living Worldwide City Rankings," 4 Dec 2012, Mercer.com, 6 Nov 2013 <<http://www.mercer.com/press-releases/quality-of-living-report-2012>>; Sabrina Tavernise, "A Gap in College Graduates Leaves Some Cities Behind," 30 May 2012, Nytimes.com, 6 Nov 2013 <<http://www.nytimes.com/interactive/2012/05/31/us/education-in-metro-areas.html>>.
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9. Raymond Keating, *Business Tax Index 2012*, (Washington D.C.: Small Business & Entrepreneurship Council, 2012) 4.

ABOUT US

Endeavor is leading the global high-impact entrepreneurship movement to catalyze long-term economic growth. Over the past fifteen years, Endeavor has selected, mentored, and accelerated the best high-impact entrepreneurs around the world. To date, Endeavor has screened more than 30,000 entrepreneurs and selected 800+ individuals leading 500+ high-impact companies. These entrepreneurs represent over 225,000 jobs and over \$6 billion in revenues in 2012 and inspired future generations to innovate and become entrepreneurs too.

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Endeavor Insight, Endeavor's research arm, studies high-impact entrepreneurs and their contribution to job creation and economic growth. Its research educates policymakers and practitioners and helps them to accelerate entrepreneurs' success and the development of entrepreneurship ecosystems around the world. In 2013, Endeavor Insight joined with the Kauffman Foundation and the World Bank, to co-found the Global Entrepreneurship Research Network.

endeavor INSIGHT

Omidyar Network is a philanthropic investment firm dedicated to harnessing the power of markets to create opportunity for people to improve their lives. Established in 2004 by eBay founder Pierre Omidyar and his wife Pam, the organization invests in and helps scale innovative organizations to catalyze economic and social change. To date, Omidyar Network has committed more than \$669 million to for-profit companies and non-profit organizations that foster economic advancement and encourage individual participation across multiple initiatives, including entrepreneurship, financial inclusion, property rights, government transparency, consumer Internet and mobile. To learn more, visit www.omidyar.com.

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February 2014
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