

Regional Competitiveness Towards an Agenda for London

Professor Michael E. Porter
Institute for Strategy and Competitiveness
Harvard Business School

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This presentation draws on ideas from Professor Porter's articles and books, in particular, The Competitive Advantage of Nations (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in The Global Competitiveness Report 2002, (World Economic Forum, 2002), "Clusters and the New Competitive Agenda for Companies and Governments" in On Competition (Harvard Business School Press, 1998), the *Clusters of Innovation Initiative* (www.compete.org), a joint effort of the Council on Competitiveness, Monitor Group, and Professor Porter and joint research with Christian Ketels on UK competitiveness funded by the Economic and Social Research Council (ESRC). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter.

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Regional Competitiveness

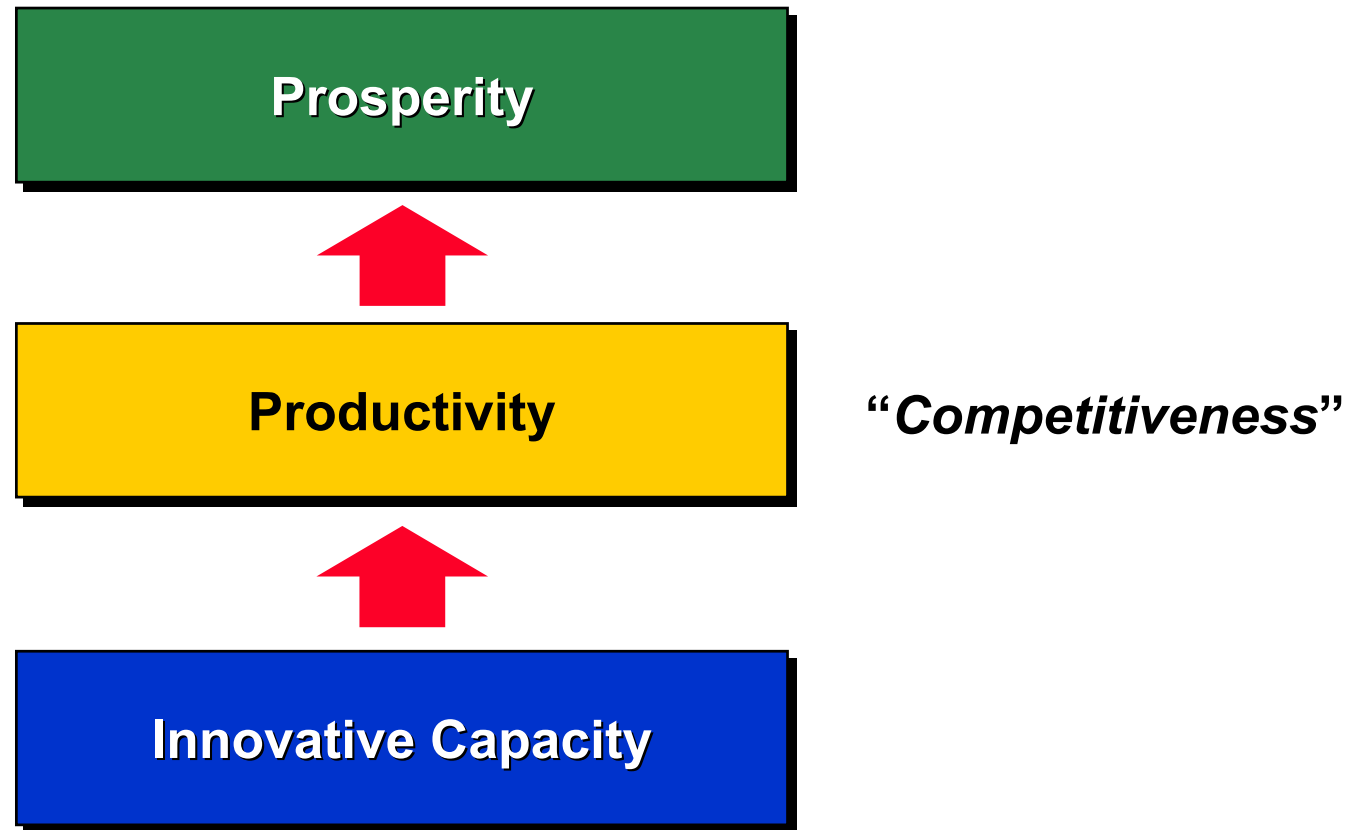
London

- London continues to be one of **most competitive cities** in the global economy, and a core contributor to UK economic performance
 - London has the highest GDP per capita in the UK
 - London has achieved above UK average employment and GDP per capita growth in the last five years
- London's situation **mirrors** some of the key competitiveness challenges facing the UK economy as a whole
 - E.g., infrastructure investments, especially in local transportation
- But London also has a **set of unique issues**
 - E.g., revitalization of inner city neighborhoods
- London can lead the UK in developing a **new type of private-public cooperation** for regional competitiveness

Topics

- **Foundations of regional competitiveness**
- Inner city revitalization
- New roles in economic development

Sources of Prosperity



- The most important sources of prosperity are **created** not inherited
- Productivity does not depend on **what** industries a region competes in, but on **how** it competes
- The prosperity of a region depends on the productivity of **all** its industries
- Innovation is vital for long-term increases in productivity

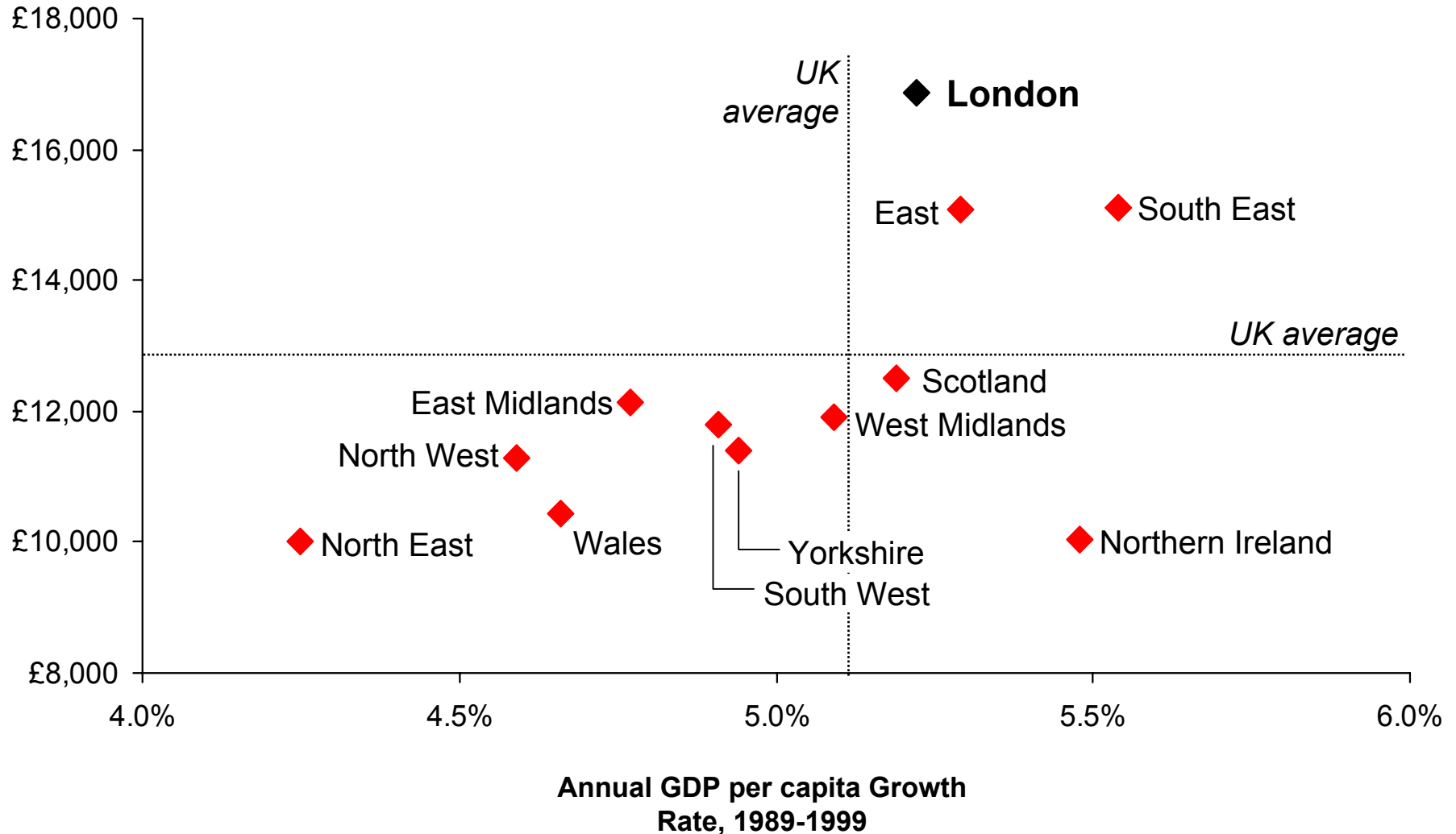
Average Wages and Employment Growth Per Capita Income versus Growth in Employment



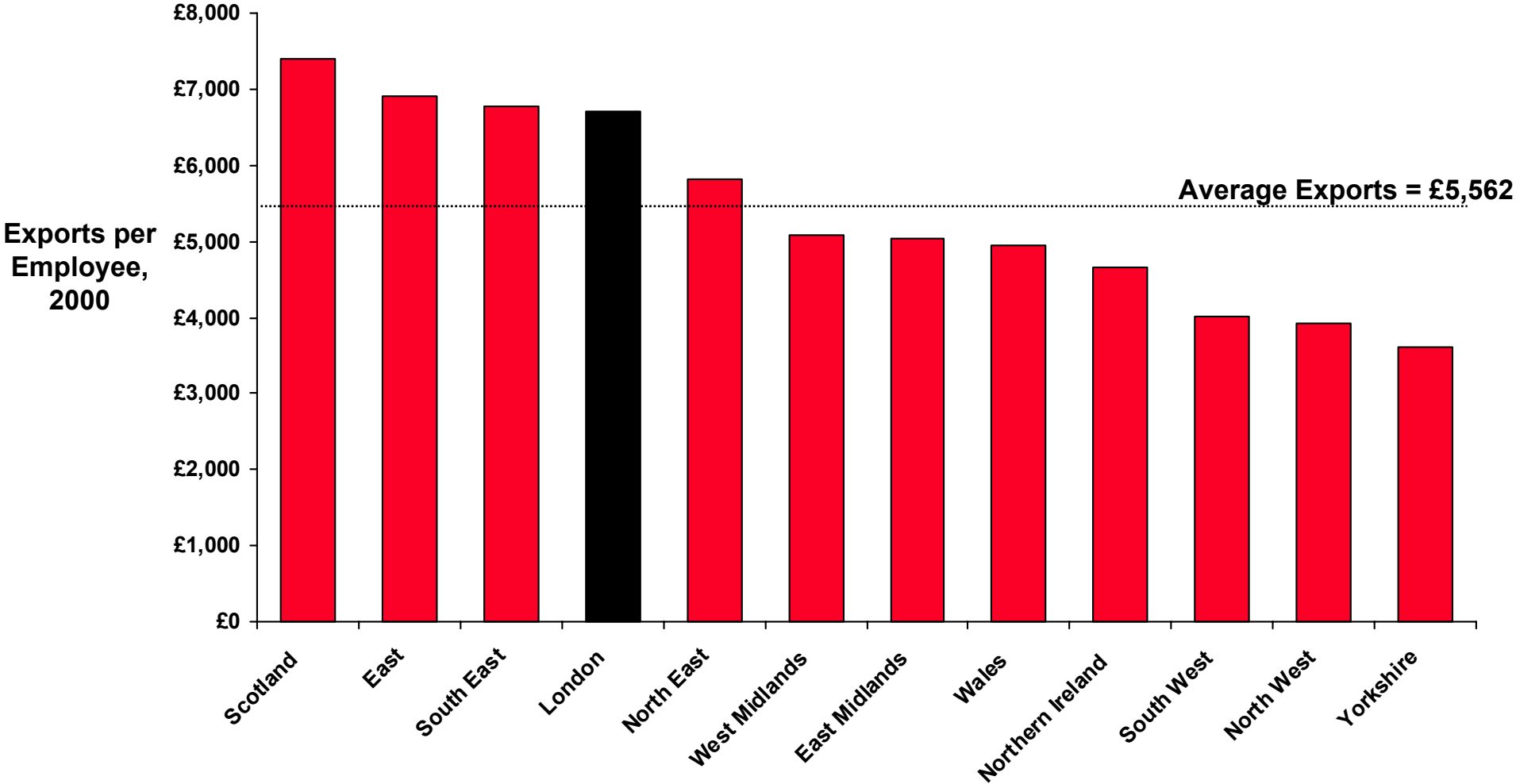
Average Wages and Income Growth

Per Capita Income versus Growth in Per Capita Income

GDP per capita, 1999

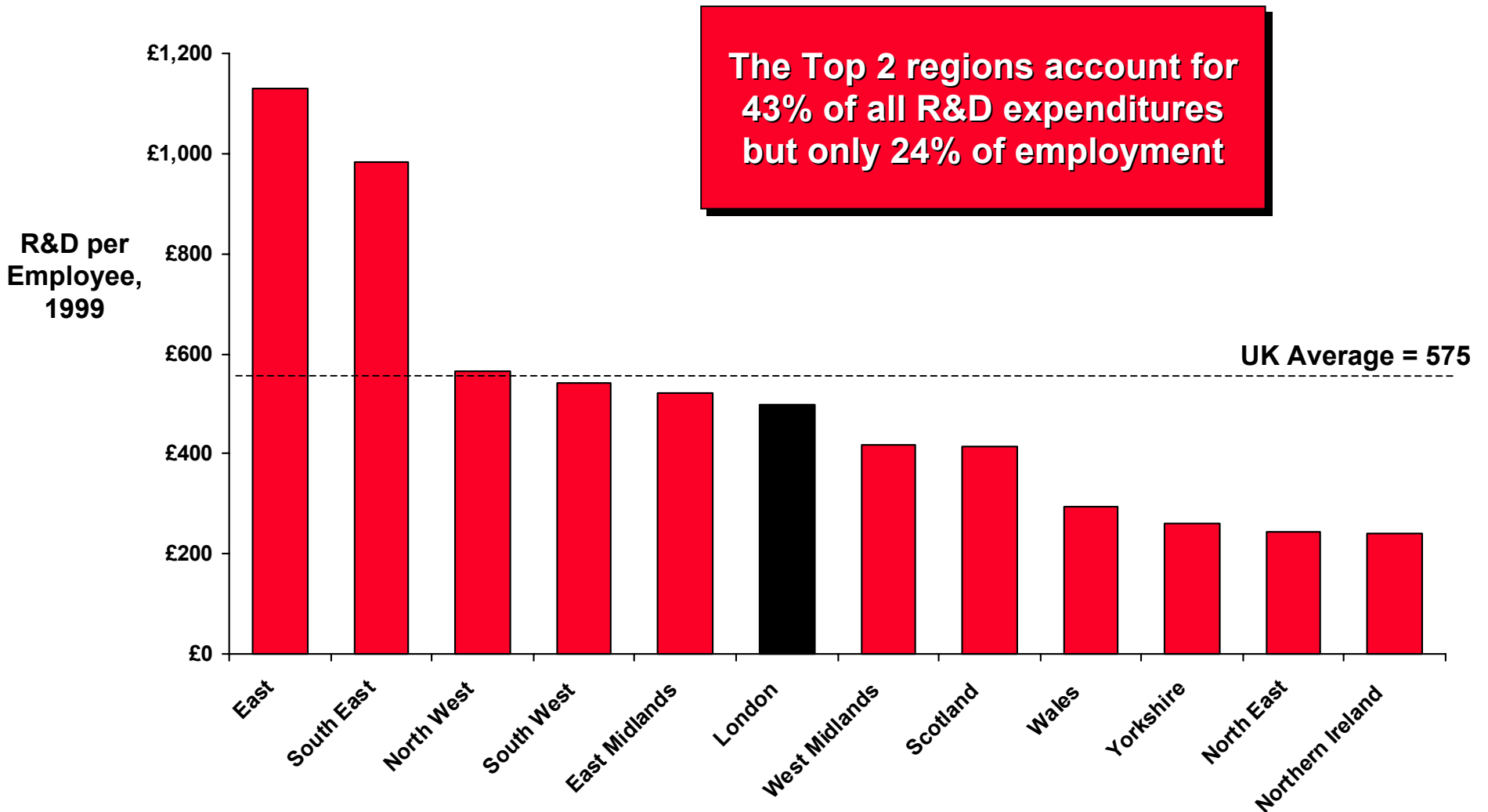


Export Performance of UK Regions



Source: Office for National Statistics

Research & Development Activity of UK Regions



Source: Office for National Statistics; R&D includes business, government, and institutions of higher education

Leading British University U.S. Patent Holders

Total Patents per University, 1996-2000

55.	IMPERIAL COLLEGE OF SCIENCE, TECHNOLOGY & MEDICINE	36
102.	UNIVERSITY COLLEGE OF LONDON	23
102.	ISIS INNOVATION LTD. (OXFORD UNIVERSITY)	23
107.	VICTORIA UNIVERSITY OF MANCHESTER	22
137.	UNIVERSITY OF STRATHCLYDE	16
164.	UNIVERSITY OF SHEFFIELD	13
164.	UNIVERSITY OF SOUTHAMPTON	13
180.	UNIVERSITY OF MANCHESTER	12
213.	UNIVERSITY OF GLASGOW THE, UNIVERSITY COURT OF	10
237.	UNIVERSITY OF BIRMINGHAM	9
237.	UNIVERSITY OF WARWICK	9
261.	UNIVERSITY OF NOTTINGHAM	8
289.	UNIVERSITY COLLEGE CARDIFF CONSULTANTS LIMITED	7
289.	UNIVERSITY OF EDINBURGH	7
289.	UNIVERSITY OF KEELE	7
331.	DE MONTFORT UNIVERSITY	6
331.	ROYAL FREE HOSPITAL SCHOOL OF MEDICINE	6
331.	UNIVERSITY OF LIVERPOOL	6
395.	CAMBRIDGE UNIVERSITY TECHNICAL SERVICES LTD.	5
395.	KING'S COLLEGE LONDON	5
395.	NEWCASTLE UNIVERSITY VENTURES LIMITED	5
395.	UNIVERSITY COURT OF THE UNIVERSITY OF DUNDEE	5
395.	UNIVERSITY OF ABERDEEN	5
395.	UNIVERSITY OF LEEDS	5
395.	UNIVERSITY OF LEICESTER	5

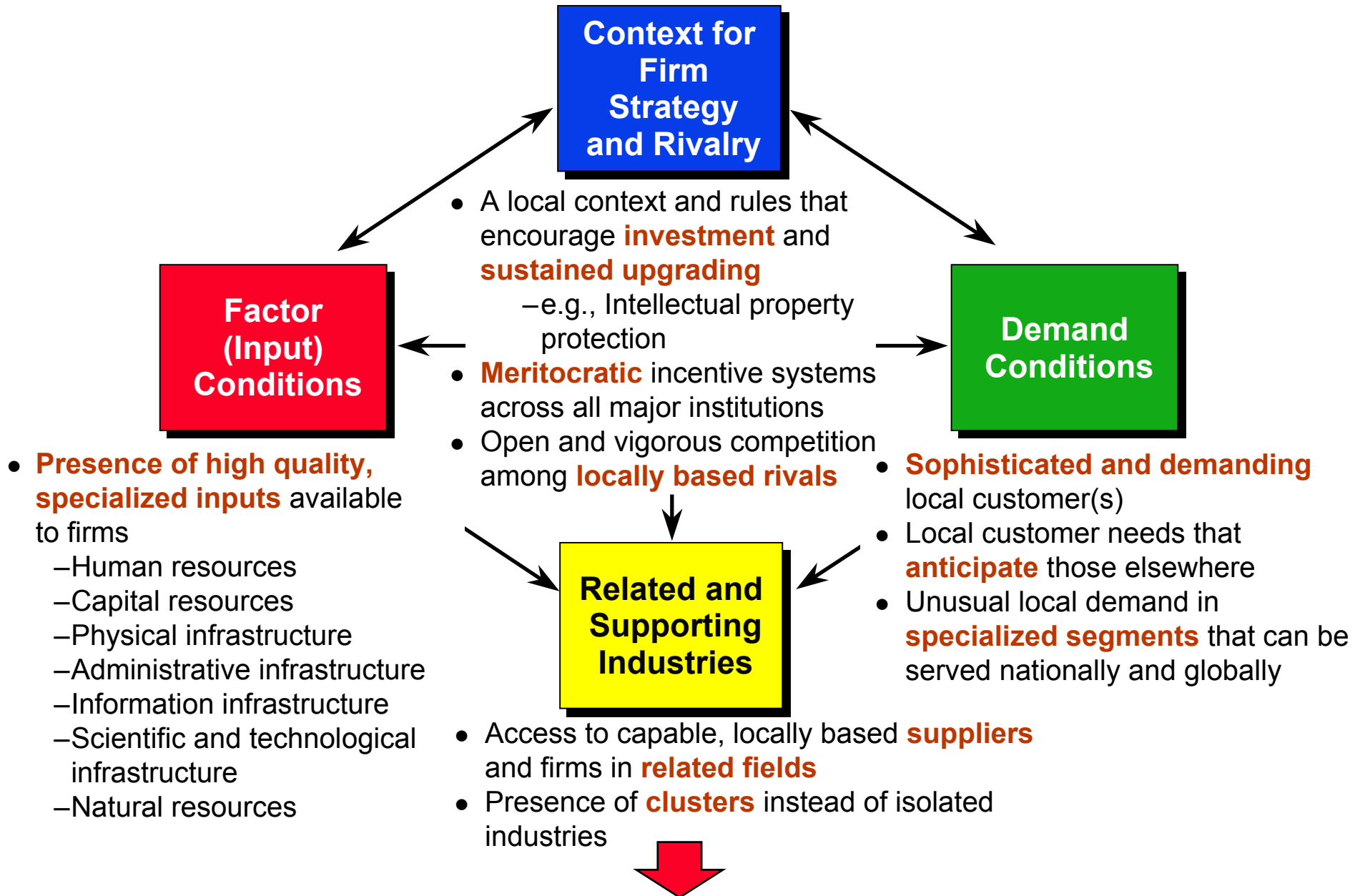
Patents by Organization

Boston Metropolitan Area

	Organization	Patents Issued from 1995 to 1998
1	DIGITAL EQUIPMENT CORPORATION	454
2	MASSACHUSETTS INSTITUTE OF TECHNOLOGY	372
3	POLAROID CORPORATION	224
4	ANALOG DEVICES, INC.	141
5	GENERAL HOSPITAL CORPORATION	138
6	HARVARD COLLEGE, PRESIDENT AND FELLOWS	105
7	GENETICS INSTITUTE, INC.	84
8	BOSTON SCIENTIFIC CORPORATION	82
8	EMC CORPORATION	82
10	MOTOROLA, INC.	80
10	QUANTUM CORP. (CA)	80
12	HEWLETT-PACKARD COMPANY	79
13	DAVIDSON TEXTRON INC.	74
14	GENERAL ELECTRIC COMPANY	72
15	RAYTHEON COMPANY	70
16	SAINT GOBAIN/NORTON INDUSTRIAL CERAMICS CORP.	69
17	CHARLES STARK DRAPER LABORATORY, INC.	66
18	BOSTON UNIVERSITY	65
19	OSRAM SYLVANIA INC.	64
20	BRIGHAM AND WOMEN'S HOSPITAL	62

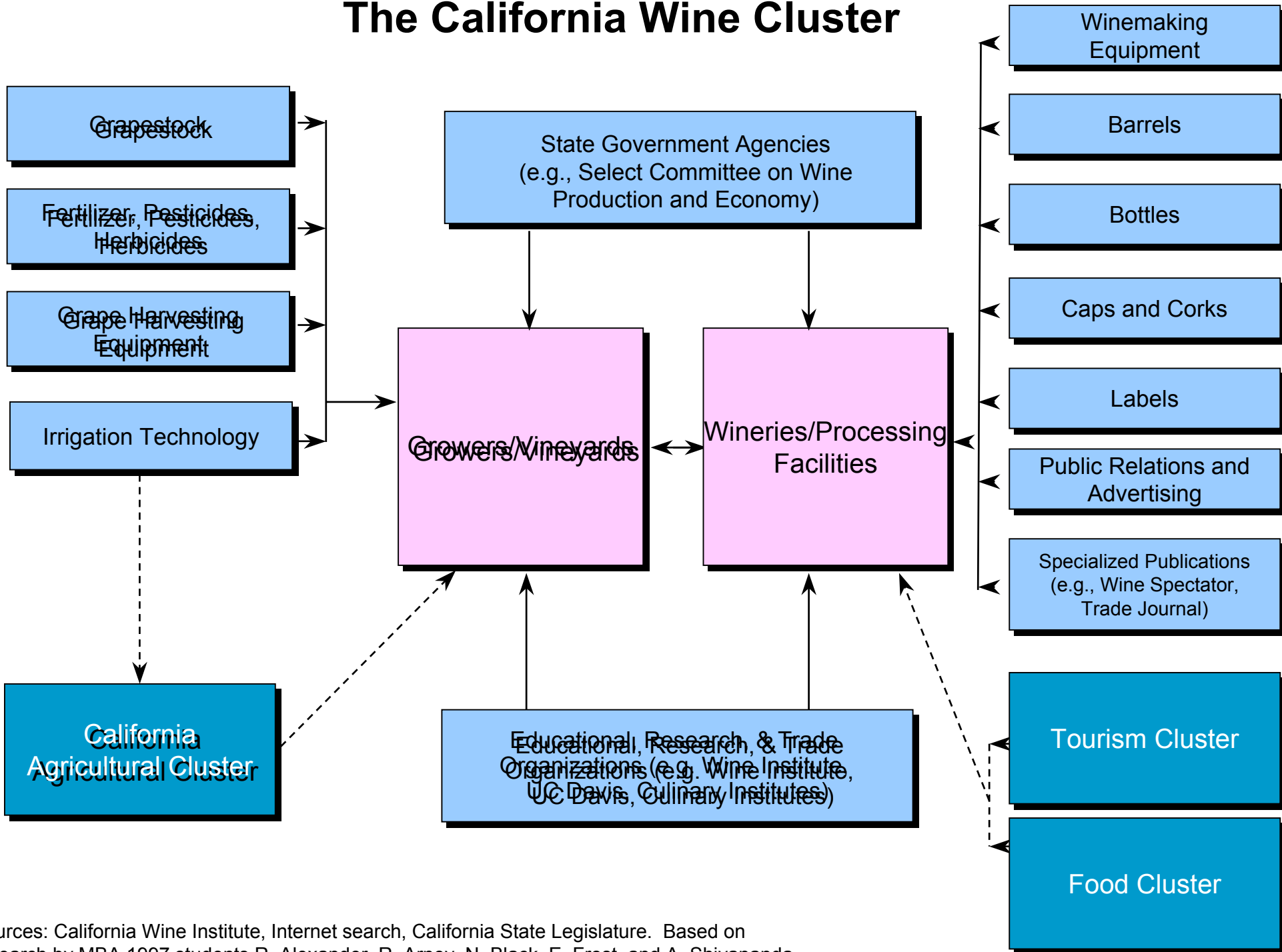
Note: Includes only patents assigned from innovators in the Boston-Worcester-Lawrence-Lowell-Brocktn MA to the organization
Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Productivity, Innovation, and the Business Environment



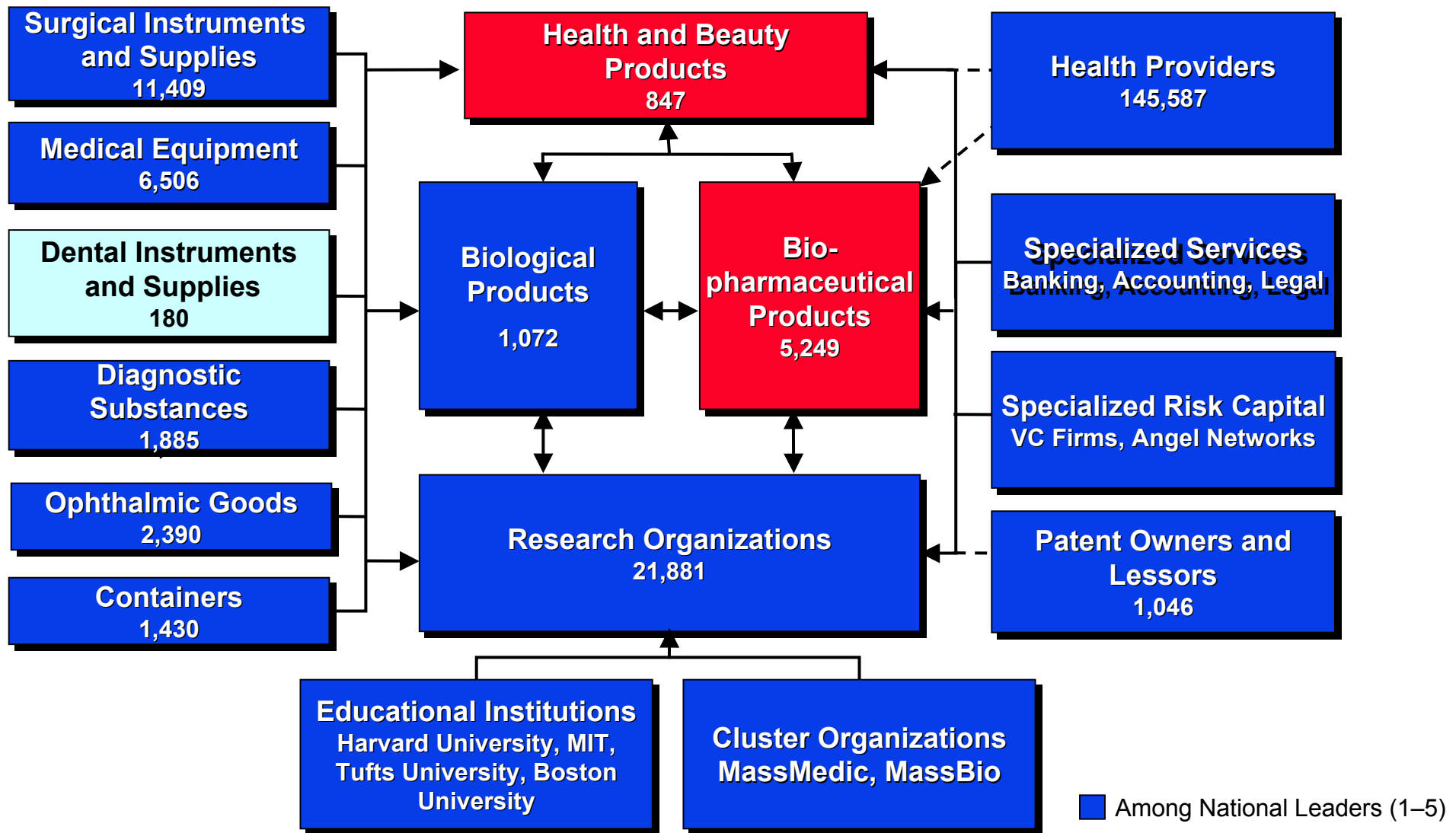
- Successful economic development is a process of **successive economic upgrading**, in which the business environment in a nation or region evolves to support and encourage increasingly sophisticated ways of competing

The California Wine Cluster



Sources: California Wine Institute, Internet search, California State Legislature. Based on research by MBA 1997 students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda.

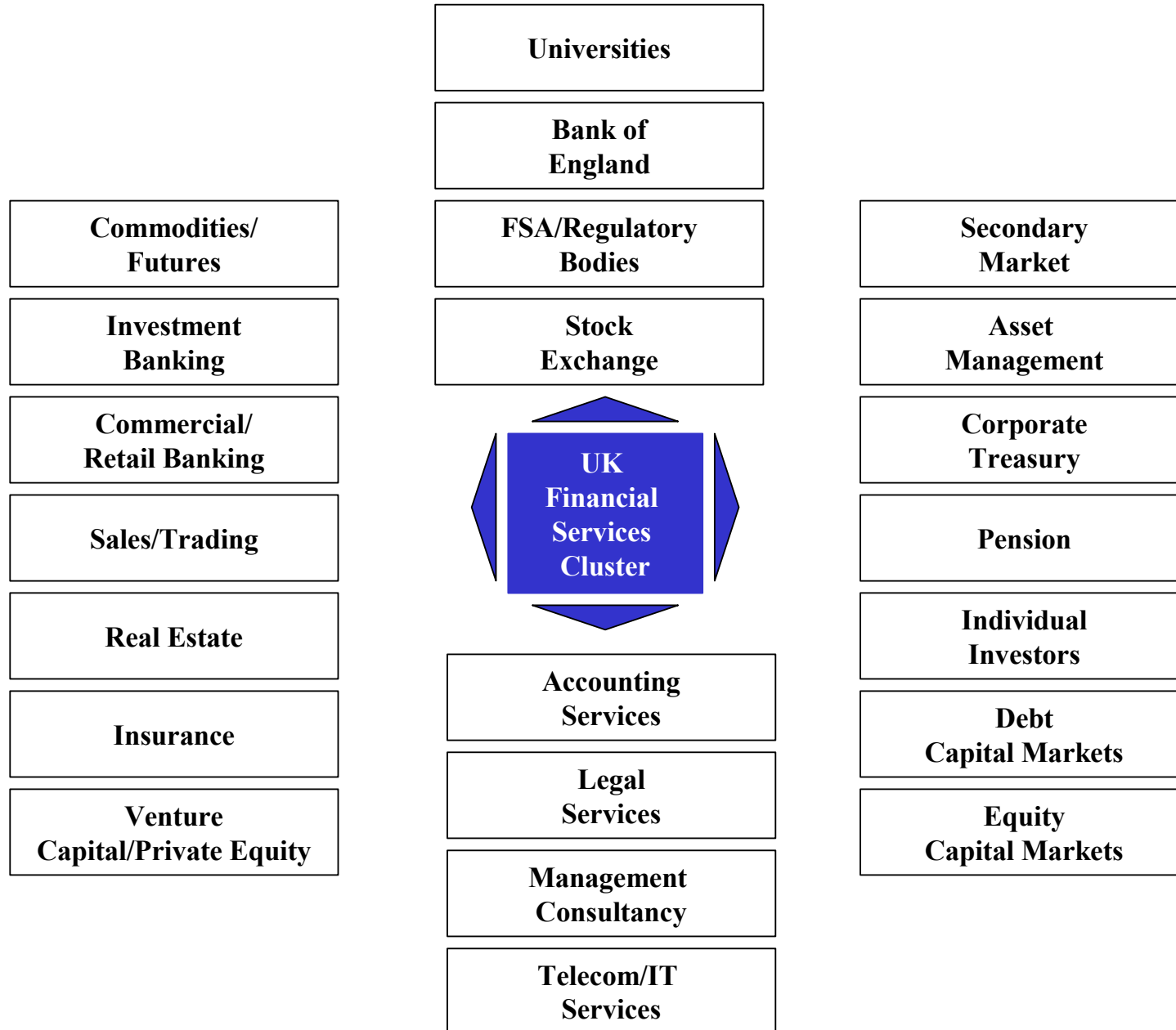
The Boston Life Sciences Cluster



Note: Employment numbers are given inside boxes were available

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

London Financial Services



Institutions for Collaboration

General

- Chambers of Commerce
- Professional associations
- School networks
- University partner groups
- Religious networks
- Joint private/public advisory councils
- Competitiveness councils

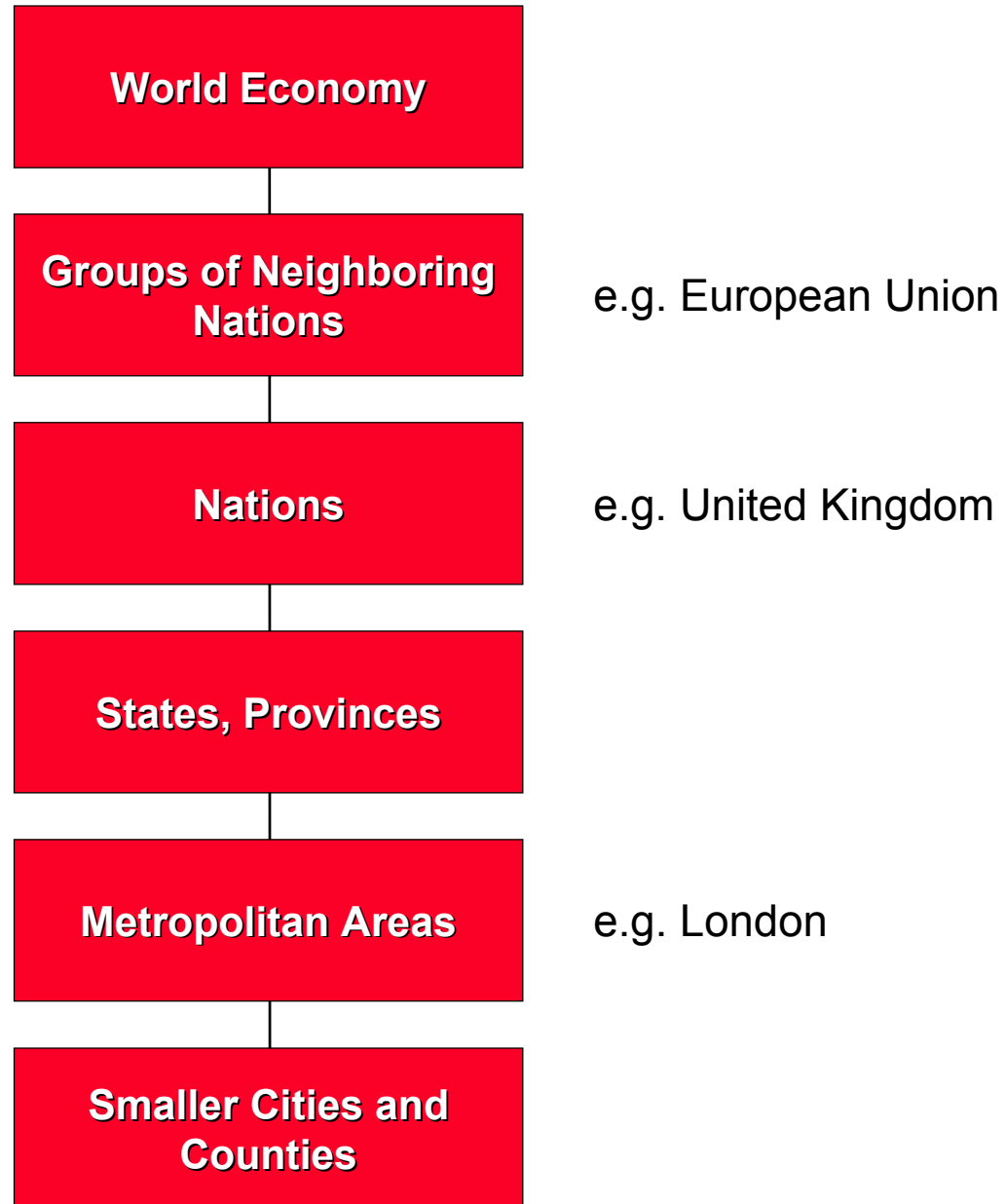
Cluster-specific

- Industry associations
- Specialized professional associations and societies
- Alumni groups of core cluster companies
- Incubators

- Institutions for collaboration (IFC) are **formal and informal organizations** that
 - facilitate the exchange of information and technology
 - conduct joint activities
 - foster coordination among firms
- IFCs can improve the business environment by
 - creating **relationships** and level of trust that make them more effective
 - defining of **common standards**
 - conducting or facilitating the organization of **collective action** in areas such as procurement, information gathering, or international marketing
 - defining and communicating common **beliefs and attitudes**
 - providing mechanisms to develop a common economic or **cluster agenda**

Influences on Competitiveness

Multiple Geographic Levels



Composition of Regional Economies

United States

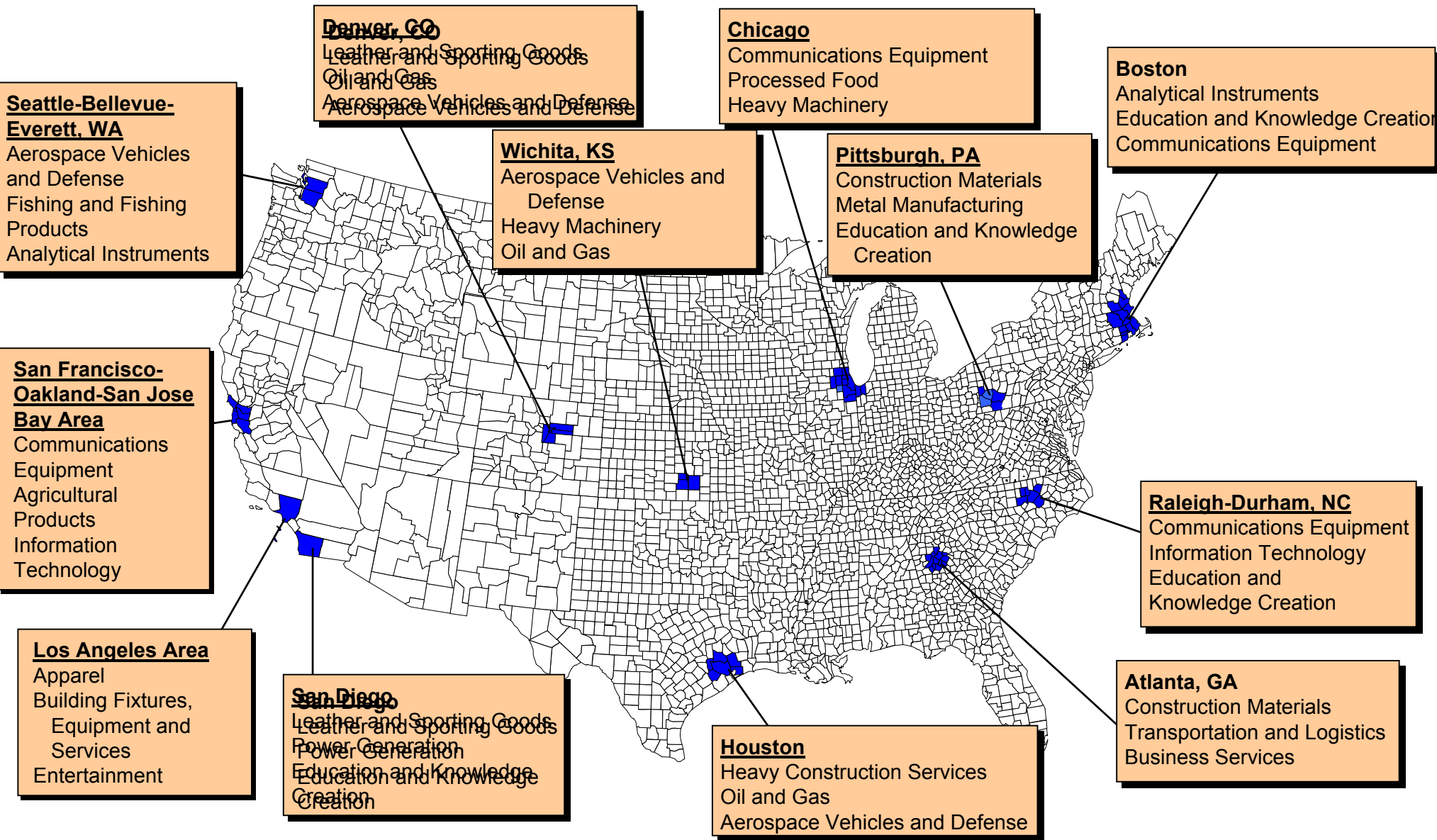
	Traded Clusters	Local Clusters	Natural Endowment-Dependent Industries
Share of Employment	31.8%	67.4%	0.8%
Employment Growth Rate, 1990 to 2000	1.7%	2.8%	-1.0%
Average Wage	\$45,040	\$27,169	\$32,129
Relative Wage	137.0%	82.6%	97.7%
Wage Growth	5.0%	3.6%	1.9%
Relative Productivity	144.1	79.3	140.1
Patents per 10,000 Employees	21.1	1.3	7.0
Number of SIC Industries	590	241	48

Note: 2000 data, except relative productivity which is 1997 data.

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Specialization of Regional Economies

Select U.S. Geographic Areas



Note: Clusters listed are the three highest ranking clusters in terms of share of national employment

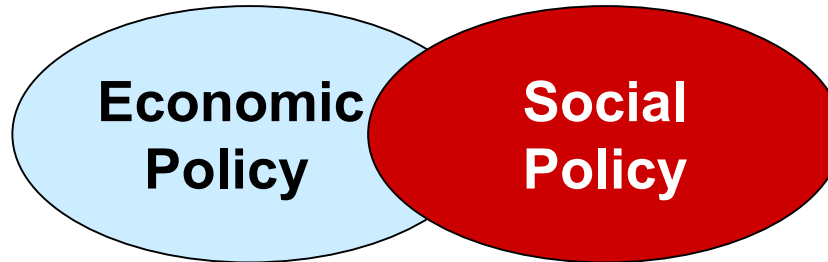
Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Topics

- Foundations of regional competitiveness
- **Inner city revitalization**
- New roles in economic development

A New Integration of Economic and Social Policy

- There is no inherent conflict between capitalism and the needs of society



A productive and growing economy requires:

- Rising skill levels
- Safe working conditions
- Healthy workers who live in decent housing in safe neighborhoods
- A sense of opportunity
- Bringing underemployed citizens into the productive workforce
- Low levels of corporate pollution (pollution is a sign of unproductive use of physical resources)

Economic Development in Distressed Inner City Areas

Premises of the New Model

- Inner-city distress is as much an **economic** as a social problem
- A healthy business and jobs base must be created **in or near inner-city communities**, rather than depending on jobs in the suburbs
- Economic development in inner cities must be approached from a **competitiveness** perspective, and be based on business opportunities in the inner city that are **genuinely profitable**
- There are existing and potential **competitive advantages** of inner cities that can support viable businesses and jobs

The Competitive Advantages of Inner Cities

Illusory

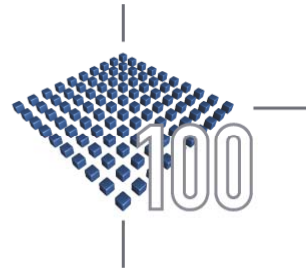
- Low-Cost Real Estate
- Low-Cost Labor

Existing and Potential

- Strategic Location
- Available Human Resources
- Integration with Citywide and Regional Business Clusters
- Local Market Demand

The 2002 UK Inner City 100 Performance

the inner city
supported by The Royal Bank of Scotland and NatWest



Total IC
100

- Average 5 year growth rate:
- Average annual revenues 2001
- Average number of full-time employees:

503%

£6.0 M

64

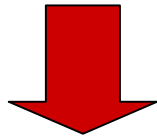
**UK *Inner City* 100 companies
created 3,541 jobs between 1997 and 2001**

Inner Cities in the New Economy

- E-commerce, outsourcing, and modern just-in-time competition enhance the value of inner-city **locations**
- Inner cities have a growing human resource advantage amid tight and more diverse **labor** markets
- Inner cities are efficient locations from which to support urban **growth clusters** such as entertainment, education, health care, and financial services
- Underserved, heterogeneous inner-city markets represent the **growth markets** of the future

The Role of Inner Cities in Regional Prosperity

- **Equity** of opportunity



- Inner-City vitality **frees up resources** now required to address social and economic disadvantage
- Enhances the **return to public investment in transportation infrastructure**, expands the **housing stock**, and **mitigates urban sprawl**
- More **efficient spatial organization** of regional industry
- Ease constraints to **regional** economic growth through utilizing the inner-city's labor force, land, and infrastructure more fully
- **Substantial growth and profit opportunities** in the inner city itself

City Growth Strategies Project

- Eighteen-month project launched in January 2002
- Four pilot cities: London (four areas*), Nottingham, Plymouth, St. Helens
- CGS aims to bring business, government and community leaders together around **local growth strategies** in urban areas
- ICIC and SBS are working closely with the Regional Development Authorities responsible for each city to **link urban and regional revitalization strategies**
- Key accomplishments to date include:
 - Establishing CGS Strategy Boards consisting of mostly **local private sector representatives**
 - Conducting **rigorous research** to identify and prioritize industry clusters in their neighborhoods and evaluate the overall business environment of their respective areas
 - Identifying **key opportunities and challenges** facing their target clusters and overall business environment
 - **Building consensus** and buy-in to the CGS concept among local government, businesses and universities

Topics

- Foundations of regional competitiveness
- Inner city revitalization
- **New roles in economic development**

Shifting Responsibilities for Economic Development

Old Model

- **Government** drives economic development through policy decisions and incentives



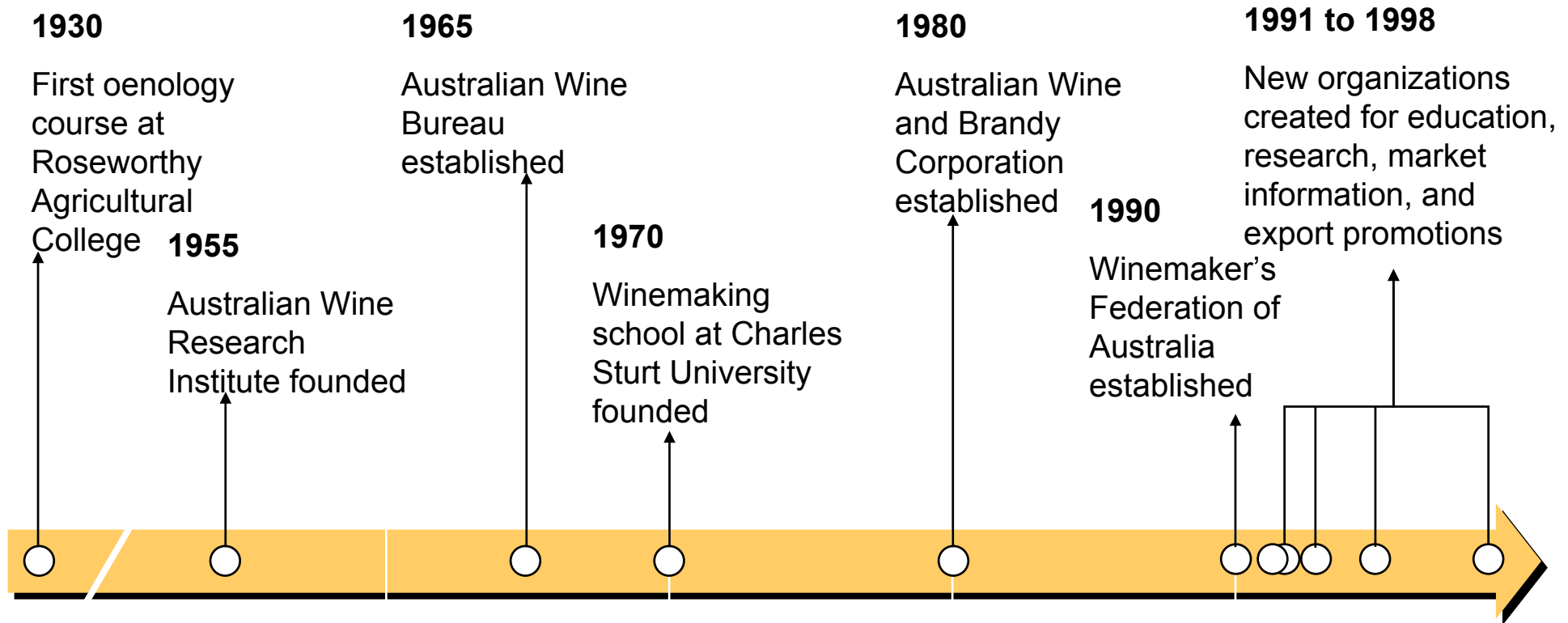
New Model

- Economic development is a **collaborative process** involving multiple levels of government, companies, educational and research institutions, and institutions for collaboration (IFCs)

Appropriate Roles of Government in Cluster Development

- A successful cluster policy builds on **sound overall economic policies** and improvements in the **general business environment**
- Government policy should **reinforce established and emerging clusters** rather than attempt to create entirely new ones
- Government should support the development of **all clusters**, not choose among them
- Government, in cooperation with the private sector, must identify all **existing** and **emerging** clusters
- To **qualify** as an emerging cluster there must be
 - Some viable companies present
 - A core of cluster-specific advantages in the diamond
- Government's role in cluster initiatives is as **facilitator** and **participant**. The most successful cluster initiatives are a public-private partnership

The Australian Wine Cluster History



1950s

Import of European winery technology

1960s

Recruiting of experienced foreign investors, e.g. Wolf Bass

1970s

Continued inflow of foreign capital and management

1980s

Creation of large number of new wineries

1990s

Surge in exports and international acquisitions

The Australian Wine Cluster

Recently Founded Institutions for Collaboration

Winemakers' Federation of Australia

- Established in 1990
- Focus: Public policy representation of companies in the wine cluster
- Funding: Member companies

Cooperative Centre for Viticulture

- Established in 1991
- Focus: Coordination of research and education policy in viticulture
- Funding: other cluster organizations

Australian Wine Export Council

- Established in 1992
- Focus: Wine export promotion through international offices in London and San Francisco
- Funding: Government; cluster organizations

Grape and Wine R&D Corporation

- Established in 1991 as statutory body
- Focus: Funding of research and development activities
- Funding: Government; statutory levy

Wine Industry Information Service

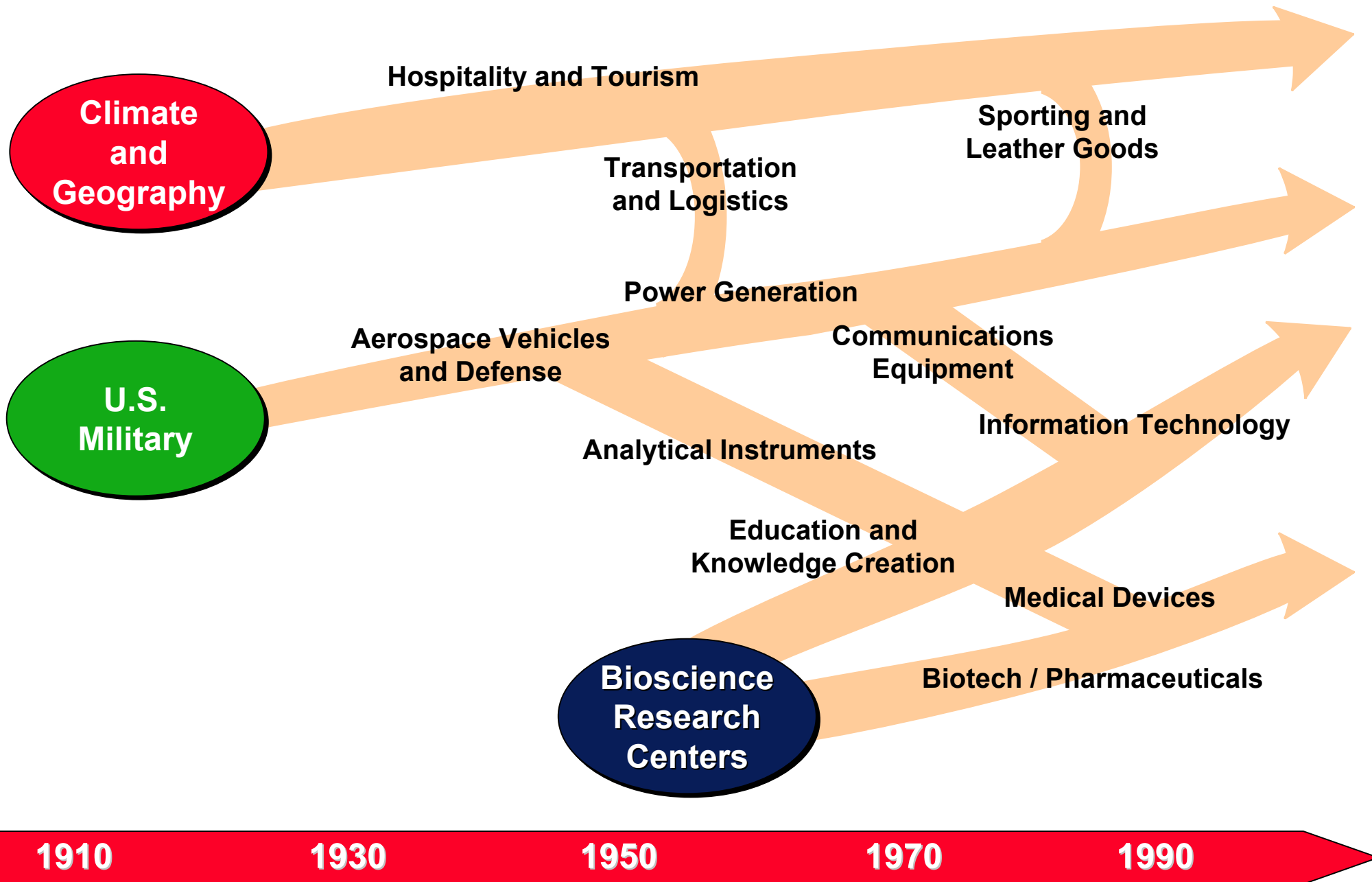
- Established in 1998
- Focus: Information collection, organization, and dissemination
- Funding: Cluster organizations

Wine Industry National Education and Training Council

- Established in 1995
- Focus: Coordination, integration, and standard maintenance for vocational training and education
- Funding: Government; other cluster organizations

The Evolution of Regional Economies

San Diego



Roles of Government in Economic Development

- **Improve the macroeconomic, political, legal, and social context**
 - Establish a **stable and predictable** macroeconomic, legal, and political environment
 - Improve the **social conditions** of citizens
- **Upgrade the general microeconomic business environment**
 - Improve the availability, quality, and efficiency of **cross-cutting or general purpose inputs, infrastructure, and institutions**
 - Set **overall rules and incentives** governing competition that encourage productivity growth
- **Facilitate cluster formation and upgrading**
 - Identify **existing and emerging clusters**
 - Convene and participate in the identification of **cluster constraints** and **action plans** to address them
- **Lead a collaborative process of economic change**
 - Create institutions and **processes for upgrading competitiveness** that inform citizens and mobilize the private sector, government at all levels, educational and other institutions, and civil society to take action

Roles of the Private Sector in Economic Development

- A company's competitive advantage is partly the result of the **local environment**
- Company membership in a cluster offers **collective benefits**
- Private investment in **“public goods”** is justified



- Take an **active role** in upgrading the local infrastructure
- Nurture **local suppliers** and attract new supplier investments
- Work closely with local **educational and research institutions** to upgrade **quality and create specialized programs addressing cluster needs**
- Provide government with **information** and **substantive input** on regulatory issues and constraints bearing on cluster development
- Focus **corporate philanthropy** on enhancing the local business environment



- An important role for **trade associations**
 - Greater influence
 - Cost sharing

New Roles of Business and Industry Associations

Traditional Roles

- Lobby government
 - Trade and regulations
- Convene meetings for networking

New Roles

- Negotiate with government
 - Trade and regulations
- Information collection and dissemination
 - E.g. regular benchmarking
- Joint marketing
 - E.g. trade fairs, missions
- Training
 - E.g. curriculum for managers
 - Close collaboration with outside educational institutions
 - Sponsoring of targeted scholarships
- Research
 - E.g. university partnerships
 - Standard setting and testing
 - Specialized research institutes
- Procurement
 - E.g. joint purchasing programs
- Environmental
 - E.g. demonstration projects
 - Research sponsorship



Cluster activation and enabling

Back-Up

The UK Business Environment

Overview

Competitive Advantages

- Highly **open** to international trade and investment
- Very low **regulatory barriers** to competition at the national level
- Sophisticated **capital markets**, especially equity markets

Competitive Disadvantages

- Weak and deteriorating **physical infrastructure**
- **Skill deficits** in the labor force despite favorable international rankings on educational achievement
- Constrained access to **debt** capital
- Low levels of **R&D** investment and **commercialization** infrastructure despite strong science base
- Large **regional** differences in the quality of the business environment
- Limited presence / effectiveness of **institutions for collaboration**

UK Companies' Operations and Strategy Overview


Competitive Advantages

- Sophisticated **marketing and branding**
- Strengths in **supply chain management, distribution, and retailing**
- High level of **professional** versus family management and use of incentive compensation
- High level of **internationalization**

Competitive Disadvantages

- Low **capital stock**
- Low investments in **innovation**
- Compete less on **unique value** (versus cost) than advanced nation peers
- Some indications of low uptake of **modern management techniques**
- Some indications that **manufacturing** is lagging the overall economy

UK Competitiveness in 2003: Overall Assessment

- The UK's **competitiveness has significantly improved** since the early 1980s. Past reforms have been successful in raising productivity and prosperity growth
 - The UK has clearly reversed its decline and established a positive trendline
 - Past and current reforms will **continue to drive improvements** for years to come
 - However, a **performance gap** remains which will close only slowly at current productivity growth rates
 - Changes in the international environment leave **no room for complacency**
 - Countries across the world are also improving competitiveness
 - The implementation of EU rules and regulation will lead to a convergence of important contextual conditions in European countries
 - UK managers see current conditions as favorable, but **remain wary** about the future competitiveness of their country
 - There are concerns about the ability to maintain the achievements of past reforms
- 
- The UK needs to transition to the **next stage of competitiveness policy** to extend and complement past reforms

Moving To The Next Stage

- **Past policy reforms** in the UK were directed at the most pressing barriers to competitiveness **at that time**
 - Low flexibility of product and labor markets
 - High costs of doing business
 - High tax burden
- These reforms were **successful** in making the UK a more flexible and relatively low cost location for business
 - Strong foreign direct investment inflows
 - Increase of prosperity, productivity, and wages
- At the current, higher level of prosperity, **a new set of barriers** for further upgrading of UK competitiveness have to be addressed
 - Competitiveness agenda 2003 for government and companies

The UK Competitiveness Agenda 2003

Public investment

- Investment in physical infrastructure, skill upgrading, and science and technology capacity

Policy

- Continue efforts to enhance competition and revitalize disadvantaged communities
- Reform of science and technology policy
- Develop a more comprehensive strategy for training in advanced managerial skills
- Create a national consensus about the UK's competitive distinctiveness in the global economy

Regions

- Stronger regional focus in economic policy

Structure and Institutions

- Move from government-led development to private sector-led development
- New and more effective institutions for collaboration
- Stronger role for universities and public research institutions in the regional and national business environment

Management

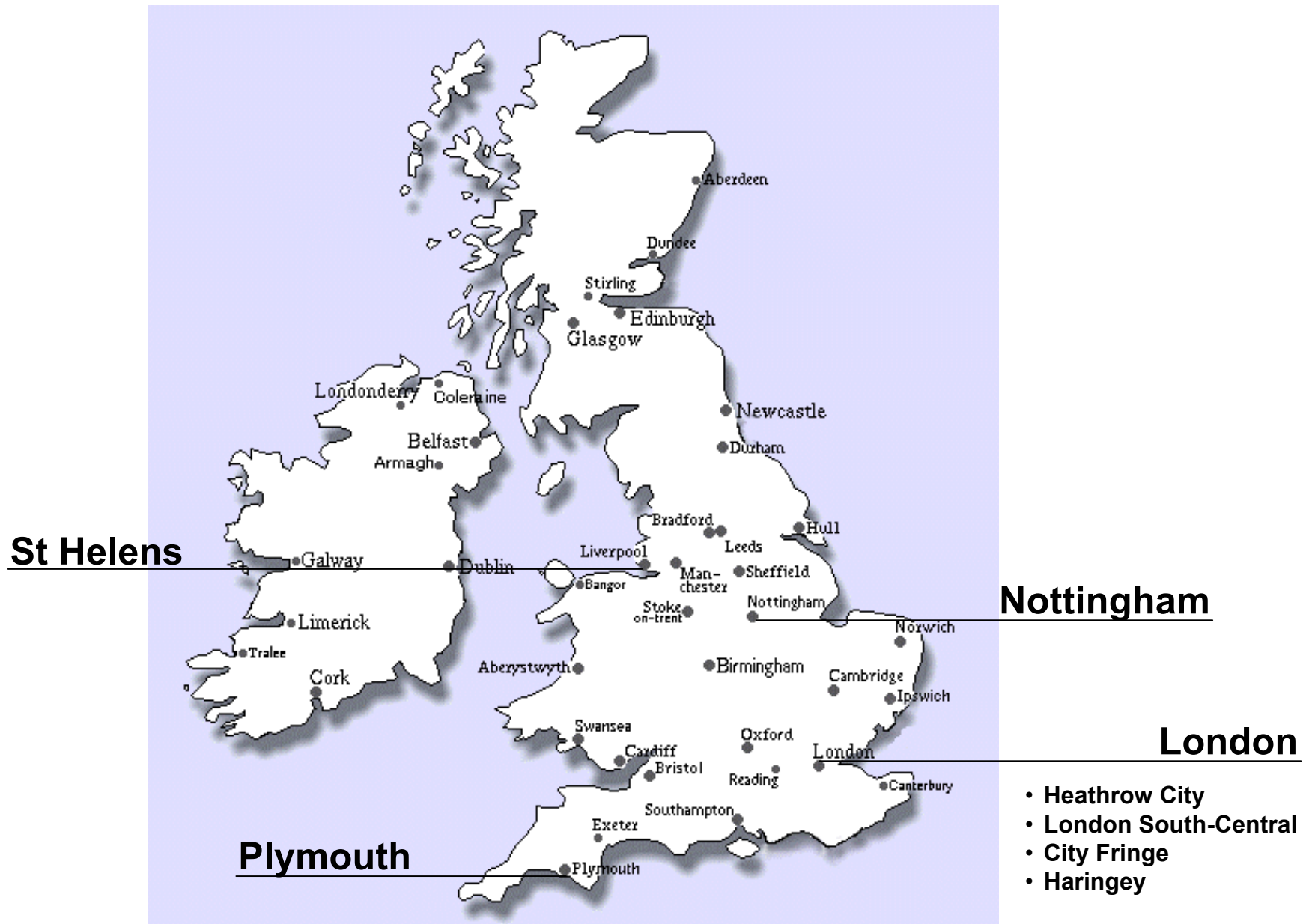
- Reorientation of strategy towards innovation and unique goods and services
- Stepped up corporate investment in innovative capacity, skills, modern production technology, and IT to support more sustainable competitive advantages
- More prominent role for business leaders in competitiveness and cluster development

Research Agenda

- Systematic evaluation of UK management training levels and skills at multiple levels of management
- Effect of financial markets and strategy and investment choices
- Effect of regional business environments on company performance
- Role of clusters in company strategy and performance
- Inventory and assessment of institutions for collaboration versus peer countries
- Role of companies in upgrading business environment through collective action and corporate philanthropy

City Growth Strategies Project

Four Pilot Cities

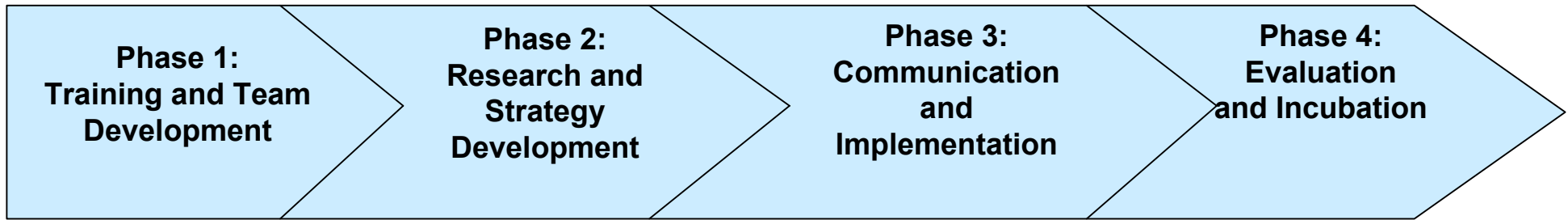


- Heathrow City
- London South-Central
- City Fringe
- Haringey

Six Key Objectives of City Growth Strategies

- Help local leaders create a new vision for their inner city by identifying **market-based strategies** and **engaging the private sector**
- Make the inner-city a more **competitive location** for business
- Increase **income, wealth, and job opportunities** for inner-city residents
- Change **perceptions and attitudes** regarding opportunities in inner cities
- Create **leadership and institutions** that will push the agenda forward
- Increase **productivity of the region** by revitalizing inner city

City Growth Strategies Process



Jan 02 - April 02

- Identify
 - Corporate Champions
 - Strategy Teams
 - Research Teams
 - Project Managers
- Build Support
- Conduct preliminary assessment
- Identify CGS target area and demographics
- Identify business clusters

May 02 - June 03

- Examine business environment
- Interview IC companies
- Analyze business clusters and opportunities for growth
- Develop strategies

Jun 03 - Oct 03

- Communicate findings and implement strategies
- Identify implementation vehicles and resources
- Build momentum for action

Nov 03 - March 04

- Increase scale of successful initiatives
- Create metrics of success and measure progress
- Communicate learnings



Progress and Challenges to Date

Progress

- Developed new institutional capacity and leadership teams
- Private sector is actively engaged, though the extent of involvement varies across teams. Over 50 businesses interviewed in each area.
- There are a significant number of initiatives under way that build on competitive advantages and approach inner city areas with a market perspective rather than charity
- Strong base of economic development research to build on
- Effort to link with regional economic development strategies

Challenges

- There is little prior understanding of the inner city economy. Existing efforts are fragmented and multiple regeneration schemes have led to fatigue
- Need for leadership capacity building and shift away from traditional public sector predominance in issues of urban economic development. Need sound economic argument for inner city revitalization
- Inner city cluster efforts are new to the UK. Development practitioners and business community are less familiar with the concept.

City Growth Strategies Focuses on Seven Pilot Areas

CGS Pilot Areas

CGS Area Demographics*

<u>Three cities</u>	<u>Population</u>	<u># of Biz</u>	<u># of Emp</u>
• Nottingham	70,000	3,500	46,500
• Plymouth	241,000	6,000	97,000
• St Helens	176,800	3,040	56,000
 <u>Four areas of London</u>			
• City Fringe	80,500	18,000	247,000
• Haringey	132,000	4,200	38,200
• Heathrow City	110,800	2,000	53,000
• London South Central	67,500	6,800	156,000

**Data as reported by pilots. Year of data varies by pilot according to what information is available locally. Numbers are from 1998, 2000, and 2001*

Pilot Area Descriptions

City Fringe

- The City Fringe crosses parts of the 4 London Boroughs of Camden, Islington, Hackney and Tower Hamlets. Approximately 14 wards in total¹.

Haringey

- The Haringey City Growth area covers the 11 wards to the East of the borough of Haringey

Heathrow City

- Heathrow City target area consists of nine wards immediately neighboring Heathrow airport in the towns of Southall, Hayes and Hounslow

London South Central

- LSC consists of six wards which are to the south of the River Thames. LSC is defined by an arc south of the Thames, running from Vauxhall Bridge in the southwest, through Elephant and Castle up to the Design Museum, Butler's Wharf in the northeast

Focus Clusters of Four London Areas

City Fringe

- Financial & Related Business Services
- The Creative Industries, including Manufacturing and ICT
- Catering & Hospitality
- Health & Social Care
- Construction

Heathrow City

- Media and Creative Industries
- Fashion and Clothing
- Food
- Hospitality
- Logistics
- Environmental Technology
- Construction

Haringey

- Clothing
- Creative & Cultural Industries
- Food (manufacturing, wholesale, retail)
- Manufacturing
- Information & Communications Technology (ICT)
- Retail

London South Central

- Publishing/printing/digital media
- Information & Communications Technologies
- Business Services
- Health/Social Care
- Retail

A Number of Focus Clusters are Common across the London Pilot Areas

Clusters shared by 2 areas

- Business Services
- Manufacturing
- Hospitality
- Clothing
- Health & Social Care
- Construction
- Retail

Clusters shared by 3 areas

- Information and Communications Technology
- Food

Common Business Environment Issues

Business Retention & Land / Business Premises

- Address issues of affordable business premises, availability of development land and build business outreach programs to inner city businesses to enhance retention and attract new businesses

Public & Private Finance

- Address issues of available and appropriate access to capital and the dissemination of financial information

Entrepreneurship / workforce development

- Address issues around identifying, attracting and developing entrepreneurs and address recruitment, retention, advancement and training issues

Pilot area Perception vs. Reality

- Develop fact based marketing language to change the perception about doing business in the pilot areas

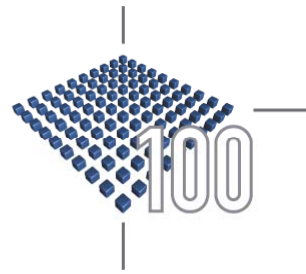


2002 UK vs. US INNER CITY 100

	<u>UK</u>	<u>US</u>
• Average 5-year growth rate	503%	647%
• Average sales	\$10 million	\$25 million
• % of companies who rate location from good to excellent	82%	91%
• Top competitive advantages	Transportation Customers	Transportation Workforce
• Average # of full-time employees	64	112
• Total employees	7,000	17,000
• New jobs created	4,559	9,100

The 2001 UK Inner City 100 Performance

the inner city
supported by The Royal Bank of Scotland and NatWest



Total IC
100

- Average 5 year growth rate:
- Average revenues in 2000
- Average number of full-time employees:

274%

£5.1 M

64

Employment of the UK *Inner City 100* increased by 161% between 1996 and 2000, creating 3,541 jobs

COMPETITIVE ADVANTAGES AND DISADVANTAGES



- 90% of all Inner City 100 companies in the United States rated their location as a good or excellent place to do business
- The most cited competitive advantages of an inner city location:
 - Proximity to customers
 - Proximity to transportation
 - Available and diverse workforce
 - Available real estate
 - High-speed Internet access
- The most cited competitive disadvantages of an inner city location:
 - *Perception* of crime (actual crime was rarely cited)
 - Government regulations
 - Access to capital
 - Condition of real estate
 - Local competition