

Small, Local Businesses Have a Competitive Advantage Over the Amazons and Ubers of the World, According to a New Report

A new report from researchers at Harvard, Columbia, and Duke suggests your startup idea doesn't have to be big and you don't have to go national to be successful. In fact, most startups aren't huge, glamorous giants like Amazon or Uber. Many are small businesses that stay local and don't intend to create new markets.

The study posits that small businesses like 3D printing labs and Internet cafes are essential to innovation because even though they aren't the origin point of new technology, they play an essential role in making sure that the technology reaches people locally.

"Businesses like auto repair services, video rental stores, or IT consulting are not themselves innovative, but they both exist because of and are critical to realizing the value of an underlying technological innovation (motor vehicles, video cassettes, computers)," the paper reads.

Harvard University PhD student Innessa Colaiacovo, Columbia Business School professor Jorge Guzman, and Duke University professor Daniel Gross published the research, which offers new evidence that shows that small startups might actually have an economic advantage over the Amazons and Ubers of the world: They could simply know local markets better and use

that to their advantage.

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“Our canonical video rental store entrepreneur, or auto mechanic, might recognize growing local demand before large competitors, secure exclusionary assets (e.g., prime locations), and establish market presence,” the study reads.

“Main Street” local startups are an important piece of the entrepreneurial ecosystem, according to the study, because by selling accessories or offering services, small startups play an important role in allowing innovation to diffuse into the economy.

A small startup might not necessarily create a new phone, for example, but could sell phone cases or offer repair services.

Though knowing more about a local market might give them an advantage, small businesses come with their challenges. About 18% of small businesses close their doors within a year, and half close within 5 years, according to statistics from the U.S. Bureau of Labor.

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The researchers used patent data to pinpoint 386 new technologies over the past 100 years and then connected those technologies to business registration records from 47 states to get a better picture of how innovation leads to small businesses.

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