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The Metaverse Will Enhance — Not Replace — Companies' Physical Locations
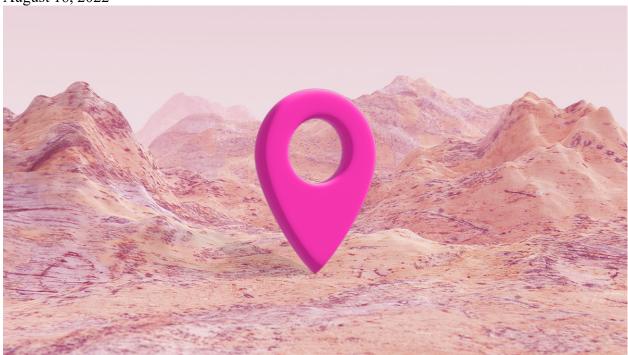
by

- [Vladislav Boutenko,](#)
- [Richard Florida,](#)

and

- [Julia Jacobson](#)

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Summary.   The metaverse isn't the end of cities. Rather, this evolution of the digital world should be seen as a complement to the physical world, and companies should develop their location strategies to maximize the potential of both the megacities that have become...

If the combination of Covid-19 and remote work technologies like Zoom have undercut the role of cities in economic life, what might an even more robust technology like the metaverse do? Will it finally be the big upheaval that obliterates the role of cities and density? To paraphrase Airbnb CEO Brian Chesky: The place to be was Silicon Valley. It feels like now the place to be is the internet.

The simple answer is no, and for a basic reason. Wave after wave of technological innovation — the telegraph, the streetcar, the telephone, the car, the airplane, the internet, and more — have brought predictions of the demise of physical location and the death of cities. Time and time again, such prognostications have been proven wrong. And while the pandemic *has* changed where and how people work, the trend of talented people, innovation, and economic activity becoming increasingly concentrated in fewer and larger superstar locations has consistently proven durable. Cities aren't going anywhere.

Still, the metaverse *feels* different. Its combination of technologies driven by virtual and augmented reality promises to make the virtual world a far more realistic substitute for the physical one. New remote work and virtual collaboration tools like Meta's Horizon Workrooms, Microsoft's Mesh, and Arthur are huge advances beyond Zoom and will enable workers to brainstorm, discuss, and interact with one another's avatars. They will create a much more realistic consumer experience for shopping for everything from fashion and luxury goods to art. It's easy to see why such an advanced technology might render cities and physical locations obsolete.

But the reality is that this metaverse, like each major previous wave of innovation before it, is less a substitute for location and more a complement to it. Even as the metaverse enables a far more realistic experience of the digital world and enables us to do many more things online — expanding access to rich content and wider pools of talent, lowering switching costs between locations and transaction costs in general, and vastly augmenting data-based decision making and personalization — it will still be unable to replicate the emotional cues, body language, serendipity, and diversity that happen when human beings cluster and collaborate in real places.

The irony is that even as it stretches out the nature of location and enables workers and consumers to connect from just about anywhere, the metaverse is likely to reduce the set of places that truly matter. Only a relatively small number of large global cities have the size, scale, and connective infrastructure to function as the global collaborative hubs. These superstar cities will continue to be the great clusters of innovation, global corporate headquarters, flagship locations for high-end brands, and the world's leading artistic, cultural, and research institutions.

The metaverse will make physical location a more — not less — important consideration for business. To some extent, this is already playing out: Cities like Dubai and Shanghai are launching strategies aimed at attracting metaverse-focused businesses and people. For brands, this could mean ideal locations to experiment among enthusiastic early adopters. Companies will have to think more strategically than ever before about where to place offices and innovation hubs to attract and connect talent, where to locate retail shops to attract customers and heighten brand awareness, and more generally how to balance their physical and virtual footprints.

The Metaverse and Cities Are Complements

In order to think strategically about the metaverse and location, it is important to understand the way the two act as complements to one another. Here it's useful to think of both as a channel — each good for transmitting different kinds of information.

The metaverse is a channel for delivering and using a lot of information in a convenient form. It builds on and is a step beyond previous digital channels like Zoom, email, messengers, chatrooms, and social networks. It will deliver video, sounds, pictures, text information, data, simulated videos, and avatars at tremendous bandwidth. A 2018 study estimated that 20 minutes in a virtual reality simulation allows some two million or so body language recordings. This substantial and immersive virtual connection offers real advantages. Companies can collect richer data across broader networks than is possible in the physical world or existing digital channels. For many companies, this means new, cost-effective ways to improve their products, processes, and experiences. While some of this may involve virtual reality, it can also include more readily accessible modes like smartphone-enabled augmented reality.

While it is an improvement on what came before, the metaverse still will be insufficient to replace the fidelity of the physical world. It is the difference between experiencing a live performance as opposed to viewing one online. The physical world can deliver much deeper social, emotional, and sensory data — the ability to pick up on emotional cues, or influence the room by modulating voice, moving around, and using body language. This kind of interaction remains necessary to build trust and social capital over time.

The metaverse is a mechanism for enhancing the physical world. A museum tour will be much more realistic supplemented by metaverse technology. A person shopping for a home will be able to take a much richer online tour of the property and the neighborhood before opting for a physical visit. Augmented reality glasses can add an overlay to a live event — live stats at a basketball game or viewer comments at a talk that's also being livestreamed. More to the point, a company might simulate and test a product digitally — a new shoe design, for instance — and tailor the final product according to social feedback before producing a physical version. Workers can engage online and prepare for their much richer on-site physical collaborations. In this way, the metaverse and physical spaces are better understood and acted on strategically in concert and together.

Consumer Engagement Across the Virtual and Physical Worlds

A good example is customer engagement and the retail experience. A couple of decades ago, e-commerce revolutionized how businesses engage customers by adding a virtual channel alongside the physical one. The metaverse offers rich new opportunities for gathering data to improve consumer engagement and experiences. Companies like Meta, Microsoft, and Apple are building AR headsets that will enable consumers to engage in live events such as conferences, performances, and sports games as if they were physically there, with the additional overlay of digital content, data, and messages. Metaverse-enabled technologies could drive the next wave of

personalization. And indeed companies are already trialing new ways to enrich the customer experience through things like metaverse games with NFT rewards, exclusive drops and experiences to reward loyal "real world" customers, and digital twins of physical goods. So far, companies have dipped their proverbial toes in the water here by porting the real world into the digital one — for example, virtual burritos, *Wendyverses*, and re-creating urban districts virtually in places like Decentraland. These are fun, but to date they offer little promise of replacing the rich experience of the physical world.

This is a sizable improvement over what is available today, but still no replacement for seeing, feeling, or experiencing products and services in the real world. Consumer spending — especially among millennials — continues to shift from products toward experiences, and the enduring lesson from two and a half years of Zoom fatigue is that screens do not satisfy our desire to interact in person. This is what cities are particularly good at providing. In doing so, they provide platforms for using digital and physical channels as complements that reinforce each other.

Companies, including digital-native ones, have often used physical stores in key urban hubs — whether through permanent locations or temporary pop-ups during peak times — as complements to their digital strategies. Glossier uses its physical retail spaces to engage consumers and promote its brand with a highly Instagram-friendly store design, uniting its physical and digital channels. Nordstrom's Local model uses small-scale, service-oriented physical locations to augment its e-commerce offerings in key urban hubs like New York City and Los Angeles. Meta is opening a physical store to sell its AR/VR devices to access the metaverse. Instead of replacing actual stores, physical spaces can provide a way for customers to access the metaverse — maybe for the first time — and experience the latest AR/VR technologies. Physical spaces and locations combine with metaverse technology to offer more opportunities to add value by enriching experiences.

The Virtual and Physical Nature of Work

The metaverse also promises to change the way we work, enabling much richer technologies for online interaction and virtual collaboration. Again a big improvement, but also not a replacement for the need for people to come together in physical space. A big signal here is that leading metaverse companies are not just maintaining, but expanding their physical presence in leading cities, even as they invent and expand their own remote-work technologies. Meta and Google remain headquartered in Silicon Valley, and the preponderance of metaverse technology startups are located in the Bay Area. Google is building a major new urban campus in downtown San Jose and has massively expanded its footprint in New York City. Meta is also adding space in Manhattan. As Google put it in a 2021 statement: "Coming together in person to collaborate and build community is core to Google's culture, and it will be an important part of our future."

That said, the metaverse has an important complementary role to play here, in broadening access to talent pools — filling specialized and/or fully remote roles, ensuring a diverse employee base, and allowing employers to connect with job candidates virtually before investing in meeting in person. It will also likely be an important piece in how companies handle more mundane kinds of communication while socialization and connectivity happen in person. As this occurs,

companies will likely need to review their social contract with employees, granting them greater freedom to choose where they live, but doubling down on opportunities to promote cultural cohesion, mentorship, and learning, which are more difficult to do virtually. This new social contract may involve reinvesting savings from lower salaries for remote workers into programs that deliberately create such opportunities.

All of this means that companies need to think more strategically about what the office is for and where physical presence is required. While they can save money on real estate by letting go of some office space, companies will need physical presence in key talent hubs and even better physical spaces for connectivity and collaboration. Offices in the era of the metaverse will be less focused on doing work and more focused on connecting and socializing — in other words, more café or canteen than cubicle. These urban spaces may even function as "portals" into the metaverse, offering employees the use of advanced virtual and augmented reality technologies in the office before they may be able to access them at home. The metaverse and the physical office, then, rather than opposing one another, will increasingly work together to enable the future of knowledge work.

Strategies for the Future

Put this all together and it means that the coming age of the metaverse is making location an increasingly central component of business success. To prepare for this, managers need to put location at the center of corporate strategy. Alongside their business and technology strategy for the metaverse, they need a complementary locational strategy. That locational strategy should be elevated to a C suite-level priority and focus attention on the complementary benefits of virtual and physical spaces and locations. It should address questions regarding sourcing key talent, locally and remotely, repartition between the talent pools living in "centers of life" and "centers of work," and the new social contract governing the reciprocal expectations between the company and the employee, assuming the employee can work from multiple, high- and low-cost locations over the course of their career.

The metaverse presents a significant technological shift — bigger than just about anything that has come before it — that promises to make the virtual world far more like the physical one we are used to living, shopping, and working in. But it will not obviate the need for physical presence in cities. While the metaverse enables people, activities, and businesses to disperse geographically, cities will remain as crucial — perhaps even more so than they are today — to serve as hubs for in-person connection, engagement, collaboration, and innovation. Companies who meet people where they are and want to be — including smaller cities and towns — will gain access to a deeper talent pool and more satisfied employees, often at lower cost. But ultimately, the metaverse is likely to make leading superstar cities more important than ever, as this increasingly dispersed workforce will require places to come together and interact in the physical world.

Human beings are above all else social animals. We require one another and being together in the physical world. While the metaverse can effectively enable and expand access to certain aspects of work and consumption — from live events and experiences to digital art and avatar skins — it will never replace our basic need for face-to-face interaction and connection, even in a

business setting. When all is said and done, the metaverse is not a replacement for physical location or cities. The two are much better understood, and acted upon, as complements to one another.