Testimony to US Senate Committee on Commerce, Science, and Transportation
Subcommittee on Communications, Technology, Innovation, and the Internet

"Betting on the Rest: Expanding American Entrepreneurship Outside Traditional Hubs"

Chairman Thune, Ranking Member Schatz and Members of the Committee, thank you for the opportunity to speak to you today. My name is David Hall and I'm the managing partner of Revolution's Rise of the Rest Seed Fund. Revolution is a Washington, DC based investment firm launched in 2005 by Steve Case, the co-founder of AOL. Our firm has principally invested in venture-backable companies under the thesis that "great entrepreneurs can start and scale great businesses anywhere." In 2014, Revolution launched the Rise of the Rest initiative to shine a spotlight on the growing energy and momentum in startup ecosystems across the country. The lynchpin of that program each year is a five day bus tour to emerging startup ecosystems where we spend time understanding how cities are capitalizing on their unique strengths to create a more robust innovation community. Interest in our bus tours and our investment focus on rising cities in America grew and directly led to the launch of the first $150M Rise of the Rest Seed Fund in late 2017, and the second Fund, which we raised in 2019. Both Funds are backed by an extraordinary list of investors, executives, and entrepreneurs who publicly support our belief that the next great company can start and scale outside of Silicon Valley, New York City and Boston. Since launching the first fund, we have invested in more than 150 companies in over 70 cities across the United States. We have learned an incredible amount about what helps and hinders startups in communities across the country. Today, I would like to discuss how venture capital and its ability to support the technology and startup ecosystem is good for the country, good for individual cities and states who actively participate in supporting startup ecosystems, and good for US citizens, particularly those in rising communities.

Despite the positive momentum we have witnessed with respect to startup growth in a number of cities, it is critical to level set with some facts around place and people, and understand startups crucial role in job creation. In 2019, according to data compiled by the National Venture Capital Association (NVCA) and Pitchbook[1], there was approximately $133 billion in US venture capital invested in American startups. Of that amount, approximately 73% was invested in just 3 states: California, New York, and Massachusetts. California alone received nearly half of this amount at over $65 billion, while the other 47 states and the District of Columbia saw only 27% of this total amount.

In addition, and even more stark, less than 10% of venture capital is invested in women led startups and less than 1% is invested in Black or African American startup founders[2]. So while we may all believe that talent is evenly distributed across our country, opportunity is not. The likelihood that one will receive venture funding to scale really does depend on where you live, and to which gender and racial identities you ascribe. It is critically important that we address these inequities. And to do so will require the commitment of the venture industry, academia, the larger business community, and policymakers at all levels. The future of America's economic competitiveness depends on it.

You may ask, why is it important for stakeholders – private sector, academia, and public sector – to support American startups and entrepreneurs all across this country? In any given year, startups are responsible for the majority of net new job growth in the United States according to research from the Kaufmann Foundation[3]. This is true because of several factors, including globalization, automation, and other factors which collectively drive down job growth.

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[1] https://nvca.org/wp-content/uploads/2020/04/NVCA-2020-Yearbook.pdf
[2] https://news.crunchbase.com/news/untapped-opportunity-minority-founders-still-being-overlooked/
[3] https://www.kauffman.org/wp-content/uploads/2019/12/firm_formation_importance_of_startups.pdf

Organic job growth at large corporations tends to wax and wane through mergers and divestitures, leading to a flat to net reduction in job growth. While small businesses, which are still responsible for most jobs, tend to remain relatively stable. Therefore, it is mostly through startups, that we see exponential net job growth. This is important because bolstering these young businesses and job creators are the best way for us to revive economies which have hardest hit by the shifts in the global economy. The major companies of tomorrow that have the potential to employ millions and improve education, healthcare, financial services, and other industries, are being built today as early stage startups, often by people who do not live in one of the major tech hubs. These entrepreneurs need our support to unlock the necessary capital from both public and private sources. Doing so will accelerate and commercialize technologies that can improve outcomes, drive down consumer costs, and continue to drive the US economy into the future.

To date, our Rise of the Rest bus tours have taken us to more than 40 cities. Each year, we visit five cities in five days to witness and highlight how cities and communities are rising to the challenge of supporting their burgeoning startup ecosystems. While every region sees the value in supporting startups, the most successful cities that we have visited have recognized its uniqueness, its legacy, and its strengths to attract and nurture innovation, which, subsequently attracts entrepreneurs and the high-growth and high-impact jobs they create. For example, in Chattanooga, Tennessee, where we took our tour in 2018, we learned that the city was referred to as “Freight Alley” because of the concentration of freight and logistics businesses. Indeed, the industry employs locally more than 7,000 white collar professionals, who in addition to the thousands of drivers, operators and brokers, are working to build technology for a legacy industry to better meet today’s increased expectations and demands of rapid delivery of goods and products.[4] We were also fortunate to leave Chattanooga with an investment in Freightwaves, a fast-growing data and media platform serving the freight industry which employs 130 people. We also saw a similar impact in Indianapolis, Indiana, following Salesforce's 2013 acquisition of Indianapolis-based company called ExactTarget, which grew from a small startup to a major tech company. Following the acquisition, Salesforce doubled-down on the Indianapolis ecosystem, built a large Midwestern headquarters, and helped to accelerate the transformation of Indianapolis into a major technology and business-to-business software leader[5]. In addition, we have seen American innovation translate to entrepreneurship far beyond any given geography. Take Brevard County, Florida for example, which we visited in 2019 on our bus tour. Startups all across the country are innovating in the space industry, and need to tap into the leadership and ingenuity of NASA with its epicenter along Florida's famed "Space Coast." This critical industry, from a defense and commercial perspective, will continue to be fueled by and benefit from startups innovating outside of the major tech hubs, and in places like Central Florida, Southwest Texas, and Alabama.

Talent is another factor to watch closely that can drive the success of a startup ecosystem, particularly for individual citizens. Over the last decade, there have been many headlines detailing the coming tech and entrepreneur exodus from Silicon Valley and from New York City. The COVID-19 pandemic has accelerated this storyline with the media eagerly covering stories of big name founders leaving hard hit coastal tech hubs. While some of the most recent displacement is likely to be temporary, I do believe that a significant amount of coastal tech talent will permanently relocate to take advantage of a lower cost of living and less congested

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[4] https://www.timesfreepress.com/news/edge/story/2019/oct/01/moving-fast-freight-services-sector-riding-hi/504428/

[5] https://oneamericaworks.org/blog/how-did-indy-score-a-salesforce-hq/

lifestyle. This has the potential to be transformative in many emerging startup ecosystems and will fill a critical gap in the human infrastructure so many ecosystem leaders and entrepreneurs have been building for years in places like Pittsburgh, Detroit, Miami and Bozeman. This is not exclusive to just tech talent; we have also seen businesses recruiting fashion designers, for example, to St. Louis to design swimsuits for our portfolio company, Summersalt, a women's swimwear brand. It is also important to remember that very few "techies" were born in the Bay Area or other coastal tech hubs. Most grew up and received education in other communities. They moved to these hubs because of the promise of outsized opportunity. Another one of our portfolio companies, Understory, a Madison, Wisconsin company that is building a parametric insurance company, actually relocated from Boston back home to Madison and saw incredible productivity gains and huge cost savings. The pandemic is definitely accelerating the boomerang of this talent back to hometowns, not just for proximity to family, but also because they see potentially comparable career opportunities in many rising cities for the first time in a generation.

Finally, I believe that we are at a tipping point in conversations around diversity, equity, and inclusion in the tech start-up and venture capital industry. Amid much of the social justice and racial animus of the past summer, in the venture capital industry, we witnessed the immediate calls for greater access to capital for entrepreneurs of color, women entrepreneurs, and other underrepresented communities who have been historically excluded from the VC club. At Rise of the Rest, we were so motivated that we transformed our COVID-postponed tour to a virtual tour focused exclusively on Black founders. We were able to source nearly 500 Black-led startups for a pitch competition, and will invest in 3 companies: Rheaply, a physical asset exchange manager; Kanarys, a platform that tracks diversity and inclusion for corporations, and

Zirtue, a person-to-person lending platform. We also helped facilitate over 300 meetings between Black founders and top investors across the country.

I believe that now is the time for all stakeholders, including policymakers, corporations, universities, investors, and most importantly, entrepreneurs, to accelerate the growth of regional tech ecosystems. It is up to all of us—and critical for America's future economic competitiveness—that all founders everywhere and from all walks of life access to the capital that can give them a shot to build the next iconic American company. Thank you.