Investing in Entrepreneurs Everywhere

Promising companies can sprout anywhere, but start-up funding is flowing to only a few places. We need to ensure that entrepreneurs throughout the country have access to the venture funding they need.

In July 2018, the US House of Representatives—in a surprising act of bipartisanship—passed a collection of bills dubbed the Jobs Act 3.0. The bills, broadly speaking, were designed to ignite innovation and make it easier for entrepreneurs to start and grow companies. It was an acknowledgement by lawmakers that we have work to do to ensure that the United States remains one of the world’s most entrepreneurial nations.

One clear lesson from the last presidential election is that the benefits of innovation have not accrued equitably throughout the country. And unless we specifically incentivize growth in cities most acutely affected by globalization and digitization, that innovation (and economic) inequality will persist, diminishing national vibrancy and global competitiveness.

It’s clear that although talent may be equally distributed, opportunity is not. In 2017, according to the National Venture Capital Association, 76% of venture capital went to just three states: New York, California, and Massachusetts, with 50% going to California alone. This disparity is critical because start-ups—the businesses most often backed by venture capitalists—are the primary job creators in the United States. The top-performing 1% of start-ups are responsible for roughly 40% of job creation each year.

At Revolution, an investment firm founded over a decade ago by AOL cofounder Steve Case, our investors have been focused for quite some time on the growing divide between the thriving tech industry on the coasts and the rest of the country. We have believed that great companies can start and scale up anywhere and that investment capital can be a powerful and catalytic force in bridging this yawning geographic gap.

Four years ago, to encourage others to share our focus, we launched Rise of the Rest, a nationwide platform based on the idea that we need to create a new era for entrepreneurship where founders across the United States have the support they need to grow companies beyond just a few coastal locations.

As part of our effort, twice a year we leave our offices and board a bus to shine a spotlight on five nascent start-up communities in five days. In each city, we meet with founders, university leaders, elected officials, and ecosystem builders to understand and highlight what is happening to promote innovation in that particular community. At the end of each day, we host a pitch competition where eight local start-ups compete for a $100,000 investment from the Rise of the Rest Seed Fund, an early-stage fund launched in late 2017 with the backing of iconic investors and executives such as Ray Dalio, Henry Kravis, Meg Whitman, Jeff Bezos, Eric Schmidt, Sheila Johnson, and Tory Burch. The fund makes investments in early-stage companies exclusively outside...
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Silicon Valley, New York City, and Boston throughout the year and at these pitch competitions.

To date, Revolution has backed more than 90 companies in more than 50 cities such as Omaha, Minneapolis, Birmingham, Memphis, Phoenix, Indianapolis, and Detroit. These companies deliberately chose to start and scale up in these places because they offered lifestyle benefits, sector expertise, and supportive policies.

First, as the cost of living climbs in cities such as San Francisco and New York, founders are naturally seeking out other options with more affordable rent and overhead. At Revolution, we believe that we are witnessing the beginning of a talent boomerang where young tech professionals are returning to places where they grew up or went to school. Indeed, a recent study from the Bay Area Council, which focuses on San Francisco and its environs, found that 46% of the area’s residents claim that they are likely to leave the region in the next few years. Tech talent can now find opportunities to do the work they love but with greater opportunities to purchase homes in less-congested cities with lower costs of living.

Additionally, start-up employees find ancillary benefits from working for companies in less-heralded start-up markets. In Silicon Valley there is something of a mercenary culture, particularly among high-tech talent in a strong job market. Engineering talent can easily find new roles at other growing companies and will likely always have the Google, Twitter, or Facebook safety net on which to fall back. Anecdotally, we have found that employees in rising cities feel a greater sense of loyalty to the firms they work for and to their broader start-up community.

Second, it is likely that entrepreneurs will need to move to cities between the coasts to find the type of local expertise they need to disrupt key economic sectors such as health care, agriculture, and transportation. More than three-quarters of the Fortune 500 companies, housing a concentration of intelligence related to “real world” economic sectors, are located outside California and New York. Thus, if an entrepreneur wants to disrupt agriculture, a midwestern location to gather talent with farming know-how and partnerships with agriculture companies will likely be a necessity. Similarly, health care institutions such as the Cleveland Clinic and Johns Hopkins offer robust expertise and collaboration opportunities for founders seeking to disrupt health care.

Last, because of the economic benefits derived from a growing start-up community, city and state governments have developed new policies to foster entrepreneurship and recruit and retain coastal talent. This is a sea change from decades of regional economic development focused on luring headquarters or factories, usually at significant cost. Governments have created incentives to invest in start-ups through legislation such as the Tennessee Angel Tax Credit and through formation and support of venture funds such as Indiana’s $250 million Next Level Fund. And in an effort to create network density—something that Silicon Valley has to spare—governments have created spaces for founders to build businesses and connect with other entrepreneurs and investors. In Phoenix, for example, Mayor Greg Stanton launched the city’s first incubator. Still other cities have embarked on major infrastructure updates to support a new generation of high-tech business owners. In Chattanooga—now dubbed Gig City—the government chose to build its own fiber network to ensure consistent high-speed internet access to all residents of the city and surrounding areas. Today, the city has one of the fastest (nearly one thousand times faster than the average US broadband connection) and most affordable broadband networks in the country, a characteristic that sparked an innovation district downtown largely dedicated to start-ups.

We are already seeing evidence that the innovation map is shifting as result of these local efforts. The No. 1 metropolitan area for start-up activity is Miami-Fort Lauderdale-Pompano Beach, according to the Kaufman Index. The top city where first financings are rising is Boulder, Colorado, according to the Center for American Entrepreneurship. And the biggest returns for investors? Companies based in Chicago, not Silicon Valley.

Entrepreneurs, many of whom become investors, are pattern-recognition experts, connecting the dots to identify new markets and opportunities. With seven Rise of the Rest tours under our belt—38 cities and more
than ten thousand miles logged on the bus—Revolution sought to examine the key components that help fuel the rise of start-up ecosystems. These include:

**Local government.** Supportive policies that encourage start-up growth are critical. And the good news is that, as noted, they are on the rise. This includes programs such as government-sponsored venture funds, angel and investment tax credits, and corporate tax relief for start-ups.

**Incubators, accelerators, and community-building organizations.** In Silicon Valley you can’t turn a corner without running into someone who could be a potential customer, collaborator, or employee. That is not the case in other cities, which makes it critical to create entities that bring founders and investors together.

**Investors.** Although venture funding is still highly concentrated, there is evidence that early-stage investments have broadened geographically as a result of more deals and a growing number of regional funds looking to spur innovation in their own backyards.

**Tentpoles.** In areas with high rates of entrepreneurial activity, role models are abundant, and budding founders do not have to look far for inspiration. In rising cities, breakout successes—what we call tentpole companies—can provide that example for local founders. They also can showcase to local and national investors the ability to build strong, successful companies in a location outside the traditional tech hubs.

**Universities.** Educational institutions play critical roles in helping to encourage new entrepreneurs, support the development of new technologies, and attract and retain the type of talent needed to work at start-ups. At Arizona State University, the country’s largest public university, its president, Michael Crow, has emphasized, promoted, and embedded entrepreneurship through its New American University initiative. At the University of Utah’s Lassonde Center, students can live with other students interested in pursuing careers in innovation and entrepreneurship.

**Corporations.** Many well-known US companies are not located in Silicon Valley. Institutions such as General Mills, Caterpillar, and Monsanto dot the center of the country. Working with a traditional business is a huge sign of credibility for a growing firm. Corporations also see the benefit of partnering with the start-up ecosystem by gaining new and innovative collaborators, having insight into potential acquisition targets, and helping their communities attract and retain new talent.

**Local media.** Telling the story of what is happening in a community around entrepreneurship can be a key part of building momentum. This can be through local papers, broadcast news, and business journals, but it can also be through regional innovation blogs established to amplify an ecosystem’s messages.

Rise of the Rest is about more than just accelerating the geographic diversification of investment capital. We are about “breaking the cycle of money flowing to the same kinds of people for the same kinds of ideas,” to borrow a page from Steve Case’s book, *The Third Wave: An Entrepreneur’s Vision of the Future*. Investment dollars are not just concentrated by region. In 2017, fewer than 10% of venture-backed companies had a female founder and fewer than 1% had an African American founder. At Revolution, breaking out of the Silicon Valley bubble has allowed us to find and back more female entrepreneurs and entrepreneurs of color. Often these founders have the support of cities that recognize that in order to build a true start-up ecosystem, everyone deserves—and needs—a seat at the table.

From its focus on the next big Unicorn or the latest tech deals, media chatter would suggest that entrepreneurship is flourishing. But in reality, new business creation in the United States is at a 40-year low, and over the past two decades, domestic initial public offerings have fallen by more than half. Earlier this year, the nation dropped out of the top ten in Bloomberg’s annual innovation index.

As lawmakers in Washington continue to debate the nuts and bolts of JOBS Act 3.0, it is up to all entities that make up a start-up ecosystem—public and private—to double down on supporting local entrepreneurs. Whether it be through funding emerging start-ups, mentoring entrepreneurs, facilitating corporate partnerships, or even celebrating local successes, we need to take drastic action to reignite US entrepreneurship. Not just for those in a few coastal cities—but for anyone, anywhere.

*Tracy Van Grack* is senior vice president of communications and public policy at Revolution in Washington, DC.