

TECHONOMY NYC

A Conversation with Eric Hippeau

Speaker:

Eric Hippeau, Managing Partner, Lerer Hippeau

Introduction:

Dan Costa, Editor-in-Chief, PCMag

(Transcription by [RA Fisher Ink](#))

Kirkpatrick: I'm here to introduce our good friend Dan Costa, who's the editor-in-chief of PCMag, who will be up here talking to Eric Hippeau, one of the great technology investors of the world and happens to be one of the great tech leaders of New York.

Costa: Eric, thanks so much for joining me today. We have fifteen minutes to have a conversation about Facebook, about investing, about data privacy. We have a lot of ground to cover. Eric Hippeau is managing partner at Lerer Hippeau, which is a venture capital firm, invested in literally dozens of some of the most interesting companies that I've encountered in the tech space and media space. We first met when you were the CEO of Ziff Davis, where I still work today.

Hippeau: And before that I was actually the publisher of *PC Magazine* back in 1989. Just to age myself a little bit.

Costa: Yes, we have a deep history together. We're going to hit all those topics in fifteen minutes but before we get to those I want to talk about New York City. You're based in New York City, Ziff Davis is based in New York City, a lot of your investments are in New York City-based tech companies. Why is New York City the absolute best technology city in the world?

Hippeau: Well, I don't know if it's the best, but it's certainly one of the most vibrant and the second largest center of innovation in the United States and one of the largest in the world. It's got to do with the vibrancy of New York City itself, the diversity; the fact that we are the number one destination for immigrants. A third of the people in New York City were not born in the United States—that includes myself. There's everything you want in New York City. And in a world where there's been this migration of tech workers on the West Coast from Silicon Valley to San Francisco, with this desire to be in these kinds of really rich urban environments, there's no better urban environment than New York City. And New York City really represents the rainbow of all the different sectors in the economy. There are really literally very few sectors that are not represented—oil and gas may be one of them—but pretty much anything else.

So people who have this domain knowledge and who have experiences want to use technology to create disruption and create new companies. We at Lerer Hippeau have decided that we are going to have that we are going to hang our shingles about travelling for work a few years ago, which has been one of the best decisions ever, and we invest primarily in New York, about seventy percent of our companies are here and it's been wonderful.

Costa: Let's talk about a company that's not based in New York City. Facebook has really, in the last couple of months, shined a spotlight on how data is being used in the digital economy. They've taken a lot of heat; they've made a lot of admissions. They said they're going to do better. We now know a lot about how data is being used. What do you think consumers still don't understand about how data is driving the digital economy?

Hippeau: I would say that the data is being misused. I was a journalist in Brazil when it was a military dictatorship and my phone was tapped and I was being followed and I was being harassed by the secret police, and then when I came to the United States my ideal was a free world. Freedom, I can maintain my privacy as long as I am a law-abiding citizen, I could do whatever I want, and no one is going to follow me and tell me what to do. I find what Facebook is doing with data to be really scary, in many ways like a surveillance state and people don't realize how much data are being collected about them. It's not just data about yourself; it is data about all the people that you touch is being collected. I think that the Cambridge Analytica scandal is probably just the tip of the iceberg, because my view is that Facebook has lost control of the platform. Now since a couple years ago they've restrained it but before that, application developers really had free access to all the data and we don't really know what else people have been doing with that data and I think it will continue to surface.

I think that we should all be very concerned; I think that we should all be very wary of our privacy. I don't know if you have had the chance to change your Twitter password because of course Twitter did not encrypt everyone's passwords. Why should they right? They're a data company.

[LAUGHTER]

So I changed my password yesterday and then they encourage you to go and review all of the applications to see if you want to reauthorize them. I literally had fifty applications I had never heard of in my entire life that somehow, somewhere I supposedly had authorized them to use my login and I just don't recall that and I can tell you I never did that.

Costa: Those authentications that you go in, you go to a site, and it's like, "Oh do you want to login on Facebook or Twitter?" If you click yes, they have access to your account forever.

Hippeau: Well, that, but I'm pretty sure that some of these authorizations were not mine. So I don't know what they did but I'm just saying it's high time that we took back control over our privacy and our data because the consequences—I'll just say one thing. Facebook was going to deploy facial recognition. Hopefully they won't. We'll see that. In China, there's one whole

province, the Uighurs [Xinjiang] province, which is a Muslim province where every citizen is subject to facial recognition and every citizen has a social score depending on how the state is deciding whether you are a dependable or not a dependable person. The story is that is actually just a testing ground that China is going to deploy this throughout their country. We cannot make one step in the direction of something like this. So regaining control of our data and our privacy, in my mind, is a national emergency almost.

Costa: So you saw the hearings—Zuckerberg was questioned by Congress. They asked the best questions they could come up with. If we want to exert control, do you think that these are the men and women that can form laws to actually give us control back over these platforms?

Hippeau: Are you kidding me?

[LAUGHTER]

Hippeau: I mean...

Costa: I already knew the answer to that question.

Hippeau: This is worse than the Luddites asking the questions. These people had no clue. They didn't even know what Facebook did and how it worked. Terrible.

Costa: They sell advertising, I'm told.

Hippeau: That's right.

Costa: Let's pivot quickly to some of the media properties that you've invested in. The state of media—I've been in media for twenty years; you've been in media longer for than that. It seems that media has always been in crisis, since I first got my first job. You're still making investments in new media companies. What do you look for in a media company? How do you advise CEOs about how to make it work today's economy?

Hippeau: I think it's going full circle. Media used to be a brand. *The New York Times*, *The Economist*, it came in a package. It was a magazine, it was a newspaper, and it was trusted or you didn't trust it and if you didn't trust it you didn't buy it. But if you bought it, you trusted it. There was a standard and so it was a package. Then with the advent of social media, that got disintermediated and so people were just basically absorbing articles. It was very hard to attach a brand to another. We do that quite well with BuzzFeed but by and large it's been quite complicated to do that. Because of this lack of trust of fake news and lack of trust in pretty much any institution you could imagine, including the media, I'm sensing and I'm hoping, perhaps—my friend was saying I'm hoping that we're going to go back to this idea that the brand in media really means something. That it means journalistic standards. You can say that it means it represents the left, it represents the right—it doesn't matter, as long as there is a process and a semblance of work being done to verify that this data is actually correct.

I think that there is a post-Facebook world. I'm looking for companies that are not dependent on Facebook, because I've seen the ravages that Facebook can do to media companies and it's not pretty. Facebook is not a nice player—let's be clear about this. They utilize everyone's content and sell advertising. And I think Sir Martin was saying, well really what they are is a media company. That's the last thing they want to recognize what they are, but they are. A good example would be Axios. It's the team that did Politico. They left and we backed them with others—but it's a newsletter format. They recreated the format, it's a little different than most newsletters. It's kind of an old-world format. Newsletters have existed for a long time. But it's super effective. If you really want to know what's going on in Washington in the morning, you have to read Mike Allen at 7:00 in the morning or 8:00 in the morning, and a lot of people do. So that's what I'm looking for. I'm looking for companies that are journalistic in nature, are there to build a brand that will be trusted or trusted by a certain number of people. And we're finding them. They do exist, and I think that media has a bright future. I can't imagine a world without media. I can't imagine a world where you don't know what's true and not true.

Costa: It's interesting because there's the brand of the publisher that has a lot of value, then the brand of the author. Mike Allen has a voice, he has a reputation on his own, and people go to him and trust him individually and I think that's something that we lost a little bit in the atomization of media was that authorial voice and that unique value.

Hippeau: Look at *PC Magazine*.

Costa: Please do, please look at *PC Magazine*.

Hippeau: We're not going to go there too long, but *PC Magazine* was—we established it as the authoritative brand that would test every product in the technology world and you still do that today.

Costa: Amen to that. Let's talk about another segment that you invest in pretty heavily which is this sort of new breed of direct-to-consumer business where you've got companies that are launching. They're having a relationship directly with their consumers through social media and through the web, and they're selling their products directly. You've got a variety of companies in this space: Allbirds, Warby Parker, Casper—really a new generation of retailing. What do you look for? And now everybody's jumping into that space. What do you look for in a successful direct-to-consumer business?

Hippeau: Right, so this is technology taking over the world, and I think technology is completely changing the way that we buy. My office is in SoHo; a third of the stores are empty in SoHo. We just started a marketplace for pop-up stores; because that's the way it's going. What you're looking for is you're looking for products that have been sold the same way. Mattresses are a good example. Mattresses have been sold the same way now for whatever—thirty, forty years. The process of buying a mattress is a really convoluted, nontransparent kind of like—most buyers of mattresses are women. They have to go into these stores; people ask them to lie on these mattresses. It can only go downhill from there, right? It's not a good

process. But it keeps going on. And, by the way, all of these companies are owned by private equity, which as a venture capitalist is a great sign because the first thing private equity does is kill innovation. So you say, "Wow, that's great, they're killing innovation so I'll innovate." So you are looking for a team that hopefully has domain expertise but some experience and knows how to create a brand because into this world, in the retail world, the brand is everything. You have to have a great product, the product has to kind of sell itself, it has to go viral, you have to understand how to use social media but the brand is really the key. So Casper is by far the leader; they were the first to go direct. They're the leaders. There are a lot of me-too products, but most people don't recognize the names of me-too products, they recognize Casper, so that's what you're looking for.

Costa: And we talked about the importance of design and the brand story. It's not just the brand; it's the story that comes with it that people buy into.

Hippeau: It's the story; it's the connection, "Oh my god, this is the product, this is the honest, well-priced, easy-to-deliver, easy-to-use product that I've been waiting for and it's completely transparent." You know how the product is built, and there's no tricks there's no gimmicks, it's extremely honest. Honesty really goes a long way.

Costa: All right. We're running out of time so I'm going to get to my last question which is: What are the next emerging technology areas that you're looking to invest in?

Hippeau: This might take a long time, so we won't go the full way. I'll talk about robotics. There is a vibrant robotics community here in New York. That robotics community came out of the 3-D printer world. We were early investors in MakerBot, the 3-D printer company. They were in Brooklyn, and in Brooklyn there is this vibrant community who came out of that whole world. What these people are doing is that they are going back to the supply chain, which is mostly in China, and they're looking at all these 3-D printer components, which have become commoditized and they're building robots. So all the value goes into the software layer; the hardware is very cheap. I'll just give you an example. We have a company called Opentrons. They make robots to automate lab work. In most labs, any kind of lab, the basic work is moving liquids from one pipette to another in very precise doses. A lot of that work is still done manually with about a 10 percent error rate, which could be a problem. They manufacture a \$5,000 robot—a very smart robot that has various applications that you can make it do. It has reduced the error rate down to less than 1 percent. They're still a seed-level company; they haven't raised a Series A yet and they sell forty robots a month. That whole world is incredibly promising.

The other thing I would probably quickly say is about voice computing as one of the next big platforms. I don't know if it's good or bad that we'll be speaking to all these machines, but we already speak to our cars. We speak to the Echo system; we will be speaking to refrigerators—it's kind of a little bizarre but it's really effective. What's making it possible is all the back end, all of the machine learning, which is all the stuff behind the scenes is moving at incredibly accelerated pace. So voice is going to be a really exciting platform.

Costa: And with that, we actually hit zero on the clock. We could easily talk for another thirty minutes on the pros and cons of automation and voice interfaces, but that's all the time we have today. Eric thanks so much for doing this.

Hippeau: Thank you, I appreciate it.

[APPLAUSE]