

TECHONOMY NYC

How Tech is Reviving America's Cities

Speakers:

David Lee, CEO, MPowerUSA

Austin McChord, CEO, Datto

Amy Nelson, CEO, Venture for America

Moderator:

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

Benjamin: Okay, hello everybody. Good afternoon again, and let's just jump in to this panel, How Tech is Reviving American Cities. And perhaps we can also throw in American regions. So Austin, beginning with you, you founded and you're still working at Datto, which is not in what people consider a traditional tech hub. Tell us how that came to be, how you came to found Datto.

McChord: Okay, sure. So I didn't have some grand dream of building a company outside of the tech hubs; I just had no money.

[LAUGHTER]

I started Datto in my folks' basement about an hour outside of New York City, in Connecticut. And as the company grew, we had a bunch of different opportunities to move to a major tech hub, and we ended up turning them down. And what we found is that there really is an enormous amount of talent that's available, an enormous amount of capabilities that exist outside of these major tech hubs, and ended up building a huge workforce in Connecticut. Rochester, NY, we opened up a second location there, built out a pretty large team there. And really, it's kind of an amazing, just sort of the different attitude that people have when you move outside of Silicon Valley or Boston, outside of New York, that you see—and frankly, I think if we had moved to one of those tech hubs, it's unlikely that our business would have succeeded.

Benjamin: Unpack that for the audience, though. What was the opportunity to move outside tech hub? Was it an opportunity, was it coercion, what happened?

McChord: Well so, as I said, I started in my folks' basement, and my parents didn't live in a tech hub. So like that's the baseline. So then we had an opportunity to move and we turned it

down. I looked at—early on, I asked a friend of mine to come help write code, and he was not going to move and so I was like, “I can’t abandon this guy.” So that was a reason to stay. And what we realized is that the people we were hiring, they wanted to stay at the company for an indefinite period of time, and that they were excited about committing to a long-term career there. And now the company’s at meaningful scale, and we do, we have some offices. I’ve got a location in Boston. And the way that the average engineer that you hire approaches a job in Boston is actually very different than the way the average engineer approaches a job in Rochester. People in Boston kind of look at things, “Hey, I’m going to do two years somewhere and then move onto the next thing” and their resume, they’re trying to build out some perfect portfolio of all these places that they’ve worked, and that’s very different than people who are coming and saying, “I want to commit to the mission of this business. I want to be here and hopefully retire working here,” and become much more ingrained in the culture and really the values of the company than people who take a job in some of these major tech hubs where there’s just so much competition for smart, talented people.

Benjamin: Fantastic. And Amy, tell us about Venture for America. And as you do, I’m curious why and how you choose the cities and regions that you involve yourself with.

Nelson: Yes. So we are a fellowship program for recent college graduates who want to become entrepreneurs. You heard from our founder earlier. And we work in cities like Detroit, New Orleans, Baltimore; cities that are struggling to attract and retain top talent. Those three cities are actually losing population while the rest of our country is urbanizing. But they’re cities that have these nascent entrepreneurial ecosystems that are hungry to continue to grow. And so we identify young people who think a little bit differently, who want to take a risk in their career, and we place them with existing startups in these cities. They spend two years apprenticed to an entrepreneur on the front lines of building a business, and at the end of that, many of them go on to be managers and leaders in those companies. We have a retention rate well over 50 percent, and about 20 percent of them have decided to start their own businesses and we’re helping them make that happen.

Benjamin: Okay. And then David, speak about what you’re doing, but also, I’m curious about what regions and cities can do to help retain successful firms. So tell us where you are.

Lee: Sure. So I’m fortunate to represent two wonderful groups today. ASRC Federal is an Alaska Native corporation, and about four years ago, they decided to make investments in technical programs and companies with the sole goal of increasing the dividend provided to 13,000 Iñupiat shareholders. That stood out, and stands out from our conversation last night when we talked about purpose-driven effects and leadership goals and objectives.

The second being MPower USA. It’s a nonprofit that is focused on really grass roots and foundational programs in depressed areas that have lost coal, tobacco, textile manufacturing economies. And the same effects that Amy and, I think, Austin spoke of in terms of brain drain, a lack of opportunity in these locales, we’re trying to address with our initial programs in Virginia.

So there are three main areas that focus on innovation, education, and entrepreneurship. The first piece of that is, you're not going to create a new economy of workers, which I think we all look at and say, look, we've had companies, they've exited, but one of the challenges was having a workforce that you could kind of replenish the ranks with. Well, that's not easy to do. We're in competition for a lot of the same high-end talent.

In our eyes, at MPower, we're really trying to develop a low, medium, and high tech lexicon, so to speak. So our education programs are really partnered with tech centers and research centers that will allow us to innovate and incubate those ideas and turn them into solutions that we can match with investment capital and partnership, both with the commercial sector and willing partners in states. And I think we touched on some of the nuanced policy and regulatory challenges. I think Brad spoke of that earlier. But the things that we are doing is trying to look at that twofold, what things can we affect at a state level and in particular locales of the willing, show relevant progress and then win.

Benjamin: There's a question I'd like to pose to all three of you, but first, Austin, with your experience so far, and a lot more is going on, what three are you most proud of and what three mistakes did you learn the most from in building Datto? And first of all, tell them exactly what Datto does.

McChord: So Datto does data backup disaster recovery for small to medium-sized businesses. And we've had a crazy ride. I started it right out of school. If I look at the three things that I'm most proud of when I think about the company, it's really the culture that we've established and sort of what it means to work at Datto. That's something that I continue to see employees be better exemplars of that than even I am in pushing to do the right thing and it's impressive just that you can build a big company that is financially successful and not screw people over. And those two don't always have to be in conflict and so the fact that we can provide great benefits, really take care of our team, and whether they're working in [a] manufacturing role or they're working as one of our highest-end engineers, we can take care of everybody. So that's a big piece I'm proud of.

I think I'm proud of the fact that we push to stay independent really long. In our first six years of operation, I bootstrapped the whole thing, started the company by running up \$80,000 dollars in credit card debt. I didn't know any of these fine people or really take advantage of any programs. I did basically everything wrong, but along the way managed to learn a lot in that and develop that identity and that culture, and so that was helpful in making Datto unique.

And then I think the third thing that I look at that I'm most proud of is that our product does good, and that we're not an ad tech startup. We make a thing that's used by real people that they pay for and it helps them. And when disasters happen, whether it's a hurricane in Puerto Rico or ransomware, our product steps in and actually can save livelihoods, and in some weird cases, lives. And so that really gives me the pride and energy in coming to work every day.

And so those are probably the three things that I'm most proud of, and I think—what did you want, three mistakes?

Benjamin: Yes, absolutely.

McChord: I mean, I've got 3,000, but I think that—

Benjamin: Okay. [laughs] Triage them.

McChord: I mean, we really did succeed by just failing an indefinite number of ways and times. I look at—there are a lot of cases where I should've grown and been a better leader, and most of the mistakes that I think about are cases where either I was an asshole and made someone cry or just got really, really mad—and I started this business right out of school and I had such a hot temper and was just a jerk. And I feel bad about that a lot sometimes, and certainly try to not be that moving forward.

And I think there's other times where I look, and sort of the second big mistake is just when you deal with people and you have a company that's growing really fast, you outgrow people. And how you handle that when you have an employee, somebody that's working for you and they're trying as hard as they can and they're drowning and you can't save them. And just knowing when to sort of cut bait and get them a package and transition them out of the organization—there are definitely cases where you hold onto people too long because you feel for them, you want them to be successful, and you need to make the tough choice and say, "This person shouldn't work at the company anymore."

And then I think third, it's tough, I've made so many business mistakes. Out of the gate, I didn't know how to give people options, so I just didn't. And then like I bought everybody cars one year, because I wasn't sure—like, "Okay, well, we have a bunch of money, we'll do this" type thing. Like all sorts of really weird stuff. But then didn't do a really great job on some legal stuff and ended up early on, I got sued by an early employee and had to make them a millionaire before I could move out of my folks' house.

Benjamin: Wow.

McChord: Like that sucked. Like a lot.

[LAUGHTER]

And so those things, like you can look at those and go, "Oh my God, that was a catastrophic mistake." But on the other hand, those scars make me who I am and I'm pretty happy with where the outcome is and how we got there. Did it take the long road? Yeah, big time. But on the other hand, those things build character and gave me strength to go through a lot of other stuff that we deal with now.

Benjamin: Fantastic. Awesome.

[APPLAUSE]

McChord: Thanks.

Benjamin: Amy and David, as I said, I spent a fair amount of time in Silicon Valley and there's such a libertarian ethos of survival of the fittest, and I want to jibe that with the panel of Reviving the Cities. Just last month I read an op-ed in Bloomberg View, and I'd like each of you to respond briefly to what I'm going to read, in the context of what you do. The title of the op-ed was called, A Better Way to Revive Rust Belt America, and it says, "Monkeying with the highly complex web of trade, clustering and specialization could prop up cities that have no business existing, causing continued struggle for the people living there and costing taxpayers a bundle as well. According to this conventional wisdom, if a place is in decline, the best thing the government can do is to help people move away." What do you think about that?

Nelson: I think there's 700,000 people who live in the city of Detroit and moving them would be incredibly difficult. And right now, if you're in San Francisco or Silicon Valley, you should try to get a U-Haul, because there's a shortage, because people are leaving in droves, because they've created a culture and a society that frankly isn't open, it's far too expensive, and it's not what the future is going to look like. And we are repopulating many of these cities that are really strong clusters. In New Orleans, you have education technology, in Pittsburgh you have AI, in Detroit you have mobility, and reframing these historic power centers is how we're going to move forward as a nation. Because we can't all fit on the peninsula in San Francisco.

[LAUGHTER]

Benjamin: Well, okay. And you, David.

Lee: My response to that is that I think we have a duty to our own economy thriving in the future. And when I think long term, I think maybe a 20-year cycle to 50, but we have to cultivate the talent that is represented beyond the three primary states where 75 percent of the VC money goes today. I think even last year there were a lot of discussions here at Techonomy, well here at Half Moon Bay, that talked about us losing the talent that is in the gap of New York and Palo Alto. So I think we have to cultivate that talent.

I don't think it's sufficient to say let's repopulate and move these distressed areas. Let's figure out how to create a startup culture, which has economic effects in those areas, right? And not everything has to be at the highest end of the spectrum. You may have—one of the products that we're working for example, is with a solar company to have a 60-megawatt facility and one of the aspects is not just to create this clean energy array and some bolt-on components to it, but how can we actually provide some sustainable economic build assembly elements to that that follow or mimic the car industry, the automobile industry in the last 30 years. We have plants in Selma, South Carolina that could be good models for those types of businesses that fit. And I think once you create effects and eliminate the regular discussion internal to a lot of talent when they're in a place six hours away from Washington, D.C. for example, "Well, I've

got talent, I know how to tap it, I've got a resource, I've got to get out of this town." We have to repurpose those areas with economic effects, and it's not convincing a company to bring one factory in a place and create 50 jobs. That's not transformative. We've got to create economic effects, we've got to take our immense talent that come out of these innovation centers and really cultivate the university outposts that we envision to then germinate businesses and entrepreneurial spirit, create companies, spin them out, put capital with them, put ideas with them, and help them create a locale that can actually thrive. It may not have scale initially, but if we can tap that coalition of willing states, we're the demographics map and we're being data-driven in that. We feel that there's a next generation in this cyber-physical world of economies to make that happen.

Benjamin: To flesh that out, what do you mean by the demographics? What are the ideal demographics for you guys, in terms of reviving these cities? What do you mean by the demographics?

Nelson: Well, I think some of the things that are really necessary are research universities and proximity to those, large medical institutions and other facilities like that, historical industry, or big cos, as they like to call them in the Midwest. And that creates an ecosystem that allows talent to flourish, but also allows new entrants into the market. And to your point earlier about regionalism, Pittsburgh and Cleveland are less than two hours from one another. I'm going to Birmingham, Alabama tomorrow. You can get to Nashville or Atlanta in less than two hours from either of those places. And what we need to see is these cities in these second and third tier markets coming together and understanding that if they need to thrive, they need to create a larger regional economy. And it's very achievable. We just have to invest there.

Lee: I think the point was well said. I mean, our university outposts, in our minds, give us density to talent that will evolve through that academic system and create new businesses that we talk about, right? And I think trying to create a network and tie them together where it makes sense, I mean, you've got population that matters, you've got talent that will move through a program that gives you an advanced degree, or a BS. But we're not also eliminating the community colleges, where part of our program involves fab lab makerspaces, and that's the place to tinker. It's introducing tablet-based learning at the secondary school level that gives children hope, because in some of these areas you don't have an Apple store in the town, right? So we have to get them acclimated to learn from those modalities and learn to get to a point where two years from now, we may be able to field an adequate coding challenge or robotics challenges that then spurs that talent towards a STEM focus that you can cultivate and match with capital. So I think ours is an enduring set of programs that gives us a chance to take that step.

Benjamin: Yes. Now Austin, go ahead—

McChord: I guess just on that, I couldn't disagree with that article more in that a lot of these places are fantastic places to do business. And this idea that if you're not in one of these three states, there's nowhere to do business is just BS. And if anything, it's amazing how much

further your dollar goes. You want to get a square foot of office space, it's incredible what you can get in one of these other regions versus somewhere that's really, really popular.

And then the other thing you look at is that a whole lot of these cities, they've been through a bunch of cycles and it actually turns out the people who are actually working in government there aren't terrible. They're pretty good. They get it. And they're actually trying—and I look at our experience in Rochester as a great example of like the city is doing everything in its power to be business-friendly. And you want to redo office space and we need to get permits, etcetera, and they're on it, because they care and they're aligned. And if you look at, again, trying to do the same thing in an area and the city just doesn't care because you're one of 10,000 and it doesn't matter. And so if you think about where you're going to go to try to start a business, where you going to go to disrupt an industry, why you would not choose one of these second or third tier markets as your base to start, I couldn't tell you. Because you're already starting with a huge leg up by starting in one of these spaces. Your dollar is going to go further and you've got the entire city behind you out of the gate.

Nelson: And capital will follow good deals. You know, there've been many billion-dollar exits in the Midwest over the past couple of years. People just aren't paying attention to them. And I know venture capitalists who are like, "I'm sick of having half of my fund go to pay rents to landowners in the San Francisco Bay Area. I want to get more out of my dollar," and they're looking at places like Rochester, and I think you're going to see more and more of that in the years to come. And there are specific funds now, Rise of the Rest and Drive Capital, Mercury Fund, that are focused exclusively on these markets and they have hundreds of millions of dollars. That's real money.

Lee: People told Chris Olsen when he left Sequoia that he was nuts to go to Columbus and try to start Drive's push. And there are other areas all across this country where you have the ethics of—I'm sorry I just blanked on your name.

McChord: It's okay. It's Austin.

Lee: Austin. Jesus. That really have the kind of conditions that we've all spoken of to really create those types of economic opportunities. And again, money will flow when we create those opportunities for what is part of our evolution and rise of the rest, to borrow from Steve Case, we have to do that. It's in our best interest. We won't have all the economic effects globally by centering on three states. We're losing talent and we're leaving it out. So it's in our best business interests to cultivate it and make sure it has a chance to succeed.

McChord: And I think that stuff can come back around. And I look at our experience at Datto and the whole Rochester thing, and then I had an opportunity, I gave \$50 million dollars back to the university there to build a giant makerspace, probably the largest in New York, if not the world. And that sort of thing, the more successes that happen out of things, the more people are going to be able to come and give back.

Benjamin: By the way, what Austin is modestly referring to is one of Rochester's biggest gifts by a single donor in its history. So we talk about what each side gains—right?

[APPLAUSE]

What each side gains from this tech partnership. I have a million other questions for you guys, and I'd like to turn it over to the audience. But before my current work in New York, I spent two years and 27,000 miles venturing to the widest parts of America to research our political future and our political divides. And one of the things that astounded me, the rural-urban divide and the kind of insular smugness that exists in cities, I could not predict the social and political tensions that we're living through now. And I really appreciate business for kind of getting beyond that and seeing the advantages on both sides.

But let's turn it over to you guys. Questions? All the way in the back, with the red scarf.

Gardner: Okay. I'm Megan Gardner with Alipes. My question is, the conventional wisdom is that it's hard to find talent in those kinds of places that you're talking about, so I would love to hear your point of view on that. What has your experience been finding and keeping talent? And I think Austin you started to speak to it a little bit, saying the motivation, for example, is stronger to stay with your organization for a longer time. But I'm interested, because I feel like that's one of the tropes, you know, that it's harder to find talent outside of these tech bubbles. So I'd just love to hear more from all of you about it.

McChord: Do you want me to start?

Nelson: Sure, go for it.

McChord: So if you're trying to build a technology company, you need to hire the smartest people in the world, or certainly the smartest people you can get. Turns out they're really hard to get anywhere. And whether you're in a tech location or you're not, they're still hard to get. In our case though, we found that actually, statistically it's easier for us outside of an area like the Valley, one, that you find a lot of people that get overlooked by a Facebook or a Google because they don't want to move there. There's a lot of people that have a lot of reasons why they don't want to move there. And you can also get people right out school when they're young. They may not want to move to the Valley, or again, look at it and say, "This is a bad deal." But there's this idea that everybody just wants to go live in a few locations isn't actually true. You can find a lot of pretty incredible talent in the rest of America. And it's not—

[LAUGHTER]

And it's actually easier in a lot of ways.

Nelson: And that's the problem that we exist to solve in many ways. Like if you are the smartest kid in your high school in Omaha and you go to Harvard, the chances of you going back to Nebraska are very close to zero. But it turns out that you're probably willing to do it.

You just have no idea how to navigate that landscape. And so what we do is we aggregate all the coolest things happening in these cities, all the most promising startups, and then we create a pathway for the top talent to get there. Because right now, Goldman Sachs spent \$20 million dollars last year recruiting at college campuses. That's an insane amount of money. If I had \$20 million dollars, I would do a lot better things with it. But that's what we're up against, right? It's these huge siphons that are pushing people into a specific set of industries in a specific set of cities and you have to create a large-scale solution, like what we're doing, and going and telling people, "There's an alternative, you're someone who thinks differently." And they get really amped about it and they're having a great time. So they will go, you just have to create the pathway.

Benjamin: And don't forget the power of pride of these areas and the people that live there. They don't need handouts. They're very proud. Think of it as a battery that has cells that have dropped down but they need a jumpstart. They charge back up and it runs just fine. I think there's so much pride and potential that you can tap in these areas and actually give you more stickiness in that talent that would stay with Austin's company or the one that I was able to grow and sell. Same way—I think those same conditions are even more prominent in these areas. They just need an opportunity.

Benjamin: We're running out of time. Absolute final question.

Audience 2: So in the Times, I think it was yesterday, there was an article about Carnegie Mellon. They're actually raiding the professors to go into the private sector, and so now you have nobody teaching the kids for the next generation. And in Kansas City—it's become a common problem with industry moving to these second cities. Any thoughts on—like should everybody offer a year of teaching time? Any thoughts on what we can do as people are attracted by more money?

Nelson: That's a great idea. You should start that.

[APPLAUSE]

Nelson: You should make that happen. I totally agree. Although I don't think it's a bad idea or the professoriate to have private sector experience as long as they go back to teaching. I think it could actually be beneficial.

Benjamin: Other thoughts?

McChord: I mean, it sounds like a bit of a champagne problem for them. And it's a good thing, it shows that it's working. And they're going to need to go—yes, they'll have to backfill those positions. But as long as that's all still happening in the same community, it's not the end of the world.

Benjamin: Well thank you guys for your time, and thank you for your time.