# The Great Unlocationing

## Fully distributed work could be the next megatrend to dramatically reshape the economy

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The COVID-19 pandemic is setting the stage for a new era of fully remote venture-backed startups without central offices (that is, distributed) that could serve as a model for growth and innovation over the next decade. Relative to the pre-pandemic era, distributed startups are likely to find themselves more favorably positioned in the current environment when it comes to attracting VC and recruiting highly skilled workers. At the onset of the crisis, distributed businesses were likely able to more quickly adapt to stay-home measures while keeping expenses low relative to location-based peers. As the recovery ensues, these characteristics could support higher private valuations, helping attract increased venture investment and creating the conditions for distributed businesses to become key innovators over the next economic cycle. Over time, institutionalization of distributed organizations could have significant economic, social and political impacts as businesses adopt new approaches to work, and as employees and capital become untethered from specific geographic locations

### Distributed startups have been nascent, but success stories exist

Distributed businesses represent a more extreme version of traditional work-from-home models where organizations maintain central offices but allow employees to work from home part-time while a limited number of employees work from home full-time–often in different cities. Of the roughly 5 million workers in the US who work full-time at home (excluding sole proprietor businesses), we estimate about 1 million work for fully remote organizations, representing about 1% of the total working population.[1]

Jobs in technology or that are knowledge-based are easier to do remotely, and there are several notable venture-backed startups that are fully distributed. Perhaps the most successful example is the coding platform GitLab, which was founded in 2011 and has since raised $414 million with a valuation of $2.8 billion as of September 2019. The company has more than 1,000 employees in over fifty countries and is estimated to be generating over $100 million in annual revenue.

1: This estimation is based on BLS data and GitLab survey data.

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The fully distributed model has been debated at great length among venture investors. While startups often begin at a founder's home without central offices, investors have questioned how well a business can find its footing and grow—especially in its early days—without close, personal collaboration among employees. Similarly, as organizations scale, the distributed model is often viewed as an impediment to that growth, which has made it harder for companies using it to raise money. For venture investors, the ability to see a company's physical offices, meet the team and witness first-hand the central hive of day-to-day activity is a key part of regular due diligence. GitLab's co-founder and CEO Sid Sijbrandij has commented in the past that while some early-stage investors expressed interest in the company, they chose not to invest because of its distributed model.

## Pandemic legitimizes distributed models and could catalyze investment

The pandemic is shining a spotlight on remote work in a new way that in many cases is likely to force its acceptance among skeptics. As practically every tech startup has shifted to at-home work, VCs have found they are de facto investors in a portfolio of quasi-distributed startups. VCs are also becoming more distributed themselves, finding ways to remotely manage portfolios, perform due diligence and make investments, with some expressing the view that a return to the office may be unnecessary.

Investors are completely rethinking the value of telework. Once a novel oddity, fully remote businesses are suddenly in vogue, and they will likely be more popular among early-stage investors seeking profitable startups with minimal pandemic exposure. Distributed startups are likely weathering the downturn more easily than their location-based peers as they didn't have to transition to a remote format, nor do they have high ongoing facilities costs for unused office space. They are also well positioned to continue hiring into a favorable global labor market as more startups lay off employees. This could drive a virtuous cycle effect; as more investors place higher value on remote work models, distributed startups will benefit from higher valuations, improving their ability to attract capital and grow. This could lead to a new class of fully distributed startups that emerge from the crisis in a relatively stronger position.

## Necessary infrastructure and tools emerging

The pandemic has provided a real-time test kitchen for how well current digital infrastructure can hold up amid surging demand for remote work —and it has done exceedingly well. The spike in web traffic, VPN use, streaming video, and gaming has driven few, if any, notable outages, and service providers have strategically throttled download speeds or adjusted product release dates to avoid demand bottlenecks. Network providers continue to make infrastructure improvements, with Akamai reporting consistent network load time throughout the transition to working from home.[2] The majority of issues that have arisen do not relate to any significant infrastructure issues, but to "last mile" connectivity, where there may be capacity issues when connecting from the network to an individual home, or an inability to schedule service owing to health-related precautions.

2: "The Network Impact of the Global COVID-19 Pandemic," The New Stack, Mary Branscombe, April 14, 2020

From a consumer perspective, the pandemic experience has demonstrated the strength and resiliency of the ecommerce infrastructure built up over the last decade, easing the transition to fully remote. Delivery networks, social networks, digital entertainment and digital services have gone on largely uninterrupted. Gaps in digital education and health services have appeared but are likely to be areas of investment and improvement over the next decade. Over the next five to 10 years, advances in 5G wireless technology, improved WiFi, IoT and edge networking will further strengthen the distributed grid, opening the door to new digital products and services and enabling more work to be completed virtually.

Traditional location-based enterprises forced to work from home are making significant investments in distributed capabilities. This includes hardware (microphones and laptops), infrastructure improvements (VPNs and cloud storage) and increased digital endpoint security. SaaS-based collaboration and work tools are also experiencing a surge in demand. Over the course of a few weeks, Zoom grew from a niche-enterprise provider to a common household verb. This will likely drive more investment into emerging derivative products that strengthen this budding ecosystem. For example, startup Grain provides the capability to capture Zoom video snippets and redistribute them. Other virtual collaboration tools gaining attention include Notion Labs, which recently achieved a $2 billion valuation; and Figma, which is reportedly in talks to close a deal at a similar $2 billion valuation.

While many of these investments were initially viewed as continuity solutions, enterprises will nonetheless seek to extract as much ROI as possible, increasing the chances their use will persist well into the economic recovery. To the extent that forced adoption and integration of remote-work capabilities improve productivity among location-based organizations, this will further strengthen the argument in favor of fully distributed models. Over time, allocating budget to distributed and remote capabilities could emerge as an ongoing investment priority, similar to the digital transformation initiatives of the past decade.

### Fully distributed VC-backed startups

| COMPANY | INDUSTRY/ PRODUCT | LAST VC DEAL CLOSE | DEAL SIZE ($M) | POST-MONEY VALUATION ($M) |
|---|---|---|---|---|
| **GitLab** | Software development | September 17, 2019 | $268 | $2,750 |
| **Automattic** | Publishing platform | December 26, 2019 | $381 | N/A |
| **Close.io** | CRM | March 5, 2015 | N/A | N/A |
| **Zapier** | App integration | November 25, 2014 | $1 | N/A |
| **Digits** | Fintech | December 20, 2019 | $32 | $167 |
| **Toptal** | Freelancer network | July 1, 2012 | $1 | N/A |
| **Invision** | Design platform | December 11, 2018 | $115 | $2,000 |

**Source:** PitchBook | **Geography:** Global

## Organizational advantages of being remote

Traditionally, employers who allow remote work have justified the practice as primarily a flexibility and convenience option for employees who need to work remotely some of the time. However, allowing remote work occasionally is not the same thing as strategically deciding to be a fully distributed organization. For these employers, the benefits of being fully remote outweigh the alternative. These include the cost savings from not having central facilities; improved morale by giving employees ultimate flexibility and the ability to live in less crowded or less expensive locations; and the ability to hire from a global talent pool without having to compete for candidates in dense cities. These justifications could become more acute in the near term as organizations seek ways to reduce costs and improve productivity during lean economic times.

When it comes to hiring, demographic trends are clearly supportive of distributed businesses. As millennials increasingly begin to start families and prioritize space and quality of life, this could reduce their preference to live in dense urban locations (a trend already supported by census data). Post pandemic, trends supportive of remote work will include ongoing fears of future virus outbreaks, as well as a growing environmental focus as workers view remote work and the ability to eliminate lengthy commutes as conducive to reducing carbon footprints. While employees who work from home may have historically hesitated to relocate to smaller towns for fear of finding themselves unemployed in a city with few alternatives, a robust distributed employer base will help decrease this risk.

Despite these cost and recruiting advantages, few employers have been able to make a convincing argument that remote work actually results in a better product, or that it creates the conditions where something could be created that could not be done in an office. Yet once the distributed economy passes the tipping point, this view may change. As remote ecosystems are built, and companies become fully distributed, this will drive new product opportunities and changes to corporate culture that could lead to new levels of productivity. In the same way the era of digital transformation enabled digital-first companies to disrupt their non-digital counterparts (as we saw with ecommerce versus retail and ridesharing versus taxis), distributed organizations could find they have an inherent edge over location-based companies.

## Wide-ranging impacts of distributed work

To the extent that the next class of venture-backed distributed startups ushers in a new era of increased remote employment, the social, economic and political implications could be significant. The removal of geographical constraints on business formation and job location would likely drive a long-term trend of de-urbanization of labor and capital. These impacts are likely to be most widely experienced in large cities, where skilled labor and investment capital is largely concentrated. As employees spread out to rural locations, they will take their salaries with them, decreasing the tax base of cities and causing a decline in economic activity. Rural areas will be the beneficiaries of these trends, as the influx of employed workers drives more economic activity and attracts investment capital.

Politically, the trend of blue-staters relocating from technology hubs and potentially diffusing across red states has the potential to reduce the stark geographic divisions between Democratic and Republican parties, dramatically reshaping the current political landscape.

From an environmental perspective, much research has been written about the positive impacts of telework, which could curtail lengthy commutes that create traffic and congestion in cities. It's also likely that work travel could decline as employees take fewer work trips in favor of virtual meetings.

A study by the National Bureau of Economic Research released at the onset of the COVID-19 pandemic estimated that up to 37% of US jobs could feasibly become fully remote.[3] This implies an upper bound of roughly 39 million jobs, a significant increase from the current 5 million remote workers. While not all new remote jobs would result in employees moving to new locations, the scale of these numbers is significant enough that even a fractional impact would likely have significant and long-lasting implications.

3: "How Many Jobs Can Be Done at Home?" The National Bureau of Economic Research, Jonathan I. Dingel and Brent Neiman, April 2020