

NOW Podcast

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Making a Living While Making a Life: The Power of Microbusinesses with Etsy and GoDaddy

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KEN STUZIN: Hello, this is Ken Stuzin. I'm a partner at Brown Advisory. Welcome to the NOW Podcast. NOW stands for Navigating Our World. Through these discussions, we try to better understand the world to navigate some of the most pressing questions that are shaping our lives, our culture, and our investment challenges. As we look to the future, whether we agree or disagree with each other, the one thing we know for sure is that none of us can figure this out on our own. At Brown Advisory, we are focused on raising the future and we hope these NOW conversations will help us do just that.

EMMY WACHTMEISTER: Venture capital – and the high growth entrepreneurs, and companies that are funded with venture capital – get a lot of headlines. But there is an important category of entrepreneurs that don't get as much attention, but they contribute significantly to economic growth. These are entrepreneurs who run microbusinesses. They have fewer than 10 employees. And often, they're solopreneurs. Not only do these entrepreneurs drive economic growth, but they also contribute meaningfully to the health and wellbeing of their local communities.

In the past, these microbusinesses would have built their companies from solely local customers, selling their goods at a farmer's market or craft fair, or opening a brick and mortar shop. But online platforms like Etsy and GoDaddy, mean these entrepreneurs can access literally a world of potential customers, no matter where they are located. And these small, but global businesses contribute meaningfully to the growth and vibrancy of their local communities.

I'm Emmy Wachtmeister. I'm a partner at Brown Advisory, an equity analyst covering software companies, and the associate portfolio manager of our mid cap growth strategy.

I wanted to explore this world of microbusinesses. So, I sat down with two experts, Althea Erickson, VP of global public policy and impact at Etsy, and Alex Rosen, director of GoDaddy's Venture Forward Group. Etsy's community of more than four million sellers and GoDaddy's 20 million customers, where every day entrepreneurs give these companies an unusual window into the economic power of microbusinesses.

Althea and Alex, thank you so much for taking the time to do this. Welcome to our discussion about microbusinesses and their impact on communities. I'm really excited to hear what you have to say.

Both Etsy and GoDaddy had placed somewhat unusual focus on social impact. I would love to hear each of you explain why this is important to your companies. And why don't we start with each of your roles? Althea, what is your role at Etsy?

ALTHEA ERICKSON: Thanks so much for having me. So, I play a few different roles at Etsy. I lead our advocacy team, which includes government affairs, but primarily through the lens of advocacy on behalf of our seller community. I also oversee our social innovation and philanthropy work, which is focused on helping creative entrepreneurs. And also have led our overall impact work, which ensures that we both make and deliver on a broader set of ESG commitments.

In terms of our focus on social impact, for Etsy, our mission is to keep commerce human. Then our mission really has been the core of our company from the beginning. I think we are really lucky to have a business model that's rooted in economic empowerment. And we host over four million creative entrepreneurs. 81% of them are women. And most of them are businesses of one, working out of their homes. Last year, they together sold over \$10 billion worth of goods. And most of that is money that's going into their pockets. And that matters for their families, for their communities and the broader economy. And they're creating jobs. So, I think we recognize that the business is important and that our core business drives that impact. And that's makes us who we are.

But we also don't operate in a vacuum. We know that there are larger forces, public policies, systemic racism, climate change, that influence creative entrepreneurs' ability to start and grow successful businesses. And we don't shy away from that. We really lean into trying to shape that broader environment, and not just through our business, but through our actions in the greater community as well.

EMMY WACHTMEISTER: That's wonderful. I'm excited to dive into a lot of those points. Alex, what is Venture Forward and why does it exist at GoDaddy?

ALEX ROSEN: Great question. And also very excited to have this chat today. So, Venture Forward is an initiative that was started by GoDaddy a few years ago. And it basically looks at 20 million ventures or microbusinesses across the United States. There's a class of entrepreneurs out there that we're really trying to shine a light on at GoDaddy. They've created millions of businesses. And so, this 20 million is the effort to help really see them, see their work, so that we know how to invest in supporting them.

We once heard and we like to say, you can't create policy for what you can't see. And today's entrepreneur can look very different than what might be traditionally thought of as an entrepreneur. It's a lot of women. It's a lot of different demographics. And we want to make sure that they're fully seen, so that they could be understood how to help them. They've been oftentimes missing a seat at the table when we talk about the economy. And we've been able to not just quantify, but also here to communicate their impact, not just what and why they do it, but also how they benefit their local communities. And therefore, as cities think about planning and moving forward, and what they can do economically across the board, really understanding the impact of this population.

EMMY WACHTMEISTER: And what types of data does Venture Forward collect?

ALEX ROSEN: We look at the number of micro businesses down to the zip code and communities. We look at activity levels. So, everything is anonymized and aggregated, but it really helps understand the density because we want to compare apples to apples. So, we look at microbusinesses per a hundred people in a community, how that shifted. We have a lot of amazing insights of how that activity level changed during COVID times as 60% of entrepreneurs found it helpful to shift their businesses online or leverage their websites to communicate better with

customers. Actually about 80% of them serve markets immediately outside their community. So, not just only in their immediate neighborhood. And so, that's very interesting of when we measure these things, to understand the income, as Althea said, that's brought into their pockets and really also brought into their communities that affect the job creation they do, the median household income growth, the economic resiliency.

So, we look at the data as mentioned of the number of these microbusinesses and activity, but also we overlay it and do all kinds of analysis and regressions with public data sets, so that we can measure that impact on those other traditional economic factors.

EMMY WACHTMEISTER: You both touched a little bit on some characteristics of some of the microbusinesses you guys are seeing at Etsy and GoDaddy. But as a public equity analyst covering technology companies, when I think of the word entrepreneur, I think of mid-twenties, white male, wearing a t-shirt, running a software company, that's been funded with venture money. Who is the entrepreneur that Etsy serves, that GoDaddy serves? And is it this picture that I have in my head of what the entrepreneur is?

ALEX ROSEN: That's such a core part as we shift towards a more inclusive economy, is really understanding who they are, like you said. GoDaddy serves everyone. And in terms of the data we looked at, 92% of them are less than 10 employees. And about 54% are what we call solopreneurs or no employees. One in four are either part-time or not in the traditional workforce. So, it might be a stay at home mom, a veteran, a student, someone who otherwise might not be captured. And one and two also have a brick and mortar presence as well as an online presence, so they can run the gamut. They're not only focused on high-tech.

So, in that definition, you mentioned a lot of times we'd assume they're in some major city tech hub. And so, that's where the attention goes. But the everyday entrepreneur at GoDaddy can be in a red state, blue state. They can be in a small town, big town. And their impact still matters. For every one, everyday entrepreneur, there's about two jobs created. And so, they can be of every age. We find that they have every industry covered. And they can use it for main income or supplemental income. And a lot of times really wish that it was their main income. So, not a startup bro who works 25 hours out of 24 hours in the day, but it might be a second job. It might be a part-time job when they have time. It's their way of making a different future by working on their own schedule as well.

EMMY WACHTMEISTER: That's wonderful. Yeah. Althea, what are you seeing at the Etsy entrepreneur?

ALTHEA ERICKSON: This conversation is music to my ears because it's focused on the microbusiness. And I think I usually, when I'm talking about our seller community, they have to start by saying, look, they're not the small business you have in your head. They're microbusinesses. 81% of our sellers are women. Almost all of them are businesses of one - of the solopreneur - that Alex was talking about. I think it's 97% of them work from their homes. I think it's about 30% of our sellers, their creative business is their sole occupation. It's their full-time gig. For the rest, they're supplementing other forms of income. And that really runs the gamut. So, they do tend to be more likely than the average population to be self-employed.

So, you could imagine, for example, like a freelance graphic designer, who also makes and sells stationary on Etsy. And she's combining income from multiple sources to put together a living. And that income is important to her, right? It's helping her pay her household expenses, her bills. So, they are the very small microbusinesses. But I think because they are small, we can tend to undervalue their contribution. And so, we know like many little things that actually do add up to big things.

And together, Etsy sellers last year created over 2.8 million jobs in the United States. That is greater than the City of Houston. But if there were an employer that was creating 2.8 million jobs, we would all know that person's name and be celebrating them as a job creator. And I think we can really overlook these entrepreneurs because they are these businesses of one, in some cases, combining income from other sources. What follows from that is that their needs and concerns are very different. And in fact, their ambitions may be very different.

I think when you talk about the tech entrepreneur who's funded by venture capital, the goals there are like, growth, growth. "How quick can I grow? How many employees can I hire? How much money can I raise?" I think for our sellers, often they want to grow their business very large, but not necessarily so large that they need to hire another employee. And so, I think that thinking about what we'd often talk about success on your own terms and what success means to you. And I think really centering yourself in the lived experience of the micro-entrepreneur has ripple effects on how you think about the challenges facing small business and also their needs.

EMMY WACHTMEISTER: You both mentioned things around the vein of a lot of these entrepreneurs, their business's supplemental income. Althea, you mentioned success on your own terms. Do you think this shift in the way we work, in how household income is arrived at in the family unit, do you think this is a material evolution from how we did things five, 10, 20 years ago? And if so, do you think this is a permanent evolution, a change? I'm curious on your views on whether this is a persistent trend?

ALTHEA ERICKSON: I do think it's a long-term trend. And I've actually, I've worked at Etsy for almost 10 years, so I've at least had a front row seat for 10 years of growth at Etsy. And I think over the long-term, it's really access to technology that have reduced these barriers to entrepreneurship. And I think something that a platform like Etsy does is, it only costs 20 cents to list an item. It's only a 5% commission fee. In that case, it's quite inexpensive to dip your toe in, to take that idea that you daydream about at your day job, and go put it up online and test out whether or not you can actually find somebody to purchase that item. And if you do, you can pick and test multiple product lines. And you can do that without hiring a single employee or taking out a loan.

And so, I think the more that we're reducing the barriers to entrepreneurship in this way, the more we will see many more people trying it out and hopefully finding success and finding the ability to meet multiple life goals at once when they do that. And I think that many people dream about going out and starting their own business. And I think companies like GoDaddy and Etsy make it possible to try. I can't see why that trend wouldn't continue in the future.

I completely agree. I think it's really been accelerated. And in certain ways that's been really interesting to watch as we saw people have to adapt in different ways. And we find that the people who make up GoDaddy and Etsy customers, and all these entrepreneurs are extremely agile and are able to adapt.

And we saw at GoDaddy, for example, the activity, the traffic, more than doubled during the time of COVID, as people were, unfortunately, stuck at home. And we saw different trends happen of, we could even see what were the industry categories that were picking up. It was home improvement projects. It was business services related things. And so, it's such an amazing lens into what's happening.

And also, one thing I actually heard Althea, say once that I loved, was that these entrepreneurs, they make a living and they make a life. And so, when we have these technology barriers reduced, when it's super simple, whether on Etsy or with GoDaddy, you can get online and have a single page in under an hour, set up your website and go. You are making your dream come true.

And oftentimes, before anyone registers as a small business, the first step to making that dream true is registering their domain or setting up their online store. That's a moment at first becomes real before they've even committed to, "I'm a business owner." Because that's an identity that sometimes takes longer to step into. So, absolutely very excited for this shift to stay as more people are able to pursue things on their own terms.

EMMY WACHTMEISTER: Do you have any sense of what people were doing before and whether this is an evolution of people that were starting their own businesses before or a new wave?

ALTHEA ERICKSON: I think it's really that the scale of opportunity is so much greater. So, for sure, if you think about the Etsy context, you had people making and selling their goods, and they were doing that in craft fairs. Craft fairs existed long before Etsy existed. People had vintage stores, et cetera. But what they didn't have, was if you were in a rural town, the ability to suddenly reach millions of buyers all around the world, and in Europe, and in far-flung countries, where for many Etsy sellers, their first sale may be an export. I don't think those kinds of opportunities were there previously.

And then I think the other thing is you have a very large brand backing up your brand. And so, that gives buyers trust that they can find you online and purchase a good, and have trust that it's going to be delivered. And it's going to look like as you say it's going to look. And so, I really see it as a, of a widening of the aperture of opportunity as opposed to create creating a new one wholesale.

ALEX ROSEN: I would agree that I think, I love that concept of scaling up the opportunity. Because we know that already a lot of them, like we mentioned, about half, have both an online presence and a physical presence. And actually what we found in Venture Forward is 80% of sales go to outside of the immediate community for these microbusinesses when we surveyed them. So, this wasn't just a shift, but this is an expansion. That in the past, if you're a business owner, you have to think about, you're born into a community and you're limited to that community potentially. And you have physical boundaries to it. And here it's an extension or a different dimension of the opportunity.

Of course, local business is so important, and that investment, and that benefit and that return on investment for anyone who invests in these entrepreneurs comes back to that community. So, I'm in no way saying that local communities are not an important focus and that we should all only shift online by any means, but it's such an opportunity for that reach and that ability to interact on multiple levels, and for them to have multiple sources of income, and to have that flexibility and agility that matches their mindset, and really merges that supply and demand that they're not bound to however their community is performing.

I think the other thing there that we've been so excited as we've worked with local policy makers, whether it's a small town like Denison, Texas, or in Gilbert, Arizona, which is a larger town right outside Phoenix. Right now, people are moving. And so people, they have more flexibility in where they live as well. And so, cities want to make sure they're attractive and they're creating a fertile ground for these people to thrive. And so, I think that the physical locations of where they can sell and what that community offers to help them is still such a key factor.

EMMY WACHTMEISTER: What insights have you been able to glean on your constituents and what does this data tell us about the impact of these businesses on their communities?

ALTHEA ERICKSON: So, we recently did an economic impact study in the US and found that in the last year alone, Etsy sellers contribute over \$13 billion to the US economy. Again, that's a big number and it's a meaningful contribution. I think they generated just over \$4 million in income. And that's money that's going into households

pockets. And I think the numbers are big, but it's actually, when you drill down into the specifics that it becomes more meaningful.

So, we ask our sellers, "What is the primary thing that you spend your revenue on?" And right after plowing it back into their business, they say, household expenses such as bills, et cetera. So, that's extra income that they can use to pay for sports for their kids or whatever it is that they may need.

I think we also know that our sellers are spending the majority of their money, either purchasing supplies or hiring vendors in their local community. So, they're driving the income that they do earn right back into other local businesses that they're enabling and supporting.

And then we know it has a big impact on the national economy too, right? It's the 13 billion, but it's also all the exports that they're making that they might not otherwise be made. We really have, I think, broken down those barriers to shipping goods across borders, and that is meaningful. And I think a lot of times, when you think about international trade, you think about big multinational companies. You don't think about a woman at her kitchen table, walking down to the post office and shipping something off to Poland, but they do it every day. And so, I do think the impact is really meaningful. And once you start to crunch the numbers, you can see that.

EMMY WACHTMEISTER: I've definitely ordered and received quite a few Etsy goods from overseas. Sometimes without even realizing it.

ALTHEA ERICKSON: Me too. I have a big order coming in from Latvia of Latvian wall hangings that I am really excited about.

EMMY WACHTMEISTER: Oh, that sounds beautiful. Alex, what is GoDaddy seeing in the data?

ALEX ROSEN: We are seeing such exciting results in terms of the return on investment impact of these everyday entrepreneurs. When we look across the US, we see that if you look at median household income growth over the last couple of years, if you just had one more very active microbusiness in your community per a hundred people, that would add \$485 to each median household income, which is a huge difference in impact on that community. And we're seeing a different, depending on the community, it means even more to some lower income.

We see that they also, the presence of microbusinesses, helps with economic resilience. It helps with recovery from the last recession. And during COVID, it helped bring down the unemployment rates in that community.

EMMY WACHTMEISTER: You mentioned COVID, this year has been crushing for many small businesses. How have your entrepreneurs responded to this unprecedented period?

ALEX ROSEN: During COVID, we saw that a lot of more traffic and transactions picked up online as people shifted, where they were spending their time, attention and their money.

EMMY WACHTMEISTER: Althea?

ALTHEA ERICKSON: What a year it has been. I think COVID impacted our sellers differently and the experience has been varied. So for some, like you could imagine those in wedding supplies or party supplies at the beginning of the pandemic was rough for them. And we did a bunch in terms of waiving fees and subsidizing advertising for those folks who are suffering, especially at the beginning, when it hit out of nowhere. I think for others, especially those,

for who example, pivoted very quickly to start making masks, it was a lifeline and a way to earn income when other sources of employment dried up. Our CEO compared the moment when the CDC issued guidance recommending that everyone wear masks as like our Dunkirk moment.

Josh Silverman, CEO of Etsy, clip: *"We all of a sudden saw overwhelming amounts of demand come onto our site. It's as though we woke up and it was suddenly Cyber Monday, but everyone in the world wanted only one product. And it was a product that basically didn't exist two weeks before."*

And we moved very quickly to change the product experience, so that you weren't finding costume masks when you were searching for masks. And I think overall that experience brought a lot of people to Etsy for the first time, but who maybe now are coming back for other things that they may not have thought of Etsy for in the first place. So, yeah, for sure, it's been an incredible year, I think.

EMMY WACHTMEISTER: The pandemic has had a disproportionate effect on communities of color, both in terms of health and economic incomes. Do you think economic impact can be a tool for racial equity? And if so, what needs to change to start to even the playing field?

ALTHEA ERICKSON: Yeah. We spent a lot of time thinking about racial equity and racial justice. And that's been a longtime focus for Etsy. And I think even before the racial justice protest this summer, we had set goals around representation in our marketing materials. And really we're working hard to make sure that Etsy as a marketplace feels and felt welcoming and inclusive as a place for both buyers and sellers of color.

We're also in the new unique position of being able to promote and support black owned shops and to make sure that communities of color are able to benefit from the economic opportunity at Etsy. But we also know that racial injustice really is far bigger than Etsy and on our marketplace, which is also why we bring an explicit economic justice frame to the public policy work that we do in the advocacy work that we do.

So, we have been advocating for a long time for improved support for microbusinesses. Most minority owned businesses and women owned businesses are businesses of one. And so, there's a real overlap there in those issue areas and around the COVID relief packages.

Over this year, we spent a lot of time advocating for targeted programs, trying to make sure that the PPP loans included the self-employed and sole proprietors, as well as the Pandemic Unemployment Assistance Program, again, was made available. And then also making sure that we're advocating for policies that are explicitly designed to support and enable minority owned businesses. And I think we will only continue that work going forward, really trying to make sure that the policy infrastructure also is enabling and supporting businesses run by people of color and also women.

EMMY WACHTMEISTER: Alex, did you have something to add there?

Alex Rosen: We spend some time also trying to better understand the different types of entrepreneurs, the black entrepreneur and their unique needs. And what we found was really interesting, is there's sometimes in general, everyday entrepreneurs are way more optimistic about the future of their business than about the economy. And we think that's because they have more control there and they feel empowered in that way.

And black entrepreneurs in particular are more optimistic than any other population surveyed, significantly. And it's really about getting out of the way sometimes in combination with also understanding the needs of what can help

them. We also found that they're the most likely to have an online only business. That during COVID, their website helped them more than the general population surveyed. And they're more likely to have it as a supplemental income, but want it to be their full-time income.

And we do think that in general microbusinesses are an amazing lever that can be pulled economically to help just general prosperity as well as black economic inequity and address the equity there. So, investing in black businesses, it's not just about being the right thing to do, but it's also just the economically smart thing to do, because their ventures, again, also create jobs, create household median income gains, create resiliency.

EMMY WACHTMEISTER: I'd love to hear more about what GoDaddy and Etsy are doing in local communities. Alex, can you tell us the story of the e-commerce accelerator in Denison, Texas? I know you mentioned that before.

ALEX ROSEN: So, Denison, Texas is such a fun one. Denison is a town about 75 miles outside of Dallas.

News clip: Early on, the first month of COVID, we were reeling trying to figure out how we could be of value in service to our local businesses that were reeling.

And when they found out the number that median household income goes up by over \$400, they thought, "Okay, what can we do to help our community during this time, during COVID?"

We took that information to the mayor. And the mayor said, "Make that happen." And so we created an e-commerce accelerator grant.

And so, they decided to set up an accelerator, specifically focused on e-commerce, that businesses locally can apply to, to get grants and expand. What their mayor said was, many were talking about surviving. They got to talk about thriving by shifting this focus into micro businesses.

EMMY WACHTMEISTER: And Althea, would you tell us the story of the Quilters of Gee's Bend?

ALTHEA ERICKSON: So, over the summer, one of our nonprofit partners, Nest, approached us with the opportunity to support the Quilters of Gee's Bend, Alabama.

And it's a tiny community in rural Alabama. Most of the folks in that community are descended from slaves, from a nearby former slave plantation.

And they have this incredible tradition of hand quilting that's been passed down through generations of women after women. And their work has already been really widely recognized. They make these amazing quilts that have been featured in, The Whitney and MoMA, and all big museums. But the women themselves had actually never reaped the economic benefits of their fame.

And so, we worked with our partner at Nest to help the women of Gee's Bend, set up Etsy shops and promote them widely. And honestly, you can't believe the success. It brings tears to my eyes to think about how amazing it is. Many of the shops were sold out almost instantly, are continuing to put things up just to have them sold. Again, many of the quilts are selling for many thousands of dollars apiece. And so, it really is just an incredible story of how I think Etsy can be a platform to help folks reach a wider audience.

EMMY WACHTMEISTER: That's Wonderful. Isn't that so common that the valuable contributions of many women aren't reaping the economic benefit of that?

ALTHEA ERICKSON: So true in so many communities. Yeah.

EMMY WACHTMEISTER: That's wonderful. We've touched on policy a little bit, but I know that this is a big focus for both of you, where do we need to go to evolve policy to the reality of the everyday entrepreneur, the microbusiness?

ALTHEA ERICKSON: Yeah. So, this is an area we've thought about a lot. I would say one of the major areas that we've been focused on is expanding the social safety net. I think that the world of work is changing, more and more people are working outside of traditional full-time employment. And yet in the United States, we've tied our benefits system to employment, which leaves many people without access to affordable or portable benefits, whether that's health insurance, retirement savings. Even Social Security is tied to payroll. And really thinking about what is the future of benefits and how can we make them portable and tie them to an individual, as opposed to their employer. And how can we do that in a way where it doesn't matter how you earn income, if you're earning income, you have ways to contribute to those benefits and take them with you from job to job. I think that's one and that's a big one.

And I think we're even seeing in the recent AARP legislation that just passed with the child tax credit, that's part of that bill, that's a universal benefit. That's not tied to employment.

The other thing I'd say on the business side for our sellers is really, simplification and automation is so important. They are businesses of one. And time is their most precious and scarce resource. And we have some data that our sellers spend about 50% of their time making and designing their goods, and 50% of their time on other administrative tasks. And it can become very challenging, very quickly to figure out the rules and the regulations that apply to your business and how to get things done.

And so, to the extent that as policy makers, we cannot just think about how to deal with those problems or think about them as an afterthought, but really design policy with a business of one in mind. And I just would love for policymakers as a broader theme to basically do user centered design where the business of one is at the center. And we build out from there. Because I think if we don't, we always end up unintentionally throwing up barriers that don't need to be there. And that stand in the way of these entrepreneurs.

ALEX ROSEN: I couldn't agree more on simplification all the way. We want it to be super simple. And we found that people oftentimes, they don't have a website because they think it's overwhelming to manage it. Or there's calls we get in our care centers where people are logging in and they're asking, what's the thing at the top of their screen, which is their address bar. A lot of times we don't want them to waste their time, figuring out how to navigate an interface instead of being able to manage their business.

I'm an entrepreneur in residence at the UCLA Accelerator, working with more high tech companies. And they have these complex revenue models and business models. They are solving all these other challenges. But again, the economic impact and the importance of the everyday entrepreneur is, they want to get online and they want to get going.

A couple of the other things we've seen benefit microbusinesses that we've found that are important to them is the ability to access and use broadband. Then comes to that skills training of, "How do I just get started?" That's really it. "And then once I'm started, how do I expand or market myself?"

In addition to broadband and skills training, is also access to capital. A lot of traditional financial institutions are set up for dealing with larger loans. And microbusinesses, a lot of them more than half of them need less than 5k to get started. And so, really understanding how to make it worth the time of the financial institution on such small deals and really help scale and loan that. Women in particular need smaller loans to get started for the same ventures.

And the fourth one that we've seen is risk associated. You have a family, or even if you're on your own, it's so scary to jump. When you don't know where you're to get your insurance from or how you're going to get a 401(k), that's a huge barrier to pursuing your dream or starting an online business, or starting a new business and doing it on your own. And so, the portability of benefits or exploring how to deal with benefits is a fourth area of policy that we think is really important to tackle.

EMMY WACHTMEISTER: Where do we go from here? What's the impact that you would like your work to have in five or 10 years?

ALEX ROSEN: We really hope to be a major contributor to a significant economic shift in the world. And we don't want to just watch it happen. We want to help drive it. And we want to put not just more economic power in the hands of microbusinesses, but just, honestly, shine a light on the economic power they already have.

EMMY WACHTMEISTER: Last question for you, both. What gives you hope?

ALEX ROSEN: Oh, what a great question. What gives me hope is constantly learning more about these everyday entrepreneurs, constantly learning more about what's out there, which is empowering, not just to them, but to us. It's so optimistic and hopeful when you think you know everything about the economy or you think you know everything about just understanding your world, it's those invisible layers as Althea just said, and you realize there's a whole other lens there to add to it.

And what gives me hope is in combination with the learning and information out there is the stage like this podcast and the people who listen to it, because then I am very hopeful that we will make use of this, of what we learn and put in action and we can continue to make a different future, a better future.

ALTHEA ERICKSON: Yeah. I would echo that. I think it's twofold. It's in on one side, it's, like I said, talking to the individual entrepreneurs is so inspiring. And anytime I meet an Etsy seller, I feel hopeful and inspired about what the world and the economy could be. And then I also just have felt a real shift in the public conversation about these issues. And it used to feel like shouting into the wind, "No, no, but it's not that, it's this. It's not that, it's this." And I actually don't feel that as much. I find that more and more of the conversations are more like, "Yes, that and that, and this."

And I think that it is conversations like this that are framed around microbusiness, as opposed to being framed around small business. And then having to shift that frame in to real wins, like the self-employed and sole proprietor is being included in PPP and being included in Pandemic Unemployment Assistance.

I think you're seeing even just a couple of weeks ago, the Biden administration changed the way that the PPP loans are being calculated to allow the self-employed to basically, actually get a little bit larger loans than they were eligible for before. That shows me that we are making progress in really meaningful ways. And that gives me a ton of hope for where we're going in the future.

EMMY WACHTMEISTER: Thank you both so much for this conversation, and also for the work you guys are doing with your companies to empower microbusinesses. I think this conversation gives me a lot of hope about what can be achieved in five, 10, 15 years.

ALTHEA ERICKSON: Thank you so much. I really appreciate it.

ALEX ROSEN: Yeah. Thank you.

EMMY WACHTMEISTER: I'll be back in a minute to chat about some investment takeaways from my conversation without Althea and Alex.

I've been thinking about my conversation with Althea and Alex, and specifically about the investment implications. I wanted to speak with my colleague David Powell, who is the co-portfolio manager of Brown Advisory's Large Cap Sustainable Growth Strategy about what he learned during the conversation. Hi, David, how are you?

DAVID POWELL: Hi, Emmy. Great to be here.

EMMY WACHTMEISTER: Thanks for doing this. You're a long-term shareholder of Etsy, and you know the company really well. First question for you, what struck you most about the conversation and specifically Althea's comments?

DAVID POWELL: Yeah. I think first of all, Emmy, you did a great job with the interview. And I learned a lot. I think when I take a step back and think about these types of conversations, they're so useful for investment analysts and portfolio managers like us, that I think a lot of times get lost in the numbers. We get lost in growth rates and margins and cashflow. And we look at stock prices all day and the stock price changes. And it's just sometimes really good to refocus on the customer, on the human element of the companies. And I think that's exactly what you did with this interview.

We got to hear from a really top executive at Etsy, who's been involved in the company for a long time. We got to hear a lot about the culture of Etsy. And we got to hear a lot about the human element of the seller business, not as much as the buyer side of the equation, but certainly the seller and what that means to individual sellers.

At the end of the day, really important for long-term investors that when things don't work out, as well as you want them to, in terms of growth rates or earnings expectations, every single quarter, if you know the company well, you can take advantage of short-term dislocations and not get overly concerned with quarterly numbers or quarterly misses, or quarterly makes. And I think that's exactly what you've done here with this interview and what our investors should take away from it.

EMMY WACHTMEISTER: Yeah. That's spoken like a true long-term, long only investor.

DAVID POWELL: Just wanted to know from your perspective, being a software analyst for a long time, helping with the mid cap portfolio, obviously GoDaddy has been a big contributor to the success of the mid cap portfolio, and you've owned it for a long time. What did you take away from the conversation?

EMMY WACHTMEISTER: I think a couple things I took away. One was the focus on, and this is true with Etsy too, but the true focus on the customer and really trying to help this large swath of customers that they kept using the word invisible, these solopreneurs that aren't necessarily supported by current policy, whether it's benefits and things like that. And given this evolution of work environment and GoDaddy role in helping these very, very small

businesses get started, Etsy as well. I think my biggest takeaway was, wow, I'm really glad they're focused on looking to the future of how these customers can be more successful.

And so, at first, you may think, why should companies like GoDaddy and Etsy try to be involved in policy and quantifying the number of microbusinesses, et cetera? But they really seem to be capitalizing on this big shift in the way we work and a big opportunity in terms of future economic output, current economic output as well, but future economic output.

And so, I really appreciated from the conversation GoDaddy's really long-term focus on, let's try to skate where the puck is going. And as we think three, five years out, what the economy is going to look like and what are going to be the large contributors to it, setting the company up to succeed in, in that type of environment.

DAVID POWELL: I kept thinking about how these companies, Etsy and GoDaddy have been so successful and what's made them resonate with all these small, tiny little microbusinesses all over the United States, and in some cases, all over the world. And what have they done to attract these types of customers and sellers? And I think one of the things, and you see this with this type of offering is it's got to be super simple. And that's sounds really easy, but it's, I think really hard to do. And they need to hire really, really talented people that can anticipate all of the needs of these various sellers and microbusinesses, and make it just drop dead simple. Because these people are not, a lot of them, probably aren't very tech savvy and they could easily just get frustrated and move on, and start the business or move it online, or go with the domain, or the website, or what have you.

And you see this with Intuit. You see it with Square. And you see it with Etsy. And I think GoDaddy as well. All four of these companies have done a fantastic job of making it so simple to move online, to get payments online, to have your accounting online, sell online. It's really remarkable. And I think that's the common theme.

The other thing I thought about was just scale. And you need to have a huge amount of scale to be successful. And that creates enormous barriers to entry for other players that want to come in. So, from just a fundamental business model perspective, those are two things that I thought resonated for me.

EMMY WACHTMEISTER: Yeah. The simplicity for sure resonates with me as well.

DAVID POWELL: What do you think about the idea of economic empowerment and that sustainability theme or competitive advantage really playing a role in your thesis around GoDaddy or maybe other companies that are using economic empowerment or helping small businesses really drive them forward?

EMMY WACHTMEISTER: I think in software, there's this perception that enterprise software is the best type of business model, because you're selling to the Global 2000. They're very large deals, very low churn. And there's this perception that companies that serve the SMB-- in other words, small and medium sized businesses are inferior business models-- maybe structurally higher churn because of the startup and death rate of small businesses.

But I think what some of these companies have proven, whether it's Intuit, whether it's Square, GoDaddy, Etsy is that these companies can not only serve that very large market of the SMB, but do it profitably and do it with attractive unit economics. GoDaddy has been able to do that through their leading market share and domains. And really their domain leadership has come from strong brand awareness, I think of a lot of other companies too, driving efficient customer acquisition in the SMB through strong brand.

The other thing about GoDaddy that I find interesting is retention because domains are so sticky, that the domain and the website is the first thing you do when you start a venture. And it's also sort of the last thing you shut down. Even if you pause a side gig, a side hustle or a business, you keep that domain, you keep that website in case you want to re-emerge it in the future.

So, customer retention for GoDaddy is in the mid-eighties percent. And for customers who have been there for three or more years, it's above 90%, which those are not numbers that when you think SMB, you necessarily think of. So, I think a lot of these software companies that we're talking about have been able to find areas to really profitably serve the SMB and thus encourage growth in the SMB.

I remember coming out of the financial crisis, there were all these discussions about Main Street versus Wall Street, and Main Street taking longer to recover. 10 plus years later, I think it's an interesting dynamic because Main Street, these brick and mortar stores with COVID, if they weren't already, they're now online. And they used to only be able to serve their local community and we're bound by those limitations. And now they're serving the entire world.

I mean, I mentioned on the podcast when I was speaking with Althea, that I've ordered lots of Etsy goods from countries all over the world. And again, I don't think in most cases when I ordered them, I didn't realize they were coming from other countries. You search for something and you find the best person who makes that thing. And it's irrelevant now where that person comes from.

So, I think there are a lot of interesting dynamics that make this a really attractive market. And companies are doing good by serving this market because to some of the points on the podcast, these sellers, these entrepreneurs, if it's not their full-time job, it is supplementing their household income. It's going to pay bills. That's a positive flywheel you have, where people are being able to make ends meet, having success, starting these online ventures or bringing their offline ventures online. And the companies that are enabling them to do that are succeeding.

DAVID POWELL: Yeah. I think that's such a good point, that flexibility of the small business that was completely underappreciated before COVID. I think that many people would have thought that small businesses wouldn't have been able to survive as well as they have. I think it takes a lot of human ingenuity and a lot of grit and stubbornness to keep going through it. But I think also to your point, the tools exist now to help a lot of these small businesses. And hopefully, we own a lot of the companies that are providing these tools, to not only help companies get back up and sell in different mediums, but also thrive when the economy is going well.

It's funny when I think about economic empowerment as a sustainability theme for Etsy. At least I came at Etsy from a different sustainability theme, and that was more on the environmental side. They were one of the first, or if not the first global e-commerce companies to offset a hundred percent of their carbon emissions from shipping. And so, all of the goods that I've ever received from Etsy at the bottom of the invoice, it says, "The carbon has been offset by Etsy." And that I think makes a lot of buyers feel better about purchasing from Etsy. You don't see that from Amazon. You don't see that from other e-commerce companies.

They've done a great job at moving their IT system to the cloud. And so, they're a hundred percent in the cloud now. And that cuts down on their IT electricity emissions. And then they have a great diversity and inclusion story to tell too, where a lot of the majority of their executives are women, more than 50% of the board members are women. A lot of their IT staff is different nationalities and women. That's very different than a lot of other companies.

EMMY WACHTMEISTER: And their sellers as well. The majority of their sellers are women.

DAVID POWELL: That's exactly right. So, you have environmental focus. You have diversity inclusion. And then you have economic empowerment, which you talked a lot about. It's just, it's icing on the cake almost for some of these companies, particularly for Etsy.

EMMY WACHTMEISTER: Did you have any other takeaways from the podcast?

DAVID POWELL: I was just thinking about a couple of big bullet point items from the fundamental side on Etsy. I mean, obviously the scalability, like a Google, like an eBay, the two-sided marketplace, where they don't have to hold inventory. And then the very high value add, that maybe it's just a different way of saying what we've already been saying. But the mission critical value add that doesn't cost very much. To me over my investment career, that's been such a powerful value add for many, many companies outside of technology, inside of technology.

If you can give somebody something that doesn't cost very much for them, but it really empowers and is mission critical to what they do, that's where a lot of synergies really align for economic growth and business development. And I think both that Etsy and GoDaddy offer that, where it doesn't cost very much, it's pretty simple and you can get up and running pretty fast. And yet it's, as you said, the domain is mission critical. The website today, especially is mission critical. For a lot of micro entrepreneurs, Etsy is becoming more and more critical for them to sell. And to tie it all together, it just doesn't cost very much. So, I think that's a really cool value add.

EMMY WACHTMEISTER:

I remember when we were doing some due diligence calls on Etsy and we were talking to sellers who had done very well on Etsy, and had grown pretty large businesses. And so, had gone outside Etsy and set up shops on Shopify or their own website, et cetera. And to a tee, each one of them said, "I would never leave Etsy because there's a community. There's a customer base that I call cultivated there. That was my original storefront."

And so, we talked a lot about microbusinesses and businesses that remained small, but even those that started small on Etsy and grew, it was amazing to me how sticky the Etsy platform was, even for those large sellers. Because to your point, the product was simple. It worked. But even when they became larger, there was this network effect of, "There's a community here of buyers and of customers who know me and who know my value in what I sell. And so, I wouldn't dare ever leave the platform, even if on a given dollar, I could make more money selling off platform than Etsy." I thought that was really telling in terms of the value of the customer saw of the Etsy platform.

DAVID POWELL: Yeah, that's really interesting. The only other thing I was thinking was my conversation with Intuit. I want to say 2011, 2012, when we first started to take a position. And the point was about talent development. And here's a company that's right in the middle of Silicon Valley. It's almost a baseball throw away from Google. It's right around the corner from Apple, Adobe, you name it. They're all right there in Silicon Valley right next to Intuit.

And how in the world does Intuit attract the next generation of engineer? Why aren't they going to Google? Why aren't they going to Apple? Well, they said, and I believe them, it's because people want to help these types of customers, the small business owner, the micro-business owner, the folks that are just working for themselves and hopefully, driving the American economy forward. And that really struck with me. And they've done surveys. And big, big majority came to work for Intuit because of the economic empowerment strategy that Intuit has. And I'm sure that's true with Etsy. And I'm sure that's true with GoDaddy, and the other companies that we've mentioned. It just adds a whole nother layer to the culture and to the drive that some of these companies have.

EMMY WACHTMEISTER: I know when we've done research about what the millennial and gen Z populations care about, those demographics, those generations care much more about that they're doing good, not just doing well, that they're working for a company where they believe in their mission. And so, you have to believe companies like that, Intuit, Etsy, GoDaddy, et cetera, that that advantage will only grow as more of the working population are those generations where that's just a bigger priority and a bigger focus.

David, thanks for your thoughts. It's really fun to talk through these issues with you as we think about some companies that I cover, but others that I don't.

DAVID POWELL: Yeah, thanks for having me, Emmy.

KEN STUZIN: Thank you for joining us, as we continue this effort to seek out insights that help understand a rapidly evolving world. If you enjoyed listening, we encourage you to subscribe to the podcast. Please look out for our next episode, where we will explore the future of cities and ask the question, can the City of San Francisco recover from its current malaise? Until then, be well and stay safe.