

THE MOVEMENT

---

# THE NEW FACE OF FUNDING

Female CEOs get a dismal 2.7 percent of all venture capital, the fuel for building fast-growth companies. Now armies of women are ditching Sand Hill Road and creating their own funding universe

By **KIMBERLY WEISUL** Illustrations by **HANNA BARCZYK**

INNOVATE



Key. Mimosas and fruit are mostly ignored as a bartender pours mimosas for the boat's guests, a diverse collection of women that includes attorneys, business coaches, a nurse, a documentary filmmaker, and a grandmother-granddaughter team. In sunglasses and mostly low heels (this is a boat, after all), these women will spend the next three hours plotting to overthrow the boys' club that rules the Silicon Valley venture capital scene.

This particular coup is being hosted by Vicki Saunders, a ridiculously energetic five-time entrepreneur with a blond bob and oversized black glasses, who is also the founder of SheEO. SheEO is a startup that wants to use low-interest debt to fund the growth of women-led companies. Saunders's premise is that masses of women could become the major source of funding for the next generation of female entrepreneurs. Her math works like this: If 1,000 women in a city each invest \$1,000, that's \$1 million available for lending to 10 female-run companies. Ideally, she'll recruit women from 1,000 cities, participants will re-up every year, and they'll put the money back in as the loans are repaid. Saunders's big-picture calculation: a billion dollars going to 10,000 female entrepreneurs every year, in perpetuity.

The mimosa-sipping guests are intrigued. Chelsea Galicia, a 33-year-old nonprofit executive director in a black V-neck jumpsuit, likes the fact that SheEO might give her a chance to

back socially responsible companies. "I have a very hard time investing in the stock market because those companies are ruining the environment," she says. Tara McColeman, a nutritionist, says when she was married and applied for a new credit card, her husband was automatically designated the primary cardholder. "We live in a patriarchal society—it's just that way," she says. "I think women do need to band together more."

That the vast majority of these women have never before invested in startups, says Saunders, doesn't hurt SheEO's premise—it's precisely the point. After years of working with entrepreneurs at accelerators

by 2015, she felt she had no choice. "Everything is broken," she says, referring to women's fundraising options. "Why do we want investors who know lots about things that don't work for women?"

To see how broken it is, look at the statistics. While women start companies at twice the rate of men, female-founded companies get only 13 percent of the total angel financing available. According to a study by First Round Capital, companies with a woman on the founding team outperform their all-male peers by 63 percent. But when it comes to venture capital—often the speediest route to building a fast-growth company—women simply aren't getting funded. Female CEOs get only 2.7 percent of all venture funding, while women of color get virtually none: 0.2 percent.

The women who are committed to female entrepreneurs have given up waiting for the venture capital industry to change. In 1999, the portion of venture capital deals that went to a startup with a woman on the executive team was just 5 percent. It's taken nearly 20 years to increase that amount to 18 percent. It's no better when you look at the profession itself. In 1999, 10 percent of venture capitalists were women; today, their number has sunk to just 6 percent.

The idea that women should be funding other women is hardly new. In 2005, a group of mostly Wall Street women started Golden Seeds, declaring that it would make angel investments only in female-led companies. Dozens of other early-stage investment groups have since followed its pioneering lead. Aspect Ventures, for example, was launched by two women, and co-founder Theresia Gouw says the firm sees more female-led deals as a result. Aspect's portfolio is about 40 percent women. That of Broadway Angels, one of the highest-powered gatherings of women in Silicon Valley, is roughly 50 percent.

As empowering as this seems, each of these initiatives hits the same wall: The business model doesn't scale. Each investment partner can do only so many deals and sit on only so many boards. With few female VCs to begin with, there simply aren't enough women with the experience, connections, and desire to raise their own funds.

But what has become clearer in recent years is that there is a hunger among women who've never traditionally thought of themselves as investors. According to a 2014 study by the Kauffman Foundation and Hebrew University, it turns out that when a female entrepreneur tries to raise money on Kickstarter, she is 7 percentage points more likely to be funded than a



#### VICKI SAUNDERS • SHEEO

Vicki Saunders fought the idea of doing something gender-based for decades, but as a serial entrepreneur, she couldn't pass up a big problem—and a huge opportunity. Growth capital goes almost exclusively to men. Her solution is to crowdsource funds for low-interest debt that can help women-led companies grow. Her startup, SheEO, aims to persuade 1,000 women in 1,000 cities to contribute \$1,000 each for five years running—enough to loan \$1 billion to 10,000 women entrepreneurs a year, in perpetuity.

COURTESY SHEEO

PAULA RUDACKI



They're working to train female investors. Forget the sophisticated gatekeepers. Let's open up the gates.

a decade, Sharon Vosmek, as the CEO of Astia, encouraged female founders to do just that. The organization would help entrepreneurs finesse their pitches and decks, and then connect them to investors. "Our job was to source the best deals, and venture capitalists would fund them because it was a meritocracy," she says.

But as Vosmek and others learned, it was never that simple. The industry's problems with sexism and unconscious bias have been well documented. When female founders pitched a business idea designed to solve a female problem, it was unlikely there was ever a female VC in the room (see "Busting Out," page 84). Though male VCs should be

man. Women aren't showing up on crowdfunding sites to back just any kind of business—they are specifically seeking out those with female founders. While an advantage of 7 percentage points doesn't sound huge, if that shift happened in the larger female fundraising universe, the impact would be radical.

SheEO's Saunders is part of a group of women now trying to channel that desire and pipeline of cash to an even larger pool. The money is undeniably out there: Women currently control 39 percent of the country's investable assets, some \$11.2 trillion. About 70 percent of the massive intergenerational wealth transfer will soon go to women, who will inherit once from their parents and again from their husbands (women in the U.S. tend to outlive men by 4.8 years). "Women control a lot of capital," says Darya Allen-Attar, co-founder of the Women Founders Network. "Men connect their capital with power," she concedes. "We don't."

Rather than grow more professional investors, Saunders and her peers are now working to train armies of novice female investors at various levels of disposable income. Forget the sophisticated gatekeepers, they say. Let's open up the gates.

### PRETENDING TO BE MEN

For decades, female entrepreneurs have been told that, yes, they absolutely can get funded by high-profile angels and venture capitalists. They just need to start companies that can scale, improve their pitches, and work on their confidence. For more than

able to evaluate the merit of any early-stage company on the basis of its business plan, market research, and leadership, they would often declare ignorance and go home and ask their wives about it. Vosmek says Sand Hill Road has "a comfort zone," and if you're not in it, "they just shut down."

In 2015, Fran Dunaway experienced this firsthand while trying to get seed funding for her company, TomboyX, which makes men's-style briefs for women. "You could just see their eyes glaze over," says Dunaway, who got her business idea after discovering that typical panties weren't comfortable for women in uniform. Dunaway, who eventually raised 90 percent of her \$1 million seed round from female angels, is expecting her company to take in revenue of \$3 million this year.

Even when there is a female investor at the table, female entrepreneurs still often face an uphill battle. Janet Gurwitch, co-founder of Laura Mercier Cosmetics and the only female operating partner at private equity firm Castanea Partners, remembers presenting Drybar to her male partners in 2011. Drybar is



**NATALIA OBERTI NOGUERA**   
**PIPELINE ANGELS**

As chapter leader for the New York Women Social Entrepreneurs, Natalia Oberti Noguera met a slew of capable female entrepreneurs with great ideas but almost no paths to funding. So in 2011, she founded Pipeline Angels, a boot camp for would-be angels. Participants each invest \$5,000 in a female-run company. "I want women of color, women from the LGBTQ community," says Oberti Noguera. In Pipeline's most recent class, 25 percent are black, 17 percent are Latina, 25 percent are Asian, and 33 percent are white.

coffee shop in Seattle.” Today, Drybar has nearly 70 locations and \$100 million in revenue. Says Astia’s Vosmek: “I don’t think [early] investors are going to be, for women, classic venture firms.”

## BLOWING OPEN THE GATES

Right now, the alternative funding universe for women is just being constructed. If there’s anyone who’s quali-

fied to help design it, it’s Trish Costello, the former CEO of Kauffman Fellows, a startup-financing leadership program. She spent 10 years working to increase the range of people pursuing venture capital as a career. “What we saw was a lot of women left the business,” says Costello. “Even when they were highly successful in terms of their [return], they were often not fully integrated into the leadership of the funds.”

Frustrated, in 2013, Costello left Kauffman to start Portfolia. Instead of trying to convert women into career investors, she’s working to persuade them to make investing a serious sideline. Rather than restrict participation to the well-connected or seriously wealthy, anyone who plunks down \$10,000 in a Portfolia fund—each of which invests in six to eight female-run companies—immediately becomes a Portfolia LP (limited partner). LPs get a front-row seat to the entire funding process: They can watch the entrepreneurs pitch online, ask founders questions, and talk to the fund leads about deal terms and due diligence.

Portfolia LPs like Peggy Northrop, herself an entrepreneur, say the experience has demystified investing. “One thing I had worried about with angel investing is you have to be really, really rich,” says the co-founder of PaperQuilt, a collaborative storytelling platform. “This makes it something you can plug into and learn from. You can develop some confidence.”

Meanwhile, Pipeline Angels’ Natalia Oberti Noguera is providing newbie female investors with an even lower barrier to entry. In 2011, the nonprofit executive founded the New York City-based outfit to increase the number of angel investors who weren’t white, straight, and male. Pipeline offers training for would-be angels, and so far, about 200 women have completed it. As part of that training, each has to invest at least \$5,000 in a startup.

Proof that these more democratized approaches are making a dent will depend on whether the



### TRISH COSTELLO @ PORTFOLIA

For 10 years, Trish Costello worked at the Ewing Marion Kauffman Foundation, running its program that grooms future venture capitalists. But she couldn’t move the needle when it came to the number of women in the industry. So Costello left Kauffman to start Portfolia, which runs female-focused venture funds, with a \$10,000 investment minimum. Investors immediately become LPs (limited partners), getting an inside look at how venture capital works.

The question looming over all this: How much money will it take, really, to level the playing field for female entrepreneurs?

With current rates of funding, to reach parity across just the angel and early-stage VC markets would require about \$7.7 billion. To reach parity across all stages of venture capital would require about \$50 billion. By *Inc.*’s count, there are currently about two dozen early-stage female-focused financing efforts, representing about \$100 million in funding annually.

In other words: We’re not even close.

To fill that gap will require an even broader movement. Women who have their savings parked in retirement funds or who donate to charity will need to be persuaded that putting a fraction of their money in a new business is worthwhile. “Your retirement fund is allocated into companies you have no window into,” says Northrop, the Portfolia LP. “You could put just 1 percent of that into a company you care about.”

Astia’s Vosmek says nontraditional funders are another target. One entrepreneur she worked with ended up raising money from the business wing of the Grosvenor family, which historically has been led by the Duke of Westminster. “They’ve been investing for 1,200 years,” says Vosmek. Now she is courting philanthropists interested in world-changing ideas. “We’re pointing out that early-stage investing can look a lot like philanthropy,” she says.

Of course, the risk tolerance of women who’ve never invested before has yet to be tested. A SheEO member might not think \$1,000 is a lot until a company that SheEO funds is unable to repay it. Portfolia’s Costello and Astia’s Vosmek are trying to manage expectations accordingly, making it clear to their investors that they aren’t trying to bet on the next unicorn. Their goal is to fund companies that are successful, whatever that might mean.

Back in L.A., *Dandean* is about to return to port. SheEO’s Saunders won’t know until late fall how many of the women aboard will join her movement. Earlier this year, a SheEO pilot in Toronto persuaded 500 women to each fork over \$1,000. By September, Saunders will have hit San Francisco and Denver. Getting to 996 more cities will require many years, and many more mimosas. But when one woman on the boat approaches Saunders with a question, she’s reminded why the hustle will be worth it.

“Can I write you a check right now?” she asks.

—  
KIMBERLY WEISUL is an *Inc.* editor-at-large.

COURTESY TRISH COSTELLO

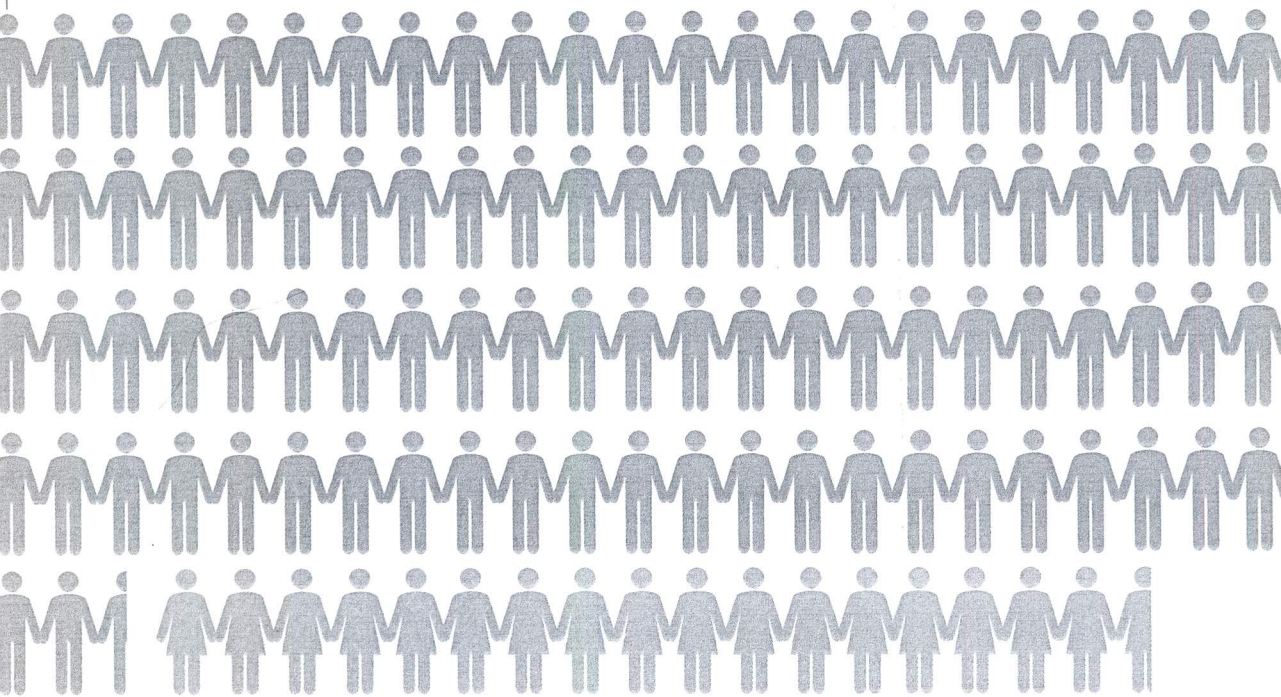


# MIND THE GAP

Female entrepreneurs start companies at twice the rate of men but get dramatically less capital. *Inc.* pulls back the curtain on the financing gap. *By Kimberly Weisul*

1 = \$100 MILLION

TOTAL EARLY-STAGE FUNDING \$11.2 BILLION



**\$9.45 BILLION**

\$4.33 BILLION IN EARLY-STAGE VC  
\$5.12 BILLION IN ANGEL FUNDING

**\$1.75 BILLION**

\$950 MILLION IN EARLY-STAGE VC  
\$795 MILLION IN ANGEL FUNDING

**\$7.7 BILLION**

TOTAL EARLY-STAGE  
FUNDING GAP

**NO AMBITIOUS, BUT POSSIBLE, WAYS TO CLOSE THE FUNDING GAP:**

**INVESTIBLE ASSETS**

...making just a 10th of 1 percent of the \$11 trillion in investible assets controlled by women and using it to back female entrepreneurs

**PHILANTHROPY**

...redirecting to female entrepreneurs just 4 percent of the \$265 billion individuals give to philanthropy in 2015



"We had predicted an inflection point in the number of venture-worthy women entrepreneurs, and now we're there."

—EDITH DORSON, co-founder, Women's Venture Capital Fund

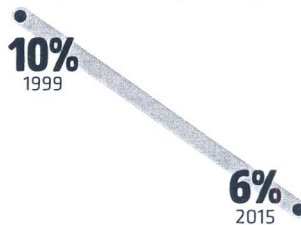
**\$59 BILLION**

The total amount of money invested by VCs last year. Who got it?



**PERCENTAGE OF FEMALE VCS**

The already-small portion of women venture capitalists has dropped over the past 16 years.



KATHY W. ELSSEER

Sources: PitchBook, National Venture Capital Association, the Babson College Diana Report, Digitalundivided's Project Diane, the Center for Talent Innovation, Indiana University Lilly Family School of Philanthropy