

Out of \$85 Billion in VC Funding Last Year, Only 2.2 Percent Went to Female Founders. And Every Year, Women of Color Get Less Than 1 Percent of Total Funding.

Not only that, under 3% investment professionals at VC firms are black or Latinx. Meet some up and coming entrepreneurs and investors that are working to change the game.

December 12, 2018 15+ min read

“You’ve clearly got what founders are made of, but I hope you’re not planning to get pregnant anytime soon.”

As the co-founder of comprehensive maternity healthcare company Mahmee, CEO Melissa Hanna is an expert when it comes to fielding questions about prenatal and postpartum care, but she was shocked that she would be asked to discuss her own body as part of the fund-raising process for her business.

It was 2015, and she was meeting with a thirty-something, white, male venture capitalist who was close to putting \$100,000 of early-stage funds into the company.

As soon as he said it, Hanna recalls, he “kind of cringed a little bit, even knowing that he’d said that out loud. But then he said, ‘Yeah, you know, I mean, female founders ...’ and left it hanging in the air.”

At the time, Hanna had been running her company for nearly two years, with growing revenue and brand recognition to show for it. The deal could have been a fruitful one for both parties,

but the comment brought any potential working relationship to a halt. She recalled to *Entrepreneur* how she volleyed a question right back.

“I said, ‘Yeah, I hear you. I understand your concern. I’ll let you know I’m on birth control, I’m on the pill. And I hope that you also ask all of your male founders, when they’re pitching, if they’re using condoms. You do that, right?’ I just leaned into it,” Hann said. “If someone is going to pointedly reject you on a factor like that, you have to just be so on the nose about it back with them. They did not respectfully engage in that conversation with me. So, why should you save them from their own inappropriateness?”

She recalled another meeting that took place about a year later, that was particularly eye-opening about what she was up against. The company’s CTO Sunny Walia was with her. A significant chunk of the time in the room with the VCs was spent on her background and credentials, discussing things like what her college thesis topic was and who had paid for her education. Up until that moment, Hanna said, she had thought that line of questioning was just something all founders went through.

But after the meeting ended Hanna said, Walia expressed surprise. Prior to joining Mahmee, Walia’s previous CEOs all had had fairly similar backgrounds: wealthy, older white men who were building tech companies, who had track records and existing relationships with many people in the investing space. None of his meetings with them had gone like this one. Hanna said that moment crystallized what she was beginning to understand: as a female founder of color in her late 20s who was effectively a stranger in these rooms, she was working with a completely different set of expectations to the white, male founders that Walia had worked with in the past.

“To have had a room of VCs spend one-third of my time with them, debating me and my credentials and my capabilities,

before I even got to pitch what the company was doing: That is the challenge of being a 'non-typical founder,'" Hanna said. "In a nutshell, you don't get as much time, you don't get as much money. You don't get as much respect. And yet you're still expected to make the same returns." But, she is quick to add, "This is not a 'woe is me' kind of story, this is not about being a victim of Silicon Valley, it's about being successful despite the odds against us."

Related: Why Women Entrepreneurs Can Do More With Less

Who gets funded?



Image credit: Susan Lyne

The percentage of venture-backed companies with female founders has been stuck at approximately 17 percent since 2012. In 2017, women only got 2.2 percent of the total VC funding for the year, which was \$85 billion.

“If you [the investor] sit down and you think to yourself, *this person couldn’t possibly build a billion-dollar company*, if you start the meeting with that mindset, how is someone supposed to pitch a billion dollar idea to you?” Hanna explained.

According to DigitalUndivided’s biennial Project Diane study, which looked at the state of black women founders in the United States, since 2009, businesses led by this cohort have raised \$289 million of the total \$424.7 billion raised during this period – or just .0006 percent of the pie.

A Stanford University survey in 2016 found that roughly 1 percent of all Latinx-owned businesses launched between 2007 and 2012 in the United States fundraised with venture capital or angel investments.

On the other side of the table, a 2016 study conducted by Deloitte and the National Venture Capital Association found that just 2 percent of investment professionals are black, 1 percent are Latinx and 15 percent are Asian/Pacific Islander.

“The underlying issue for why there isn’t more money going to women and underrepresented minorities is that those are not the people who are around the table making investment decisions,” said Susan Lyne, managing and founding partner of BBG Ventures, an early-stage fund focused on consumer internet and mobile startups that have at least one woman founder. “Changing or increasing the diversity among the investment partners is what’s going to have the long-term impact on funding.”

Related: Why Is This VC Firm Doubling Down on Women Entrepreneurs? Because It’s Good for Business.

Creating a pipeline.



Image credit: Natalia Oberti Noguera

As of 2017, among the top 100 venture capital firms, eight percent of partners are women, and eight firms in the top 100 added a female partner for the first time last year.

Recent projects have identified black and Latina women leaders in the VC world. These include *The List of Black Women in VC*, spearheaded by Sydney Thomas, an investment associate and head of operations at Precursor Ventures and the *List of Latinas in VC*, from Unshackled Ventures senior associate Maria Salamanca and Jomayra Herrera, an investor at the Emerson Collective. The two lists contain 64 and 28 women, respectively.

One of the women on Salamanca and Herrera's list is Natalia Oberti Noguera, the founder and CEO of Pipeline Angels. Since launching in 2011, more than 300 women and non-binary people have graduated from the organization's angel investing boot camp. Thirteen percent of the new investors were Asian, 18 percent were black and 7 percent were Latinx.

"In 2012, there was a very well-known white guy, [Silicon Valley investor] who was asked at a tech conference, 'Who do you invest in?' And his answer was, 'Someone like me,'" Oberti Noguera said, describing what inspired her to grow her organization in its early days. "I was interested in turning that concept on its head. If we invest in what looks like us, if we invest in what's familiar, then let's get more of us on the investing side, because we're going to be more open about investing in more of *us* on the entrepreneurship side."

An integral component to Pipeline Angels are its pitch summits in cities like New York, San Francisco, Boston, Seattle, Chicago and San Juan, Puerto Rico. Oberti Noguera said that it has always been important to use language that makes people feel included. The summits' application page says, "We encourage ☐ anyone ☐ who identifies ☐ with womanhood – ☐ cis, trans, third gender – to apply."

The structure of the pitch summits themselves is also meant to create as many possible lines of communication as possible between the founders and investors. "I want to make sure that we're not perpetuating the systems that we're aiming to disrupt," Oberti Noguera explained. "A lot of money is stuck in the status quo."

Part of that M.O. is inviting the founders at the Pitch Summit to stay for the entire event, not just the few minutes they have on stage – particularly since many of them have never pitched before. Oberti Noguera's goal is to establish a more collaborative and less lonely environment that expands the definition of angel investing, making it possible for everyone

to leave one of her events with something of value, even if it's not a check. Part of that is making sure that the entrepreneurs attending get to meet one other and have one-on-one time with the Pipeline Angels members outside of the context of a five-minute pitch or a 10-minute Q&A session.

"Yes, it's financial capital," Oberti Noguera said. "But it's also the human capital and the social capital, the connections, the network, as well as the skills, expertise and the background that our members and angels, in general, can provide an entrepreneur. Just being able to witness how other founders talk about their businesses, how they pitch and what questions are asked is a really helpful way for them to learn."

Oberti Noguera added that she also wants to help aspiring investors get their foot in the door through the Pipeline Angels' VC in Residence program. "Bet on new talent – women, non-binary people, men of color – and give them a chance," Oberti Noguera said. "Another way to make venture capital more inclusive is by also making limited partners more diverse." ("limited partners" being the high net individuals who invest their money into VC funds.)

With the VC-in-Residence program, which launched last year, Oberti Noguera hopes that she can provide a network and resources for up-and-coming investors who have goals of climbing the ladder to become a partner at their fund. Her goal is to help newcomers as well as investors who are coming back after leaving the workforce.

Related: 7 Ways Silicon Valley Could Transform Its Toxic Culture

Who gets to be a VC?



Image credit: Sydney Thomas

Sydney Thomas is also Pipeline Angels' first VC-in-Residence. She began her career working in both federal and city government, driven by her curiosity about solving issues of wealth inequality. "The data shows that a predictor in the quality of your life is how much wealth you have, up to a certain amount," Thomas told *Entrepreneur*. "But people of color and statistically black people have never made it to that qualifying amount."

She said she began to understand that the problem could not be fixed by government alone, particularly since government itself often perpetuates inequality. But venture capital's model appealed to her for the impact that it could make.

"[Early stage investors are] giving hundreds of thousands of dollars, and later-stage investors are giving millions of dollars to people and communities. That's huge," Thomas said. "I wanted to be a part of deciding who gets this capital."

Two months before she started working with Pipeline Angels, Thomas published the *The List of Black Women in VC* on Medium. The list was inspired by an offhand conversation she had with her boss, Charles Hudson, the managing partner at Precursor Ventures, about the black women she knew that were already in venture capital. Thomas was aware of many of their names because as soon as she got into venture capital, she started reaching out to ask them how they navigated the space, what to look out for and how to succeed in this world.

Again and again, she had to contend with the same issue: "In order to have a VC fund, you have to have access to massive amounts of wealth; and usually those are not people of color," she said. "There has to be a democratization of access to LPs to how to raise a fund. I also think it requires a democratization, of 'What does being a great VC mean?'"

Thomas noted that the definition of a "great VC" has to expand beyond simply a regular return on investment. An investor could have a reputation for success based on the numbers they publicly share, but no standardized or transparent system exists for the industry at large, so it's entirely possible that those numbers might not add up.

"What VC is very good at is making it an elusive industry," Thomas said. Few people outside the investing world, she explained, understand the difference between an early-stage round, which is more about the *idea* of the company, versus a later-stage firm, which focuses more on numbers.

"There is a lot of power in not having transparency. It's on purpose that people don't disclose what their diligence process looks like," Thomas said. "People don't want to be

transparent, because if you're transparent and you're wrong, then someone can have something really perfect to point to in 10 years when something didn't work out."

And that lack of transparency around best business practices can also extend to hiring.

Related: New Data Illuminates VC Bias Against Women

Expanding the network.



Image credit: Jennifer Richard

Like Pipeline Angels, a firm called Cross Culture Ventures also recently launched a VC apprentice program to train the next generation of black and Latinx VCs.

Jennifer Richard was the first to complete the program and she is now a senior associate at Cross Culture. Richard said that working at startups was what inspired her to get into the world of venture capital in the first place.

At the three companies she worked at, she was consistently one of the few women and often one of the few, if not the only person of color in the room. As a hiring manager at each of those startups, she made it a priority to find diverse talent. But she was able to do only so much, and wanted to do more to meaningfully influence the industry as a whole.

“I thought about the dynamics of internal employees versus external stakeholders, and at those companies, the investors really did have the power. So I made up my mind that I would have to be on the investor side if I wanted to really make a difference,” Richard said. “But most VC funds look exactly like these companies. That’s also part of the problem. I knew that if I was looking for a job in VC, that I would need to go to a fund that was completely aligned with the vision I had and made inclusion a priority. That’s how I ended up finding Cross Culture.”

Richard said that emphasizing diversity and inclusion and seeking out the best talent, then giving everyone a fair shake at getting a foot in the door is a cornerstone of the work that Cross Culture does. Part of that mission involves looking for businesses that have that sensibility in their DNA, she added.

“When we’re assessing companies, we’re looking at what the founding team looks like and what the current employee base looks like: Is there diversity when they’re talking about their idea and their consumer segments – do they have inclusion built in?” Richards said. “That is something we challenge our entrepreneurs on, and if they are not at all thinking about the broader community, it is a missed business opportunity and it’s likely going to be a company we’re not

super interested in.”

In addition to the transparency and accountability that Thomas spoke about, Richard added another priority to the list: changing how the biggest firms hire. She noted that for many of the associate positions venture funds hire, they are looking for someone who has a technical undergraduate degree, is able to source companies and already has a network in the industry.

These factors, taken together, generally mean that the pool VC firms will draw from will likely be dominated by white men.

“There needs to be a fundamental shift in the way that these funds hire. They need to take more risks on candidates that aren’t traditional pipeline associates,” Richard said. She added that unless they step outside of that sphere, these funds, and the startups that they are looking to back, run the risk of being caught inside an echo chamber, leaving untapped potential on the table.

Yet, when so many platforms are available from which to pull job candidates, down to a LinkedIn or Indeed posting, “It’s a total cop-out to say that there isn’t diverse talent, because it definitely exists,” Richard said. “You just have to sift through more applications. It’s not like it takes anything more than time.”

Related: VC Funding’s Gender Gap Is Hurting the Marketplace

What’s next?

In 2014, Pipeline Angels provided Melissa Hanna with her first pitch experience. The Angels gave her feedback and mentoring, and one investor Karen Bairley Kruger, believed in what she was doing. Her first check came in 2015, for \$20,000.

Hanna says that she credits people like Oberti Noguera and Backstage Capital founder Arlan Hamilton in particular, for

the communities they have built as being one of the reasons that she was able to get funding over time for Mahmee. To date, Mahmee has raised \$1 million from Cross Culture Ventures, The Helm, Acumen America, and Backstage Capital, with participation from Pipeline Angels and other angel investors.

“[Oberti Noguera and Hamilton have done] the work to explain to people these founders can drive real dollars, have billion-dollar ideas and have had to struggle and bootstrap for longer than other more stereotypical tech founders, so they’re even better at managing the business,” said Hanna. “I know how to keep costs down in a way that many founders who got checks within months of launching an app don’t know how to do. I’ve had to manage our books down to the dollars and cents to make sure that we could stay in the game.”

Hanna says the funding she has received has in large part has come from the fact that she has been able to stay in the game, making sure to stay in touch with investors even if they couldn’t quite see the potential the first time she was in the room.

Marlon Nichols, Jennifer Richard’s boss at Cross Culture, is another investor that Hanna credits as being integral to the success of her company on the fundraising side. When she first pitched him in the summer of 2016, the company wasn’t ready for the types of investments Cross Culture makes. But she stayed in contact because she felt that the firm truly understood where she was coming from.

“What it came down to was not vision, not candidacy, not viability or value. It came down to technical capacity,” Hanna said. The investors told her that if she wanted to achieve her goal of taking care of millions of moms and babies around the country and meeting that revenue potential, she needed a CTO to help get her there. “At that moment, all I heard was, ‘We’re not giving you money right now,’” she said. “It was a

tough day. But it was really salient advice.”

That was mid-2016. Shortly thereafter, she met Walia, who helped her get her products to the point that they needed to be. In 2017, she got back in touch to update Cross Culture and let its investors know that their feedback had helped. Though she hadn’t pitched or asked for money, Nichols wrote her a check for a substantial portion of the pre-seed round that Hanna closed in February 2018.

Hanna said that it was getting in front of people who would advocate for her company and take her idea seriously that made all the difference. It gave her confidence that she could truly grow the company to great heights. And she said this experience has effectively changed how she approached fundraising. “Now I know what it feels like to have really great investors. So, I’m not going to settle for anything less,” she said. “I get to pick now. And I’m going to pick allies.”

<https://www.entrepreneur.com/article/324743>