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STAND OUT IN THE CROWD

How Women (and Men) Benefit From Equity Crowdfunding

Gerl Stengel President / Ventureneer

EXECUTIVE SUMMARY





ABOUT THE AUTHOR AND VENTURENEER

Gerri Stengel

“A baby boomer with the heart and soul of a millennial” describes me best. I grew up believing that dedicated, thoughtful people can change the world by working together.

I’m a believer still. I’m even more committed to the possibility of meaningful change because we have a huge, untapped resource: women! Give them the funding they need and they create jobs, innovate, and drive economic growth. So, for the last few years, I have researched and written about the challenges women face in the entrepreneurial world and the success factors that help them break through barriers, whether starting or scaling a business.

My passion to get women on the radar as leaders of mega-firms led me to write *Forget the Glass Ceiling: Build Your Business Without One*, commissioned by Dell. Now, I’ve completed another research project, aimed at helping women entrepreneurs get the funding they need through crowdfunding. Never one for theorizing, I’ve walked the walk. I undertook the crowdfunding challenge myself. I love hands-on research because it provides the best insights for solving problems.

I also love collaboration, the keystone of both crowdfunding and entrepreneurial success. It’s why I’ve taught entrepreneurship at The New School, facilitated Kauffman FastTrac courses for entrepreneurs, researched best practices in social media for businesses, and founded a company that provides online resources to women who want to break through the \$1 million revenue level. It’s why I was a board member of the NYC chapter of the National Association of Women Business Owners (NAWBO) for eight years.

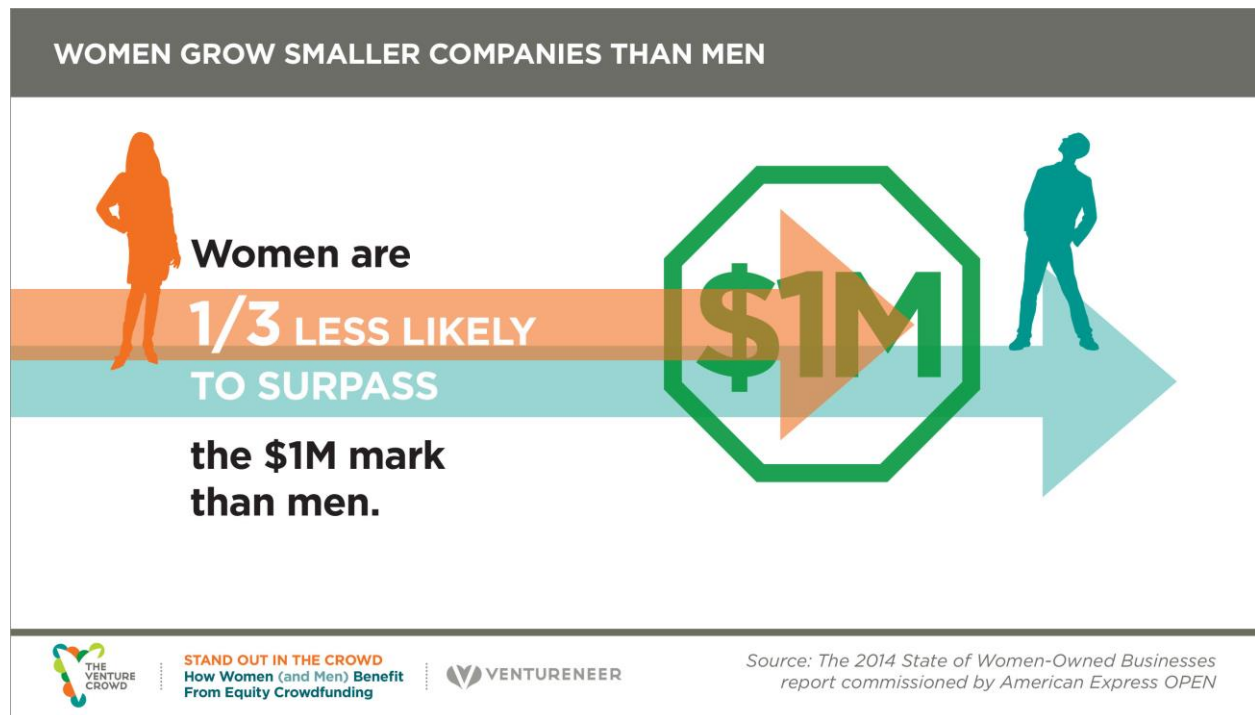
I’m a questioner and a builder who is passionate about eliminating barriers that slow down the economy.

Ventureneer

Ventureneer is a digital media and market research company providing education and training for small businesses. For corporations that want to reach these organizations, Ventureneer provides branded marketing and social media opportunities that generate visibility, thought leadership, and brand loyalty.

A troubling disparity

The number of women starting businesses has jumped from 740 a day in 2013 to more than 1,200 in 2014.¹ Women have discovered that growth-oriented entrepreneurship is personally satisfying. In fact, these women are the happiest people in the world.² Yet, women are one third less likely to surpass the \$1 million revenue mark than men.³



This is a missed opportunity for them and for us. If their businesses could generate more revenue and be more profitable, the U.S. GDP would be 7 to 9 points higher⁴ and 6 million more jobs would be created in five years.⁵

Money is the key ingredient needed for companies to grow. Yet women entrepreneurs who aspire to grow their businesses are 50% less likely to seek outside funding than their male counterparts.⁶

The media are awash with stories about the underfunding of women entrepreneurs by venture capitalists and how women face overt sexual harassment, unintended bias, and an unwelcoming environment toward women raising equity financing by both VCs and angels. No wonder women entrepreneurs aren't seeking capital to the same degree as men! But our economy and your portfolio need women entrepreneurs to find a way around these roadblocks.

Opportunity knocks, women are slow to answer

Technology that centralizes, streamlines, and makes the process of raising money more transparent has the potential to level the playing field for anyone raising and investing money, but its impact may be the greatest on under-represented groups, such as women and minorities.

On September 23, 2013, Rule 506(c) of Regulation D of Title II of the JOBS Act went into effect. It allows entrepreneurs to advertise their securities offerings to accredited investors (a.k.a. wealthy people). Equity crowdfunding pools money from a group of investors via internet platforms, using social media. Entrepreneurs can market their securities offerings through websites such as AngelList, CircleUp, Crowdfunder, and Portfolia.

Skip ahead to early 2015: Women entrepreneurs are underutilizing this new way of raising money. Only 18% of companies raising equity through crowdfunding are women-led companies and 16% are women-owned companies, according to [Crowdnetic](#), which maintains an equity crowdfunding database. Of the companies seeking angel investments offline, 23% are women-owned companies.

Success rates for companies in general and women-led companies are the same: 23%, according to Crowdnetic's database.

Women-led companies which raise financing through equity crowdfunding publicly from angel investors are achieving a higher success rate than those raising financing offline: 23% versus 19%, respectively.

- Paige Cattano, cofounder of [Wonder Technologies](#), learned that raising money via crowdfunding provided a methodical and focused approach to funding in a concentrated period of time. Wonder Technologies enables credit cards to be used as gift cards by merchants.

- Wendy Strgar of **Good Clean Love** not only found money and business expertise through equity crowdfunding, but also investors who are aligned with her values. Good Clean Love makes all-natural, organic intimacy products.

The world is better with the innovations of women

If women aren't creating products and services, only half the population is contributing to innovation. Innovation doesn't just happen. It is the result of unexpected insights based on life experiences. And women's experiences are different from those of men.

- Cynthia Schames' company, **AbbeyPost**, developed an algorithm that, with just a few measurements, enables the creation of attractive, well-made clothing that fits plus-size women.
- Laura Wagner, of **Digitzs**, plans to disrupt the virtual payment processing industry with a service that meets the needs of freelancers and professionals such as accountants and lawyers.
- Sheri Atwood, a divorced parent, developed **SupportPay** to automate and coordinate child support payments that make things easier for divorced moms and dads.

Two cities are crowdfunding standouts

Silicon Valley venture capitalists may not have much to be proud of in terms of their treatment of women, but the Valley's angel community is another story. By far, San Francisco/Silicon Valley is the #1 city for equity crowdfunding. More women-led and women-owned companies seek and receive equity crowdfunding.

Austin is fighting well above its weight. Ranked 35th in terms of population, it's #6 in terms of the number of women-led businesses seeking equity crowdfunding. "The Austin tech scene has just had one of its best years ever, with the number of women entrepreneurs surging," said Jan Ryan, partner at **Capital Factory** and founder of **Women@Austin**. "Female founders still experience single-digit funding percentages from VCs, but Austin women are not waiting around. They are actively seeking and closing alternative means of funding."

Misperception clouds crowdfunding reality

Why are women entrepreneurs holding back when it comes to raising equity financing publicly? It is the misperception among entrepreneurs and the professional advisors they rely on that the rules are still being ironed out, that it is complicated and expensive to do.

Verifying accreditation of investors is not complicated. Financial reporting is pretty simple – financial statements from whatever software system you're using will suffice. Yes, you will have to spend money on the crowdfunding platform, but the benefits are that you raise money faster and have the added value of increasing awareness of your products. You can manage small investors by organizing them into a Special Purpose Vehicle (SPV) so you have a single point of contact for these investors.

She's got skills

The prerequisite skills for success include project management, marketing, storytelling, communicating clearly – without jargon, projecting revenues realistically, aligning words with actions – meeting milestones, being frank when mistakes happen and, of course, being excellent at followup. In general, women excel at these things.

These skills are serving women well. In rewards-based crowdfunding, which has been around longer than equity crowdfunding, women outperform men, according to research conducted by [Hebrew University](#), [the Kauffman Foundation](#), and [UC Berkeley](#). CircleUp, an equity crowdfunding platform, reports that women-led businesses closed their rounds successfully at a 21% higher rate than men on the platform. That's an enticing trend and one that I think will continue as more women take the crowdfunding plunge. I also think this success rate will be reflected on other platforms as well.

Emerging best practices include building your network before you need it, making a compelling video, emphasizing traction – which could be customers, partners, or media mentions – and showing momentum.

Women need to ante up

Women have decision-making power over \$11.2 trillion or 39% of all investable assets in the United States, according to *Harnessing the Power of the Purse: Female Investors and Global Opportunities for Growth*, a report by the Center for Talent Innovation.

Only 19% of all angels are women, according to the Center for Venture Research. So why are so few wealthy women stepping up as angel investors? Chalk it up to self-doubt. Women doubt their financial knowledge yet it is virtually on par with men's. As it turns out, women on average are better investors than the average man, according to LouAnn Lofton, author of *Warren Buffett Invests Like a Girl – And Why You Should, Too*.

Some women do step up to the plate. While it may not be well known, women have always relied on each other to raise money in the offline world. When Billie Dragoo of [RepuCare](#) had trouble raising institutional money to expand her healthcare staffing company into onsite wellness and healthcare risk management, she turned to another successful entrepreneur: Carol Curran of [Phoenix Data Systems](#), whom she knew through the [National Association of Women Business Owners](#) (NAWBO). Curran, who had never been an angel investor, not only provided money for the expansion but also invested when Dragoo wanted money to purchase another company.

Building on her own experience, Dragoo has helped forge a strategic alliance on behalf of NAWBO with Portfolia (an equity-based crowdfunding platform) to facilitate women investing in women. They are piloting a program in five cities.

Men need to take off their blinders

While some of the responsibility for women's less-than-representative funding lies with women, the rest falls squarely on men's shoulders. Men represent the vast majority — 81% — of angel investors, which has huge implications for women entrepreneurs.

Put aside conscious bias. Unconscious bias alone is significant. Even a woman's voice turns off investors, according to research conducted last year by a team from [Harvard](#), [MIT](#), and [Wharton](#).

For Adam Quinton of [Lucas Points Ventures](#), the failure of other investors to consider women-

led businesses gives him more investment opportunities. Jamie McIntyre of [Rewire Capital](#) and David Steakley of the [Houston Angel Network](#), who have invested in women-led companies via crowdfunding platforms, reported that women entrepreneurs make realistic projections and align words with actions — women are more likely to meet their milestones, and are more frank when mistakes happen.

Explore all your fundraising options

Don't just focus only on 506(c) financing. Explore raising money privately, both online and offline as well as rewards-based crowdfunding. *Stand Out In the Crowd: How Women (and Men) Benefit From Equity Crowdfunding* shows how women are using rewards-crowdfunding as a stepping stone to other types of financing.

- Sara Andrews, [Bumbleroot Foods](#), raised money through a rewards-based campaign so she could do a large manufacturing run and distribute her drink. She then raised equity financing privately via crowdfunding.
- Julie Bombacino, [Real Food Blends](#), raised money through a rewards-based campaign to cover the costs of the production, distribution, and marketing. She credits her successful rewards campaign with helping her raise an additional \$550,000 offline.
- Kara Goldin, [Hint Inc.](#), showed how a growth company that hit a dead end trying to raise institutional money to expand her e-commerce model could raise \$2 million in 10 days by reaching out to her most avid fans – employees of technology companies in Silicon Valley. She did this privately via a crowdfunding platform.

Crowdfunding is an opportunity for women to raise women to scale their companies and an opportunity for investors – male and female – to create wealth and improve the prosperity of the economy.

The full *Stand Out in the Crowd* report provides tangible and actionable information, including industry benchmarks, case studies, key insights from subject matter experts, and advice from successful women entrepreneurs and investors.

EXECUTIVE SUMMARY

HOW WOMEN ENTREPRENEURS ARE CLOSING THE FUNDING GAP		
METHOD OF FUNDING	Use of Financing	
	START-UP COMPANIES	GROWTH COMPANIES
Rewards-based Crowdfunding	Manufacturing/production Other benefits: <ul style="list-style-type: none"> • Customer engagement • Debt-and equity-free money • Market research -- pricing and features • Market validation • Marketing 	<i>As growth companies come to realize that the reasons for using and benefits of rewards-based crowdfunding are not limited to startups, they will start using it too.</i>
Angels <ul style="list-style-type: none"> • Privately offline • Equity crowdfunding* <ul style="list-style-type: none"> • 506 (b) – privately raising • 506 (c) – publicly raising 	Distribution Equipment Manufacturing New hires Research & development Sales & marketing	Company acquisition as well as other purposes listed under start-up companies <i>For consumer-oriented companies that have trouble raising venture capital or private equity, raising money from angels is a viable alternative. Over time crowdfunding platforms will play an increasingly more important role in facilitating this for growth companies.</i>

EXAMPLES OF HOW WOMEN ENTREPRENEURS ARE CLOSING THE FUNDING GAP	
Rewards-based crowdfunding	
START-UP COMPANY	
<p>Sara Andrews, Bumbleroot Foods, makes drinks and snacks from wild harvested, super nutritious fruits from Africa. She raised money through a rewards-based campaign so she could manufacture and distribute her drink. The rewards-based campaign showed product traction that enabled her to raise equity crowdfunding.</p> <p>Julie Bombacino, Real Food Blends, makes nutritious meals from real foods packaged in a pouch for feeding tubes. She raised money through a rewards-based campaign to cover the costs of production, distribution, and marketing. She credits her successful rewards campaign with helping her raise an additional \$550,000 offline.</p> <p>Erin Bagwell raised \$104,000 -- nearly double her goal -- to fund the production of a documentary: Dream, Girl provides role models for women entrepreneurs.</p>	
Angels privately offline	
START-UP COMPANY	
<p>Julie Bombacino, Real Food Blends, raised \$550,000 from angels. She used this money for manufacturing, distribution, and research and development.</p> <p>Sheri Atwood, a divorced parent, developed SupportPay to automate and coordinate child support payments that make things easier for divorced moms and dads. Atwood raised \$1.1 million privately from angels offline. She is using the money to drive customer growth, brand awareness, and referral network expansion, as well as for internal team growth and continued platform improvements.</p>	
GROWTH COMPANIES	
<p>Billie Dragoo, RepuCare, wanted to expand her healthcare staffing company into onsite wellness and healthcare risk management. She hit the wall at financial institutions. She raised money from friends, family, and another women-owned business that had never done angel investing. Carol Curran also invested when Dragoo acquired a company.</p>	

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EXAMPLES OF HOW WOMEN ENTREPRENEURS ARE CLOSING THE FUNDING GAP – cont'd

Title II of JOBS ACT Reg D Rule 506 (b)

START-UP COMPANY

Cynthia Schames' company, AbbeyPost, developed an algorithm that, with just a few measurements, enables the creation of attractive, well-made clothing that fits plus-size women. Schames raised \$625,000 including \$100,000 via Portfolia.

Sara Andrews of Bumbleroot Foods' successful rewards-based campaign gave investors the confidence they needed to invest. She raised equity financing privately via crowdfunding so she could include unaccredited investors. She used this money to mass produce the product and for distribution.

Cybele Pascal turned her expertise in creating delicious recipes for people with allergies into a line of products you can get at the grocery – Cybele's Free to Eat. She raised money via Series A financing to expand her customer base.

Jenny Lewis and her cofounder have created a craft brewing company, Strike Brewing, that caters to people with active lifestyles. They raised money for capital equipment acquisition.

GROWTH COMPANY

Kara Goldin, Hint Inc., makes flavored water with no added sweetener. She hit a dead end trying to raise institutional money to expand her e-commerce model. But she raised \$2 million in 10 days by reaching out to her most avid fans – employees of technology companies in Silicon Valley. She did this privately via a crowdfunding platform.

Title II of JOBS ACT Reg D Rule 506(c)

START-UP COMPANY

Paige Cattano is one of the cofounders of Wonder Technologies, which has developed patent-pending technology that enables credit cards to be used as gift cards by any merchant. It raised \$400,000 for product development and marketing/customer acquisition.

Tawnya Falkner created Le Grand Courtage, a line of sparkling wines. Her company raised \$400,000 for inventory and marketing. Last year her company's revenues grew 450%.

GROWTH COMPANY

Wendy Strgar of Good Clean Love needed money to produce inventory so she could expand distribution for her all-natural, organic intimacy products. She not only found money for inventory, but also business expertise and investors who are aligned with her values.

Courtney Nichols Gould and her husband have grown SmartyPants Vitamins by 200% annually since it launched five years ago. It's the TOMS Shoes of vitamins. For every bottle sold, it distributes a bottle of vitamins to people in need. In May 2014 SmartyPants closed a \$2.2 million financing.

Footnotes:

*Title II created an exemption to the 1933 Securities Act: Rule 506 of Regulation D. The Rule 506 exemption allows private companies to raise an unlimited amount of capital via crowdfunding platforms from:

- an unlimited number of "accredited investors" and up to 35 non-accredited investors. The company CANNOT advertise its securities offering to investors. Rule 506(b)
- an unlimited number of accredited investors by broadly soliciting or advertising its securities offering. Rule 506(c)

Source: *Stand Out In the Crowd: How Women (and Men) Benefit From Equity Crowdfunding*

Footnotes:

1. *The 2014 State of Women-owned Businesses Report*, commissioned by American Express OPEN
2. *2013 Global Entrepreneurship Monitor (GEM) U.S. Report*, issued by Babson College and Baruch College
3. *The 2014 State of Women-owned Businesses Report*
4. Sallie Krawcheck, a former investment analyst and chair of Ellevest on Bloomberg TV
5. Babson College
6. *Access to Capital by High-Growth Women-Owned Businesses*, by the National Women's Business Council

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