

Venture Capital Fund for Women Business Owners

July 26, 2012

IDENTIFIED NEED:

\$40 million should be put aside to seed a Canadian Venture Capital fund specifically geared to investing in early-stage women-owned businesses.

Introduction

The Women's Enterprise Centre of Manitoba ("WECM") is a business resource centre for female entrepreneurs in Manitoba. Our purpose is to provide training, advisory, and financial support to women-owned and partnered businesses in both start up and expansion mode. We are part of a pan-western initiative funded by Western Economic Diversification which has been helping women in business since 1994. A 2008 impact study indicated a 75% success rate for our client businesses over a five-year period. This impressive outcome is attributable to the fact that we have developed significant expertise in identifying and building on the critical success factors that aid our clients in building healthy and sustainable enterprises.

Given our almost two decades of working with entrepreneurs, we are all too aware of the challenges that affect their ability to leap into that next growth phase. We effectively address capacity-building and to a small degree, financing with loans up to \$150,000, but see very clearly the need for more extensive capital influx through angel or venture capital supports in this area.

Strengths of Women Business Owners

Female entrepreneurship is experiencing rapid growth. Over the last 20 years, Canada has seen a 200% increase in the number of women-owned firms.ⁱ

According to Foreign Affairs and International Trade Canada, "companies owned by women are the fastest-growing segment of the Canadian business sector. The number

of female entrepreneurs in Canada increased 208% between 1981 and 2001, compared with an increase of 38% for men.”ⁱⁱ

Surprisingly, only 4 to 9% of all VC funding goes to females. VC’s often seek new deals through their own social networks, and therefore may unintentionally favour men. In 2011 the Kauffman Foundation published a paper on the role of women in the VC industry concluding that more female VCs would lead to more investment in female-led startups.ⁱⁱⁱ

“Businesses are starting to understand what development experts have long known: investing in women pays dividends. Women are more likely than men to put their income back into their communities, driving illiteracy and mortality rates down and GDP up.”^{iv}

Women entrepreneurs tend to be more aware of environmental issues and are strong proponents of sustainability; they choose to use environmentally friendly packaging, and use socially responsible suppliers. Vincent Gasparro is the Managing Director of Toronto-based Green Tomorrow Fund, which is an independent private-equity fund that invests in environmentally sustainable businesses and clean-energy projects. According to Mr. Gasparro, about 60% of the businesses the fund invests in, or conducts due diligence on, are either 100% female owned and operated, or some part of the capital structure is controlled by women.^v

At the WECM we have demonstrated that our clients stay in business with a higher success rate due in part to a greater degree of advance planning prior to activation, to the use of professional advice at a higher rate than their male counterparts, and to a stronger degree of practicality in expense controls. Their businesses experience lower risk due to the diligence, business planning, and networking done in advance of startup.

Women and Venture Capital

“Despite their success, capital is still a bottleneck for women entrepreneurs. Woman-led companies with more than \$1 million in revenue are twice as likely as male-led companies to get debt capital rather than equity capital.”^{vi}

According to “The Five Most Powerful Female Venture Capitalists” in Forbes (May 2, 2012); of the 100 venture capitalists profiled, only five of them were women. In January, Forbes contributor Leslie Bradshaw wrote: “A flurry of articles have been written on the ‘women and startups’ problem. The same issues are brought up again and again, but

one issue that hasn't been given much attention and scrutiny is the significance of the fact that there are practically no female VCs."

This may be one of the reasons that more early-stage women-owned businesses are not accessing venture capital and taking that next leap into growth mode. The lack of access to traditional male-dominated financial networks can be a contributing factor. Other reasons cited in the recent Kauffman Foundation study^{vii} are as follows:

"In general, asking useful questions is the key to progress. Other studies and statistics, too numerous to cite in detail here, indicate that the growth potential of women's startups can be stunted in multiple ways. Women might be less inclined to 'think big' when starting a company of any kind, perhaps settling for a modest consulting or service firm instead of a more innovative firm that aims for global scale. They are indeed less successful than men at raising money, on the average.... Men, consciously or not, may act in ways that discourage women from getting involved in high growth startups—or even articulating their ideas as fully as they could."

Existing Venture Capital Funds for Women in Business Outside of Canada

There are a number of existing VC funds and angel networks established for female entrepreneurs outside of Canada including:

1. Springboard Enterprises; Washington, DC
 - Since January 2000 Springboard has helped over 400 women-led companies raise \$5 billion in equity financing, including 10 IPOs.
 - 80% of Springboard companies are still in business, generating \$4 billion in revenues and creating tens of thousands of new jobs.

2. Golden Seeds; New York, Boston, San Francisco
 - Started in 2004, this investment firm is dedicated to delivering above market returns through the empowerment of women entrepreneurs and the people who invest in them.
 - Its angel network of 250 men and women is the fourth largest in the US and was the third most active in terms of deals done in 2011.
 - Its venture capital group of eight Managing Partners currently has two funds with \$30 million under management and investments in 26 portfolio companies.

3. Women's Venture Capital Fund; Palo Alto, Los Angeles, Portland

- This Fund capitalizes on the intersection of the expanding pipeline of women founders and gender-diverse management teams who are creating capital-efficient companies with stiletto-high growth rates.
- Their investment focus is on early-stage female entrepreneurs working in digital media and eco-friendly businesses.

4. Pipeline Fellowship; New York, Boston

- Their mission is to train women philanthropists to become angel investors through education, mentoring, and practice.
- Fellows commit to invest in a woman-led for-profit social venture in exchange for equity and a board seat at the end of the training.

Conclusion

A VC fund for women business owners is an excellent opportunity for Canada to increase its employment, community development and innovation.

We would strongly encourage that a meaningful portion of the venture capital dollars in question be used to support innovative and exciting new businesses led by women. We are confident that a specialized fund that included some degree of capacity-building and strategic support would be very successful in Canada as it has proven to be elsewhere. Alongside this there would be a natural role for the many organizations currently in support of women entrepreneurs in positions of research, advisory, or recruitment.

The Women's Enterprise Centre of Manitoba welcomes the opportunity to discuss this concept in greater detail. Please contact Sandra Altner, CEO, at (204) 988-1863 (saltner@wecm.ca) or Heather Stephens, Loans Manager, at (204) 988-1866 (hstephens@wecm.ca).

End Notes

ⁱ Sprott School of Business at Carleton University and Industry Canada. [Sustaining the Momentum: An Economic Forum on Women Entrepreneurs Summary Report](#). March 2005

ⁱⁱ Leah Eichler, Globe and Mail. [Venturing to Help Female Entrepreneurs](#). May 30, 2012

ⁱⁱⁱ Leslie Bradshaw, Forbes. How Women Are Getting Left Out of the Venture Capital Game. January, 2012

^{iv} Melanne Vermeer and Kim Azzarelli, The Daily Beast. Why the Global Economy Needs Businesses to Invest in Women. January 30, 2012

^v Leah Eichler, Globe and Mail. Venturing to Help Female Entrepreneurs. May 30, 2012

^{vi} Stacey Higginbotham, Gigaom. Is There a Female Funding Model. August 10, 2010

^{vii} Lesa Mitchell; Overcoming the Gender Gap: Women Entrepreneurs as Economic Drivers, Ewing Marion Kauffman Foundation, September 2011

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