# 2017 Greater St. Louis Venture Capital Overview

## Supplemental Report: Equity and Inclusion in the STL VC Ecosystem

Over the last four years, the St. Louis startup ecosystem has experienced an extraordinary boom. Fueled by growth in the Agtech and Biotech sectors, area startups have reaped over $1 billion in venture capital investment during that time. Even more encouraging, a number of high profile startups appear to be scaling aggressively and are poised for potential liquidity events in the next 18-24 months.

There are, however, a few underlying, structural challenges that are worth nothing: in particular, a decline in the overall number of deals, combined with a movement away from the earliest stages of investment. This could indicate a decreased appetite for risk among investors that, left unchecked, might disrupt the region's decade-long surge in early stage capital- and company-formation. As noted in previous reports, the key metric to watch going forward will be the number of exits. In order for the region's innovation economy to continue to thrive, entrepreneurs and investors must begin seeing an uptick in liquidity events. An exit is the ultimate "validation" for startups, and the data suggests that entrepreneurs and investors who succeed are likely to re-invest their capital back into more startups.

# WHAT ABOUT EQUITY IN ENTREPRENEURSHIP?

As the ecosystem has matured, more and more observers have called attention to issues of racial equity and inclusion. BioSTL in particular has led a series of community-wide discussions on this subject through its Equity in Entrepreneurship Collective.

A key challenge in all such discussions has been a lack of reliable data. Publicly available national databases like PitchBook and Crunchbase do not track minority, female, or immigrant participation as a percentage of founders or full-time employees. Furthermore, the very definition of "startup" can be problematic: surely, the sole proprietor graphic designer who sets up shop in a co-working space is an "entrepreneur," but can his or her enterprise be called a "startup?" Some communities rely on voluntary survey responses from the companies themselves, but this approach has been hampered by reticence to disclose too much information and generally low response rates, as well as the definitional squishiness around what constitutes a startup.

For purposes of this report — as with our VC Overview and Supplemental Agtech report — the St. Louis Regional Chamber has limited its analysis to those startups that have received venture financing during the last four years. While we acknowledge that this does not give the full picture of what is happening at the grassroots level, it is useful in terms of understanding the broad trends that are most likely to "move the needle," in terms of the regional economy and business climate.

# METHODOLOGY

The Chamber maintains a proprietary database of venture-backed companies in the greater St. Louis region. Inputs to this database include publicly available funding data from sources such as PitchBook and Crunchbase, company profiles from sources such as Bloomberg, and the Chamber's own research. During the four-year period for which we have the most robust data (2014-2017) a total of over 300 companies received venture funding. Because the publicly available sources do not include information on minority, female, or immigrant founders, the Chamber performed its own proprietary research on the founding teams of each venture-backed startup in our database. Any startup that had a minority, female, or foreign-born member of its founding team was coded as a "diverse founding team" One of the key challenges that surfaced in our discussions with entrepreneurs and ecosystem-level players is the wide variance in methodologies used to measure minority, female, and foreign-born participation in entrepreneurship.

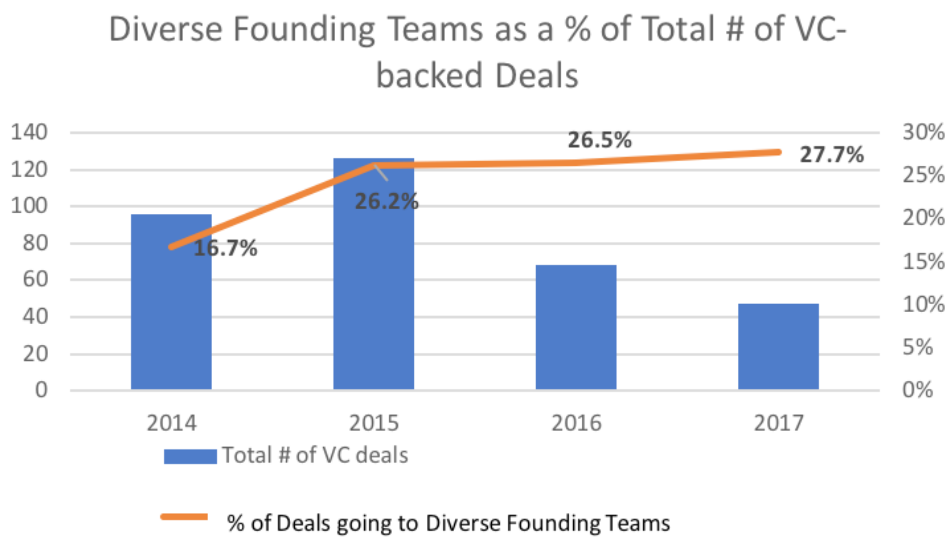
The most restrictive methodology would be to require a startup to have at least 51% minority, female, or foreign -born ownership on the founding team. The Chamber opted instead for a more "liberal" approach. Our reasoning was that if any founding team had minority, female, or foreign -born representation, it was by definition a "diverse founding team" and should be included in the calculations.

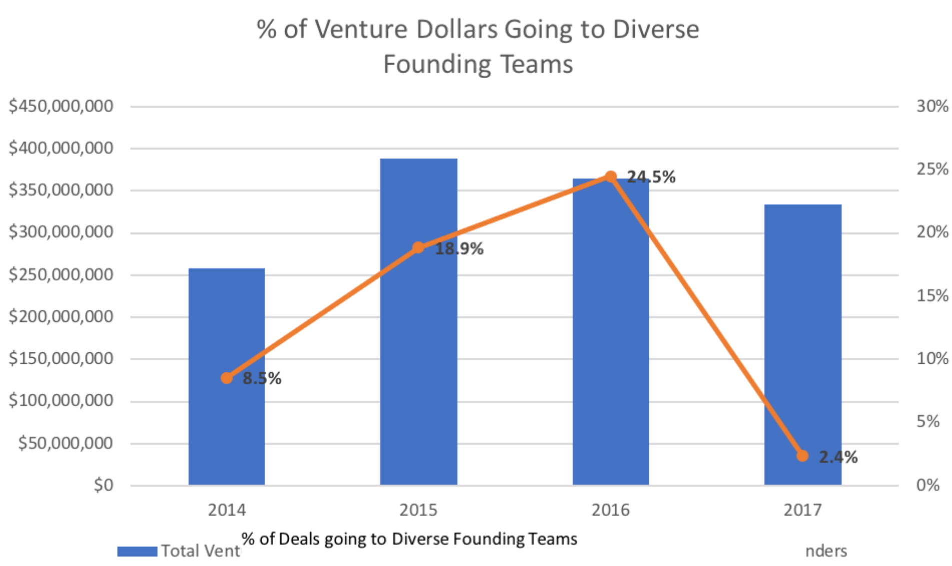
To our knowledge, this is the first time that this kind of analysis has been applied to the regional startup ecosystem.

# RESULTS

If we consider the number of venture backed deals going to founding teams with minority-, women-, or foreign-born participation as a **percentage of total venture funding deals in the region, there has been steady progress since 2014:**

Perhaps the most encouraging aspect of this particular chart is the fact that the percentage of deals going to diverse founding teams has remained steady despite a significant decline in the total number of deals (and, as detailed in previous reports, a corresponding increase in the average and median deal size). This suggests a certain level of resilience within the local ecosystem in terms of both the founder-grade talent pool as well as the capacity and commitment among funders to evaluate non-traditional opportunities.




In this chart, we see that the regional ecosystem had been making steady progress in terms of the inclusive distribution of venture funding from 2014 through 2016. In 2017, the numbers fell off the proverbial cliff.

# THE 2017 CLIFF

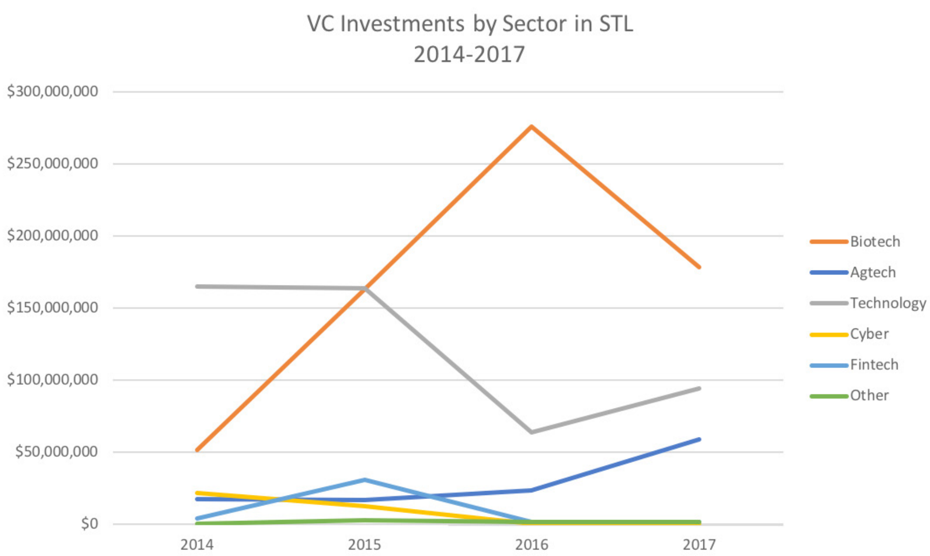
Data without context or explanation is not only of limited value, it is potentially dangerous. Given St. Louis' historical and recent challenges around issues of racial equity and inclusion, it is vitally important to provide context — *and to include the lived experience of people within the community* — alongside the raw numbers.

When the data presents a clear break in a trend, such as we see with the "2017 Cliff," the obvious question is "What happened?" Is this the end of the primary trend? The beginning of a new trend? Was there an event or change in circumstances that caused the break? Or was it merely an anomaly that will fade in importance in subsequent years as the primary trend re-asserts itself? Are there other datasets that confirm, corroborate, or contradict it?

Furthermore, in a complex system such as the St. Louis VC Ecosystem, there likely is no single variable or theory that is sufficient in itself to explain how and why the data presents the way it does. Therefore, our approach in this report is to offer as much background information as possible on underlying, structural trends and to point out, where appropriate, how artifacts of the data may be affecting the way those trends appear. **We also strongly support efforts to encourage an ongoing, community-wide discussion on this topic, such as those being led by BioSTL's Equity in Entrepreneurship Collective**.

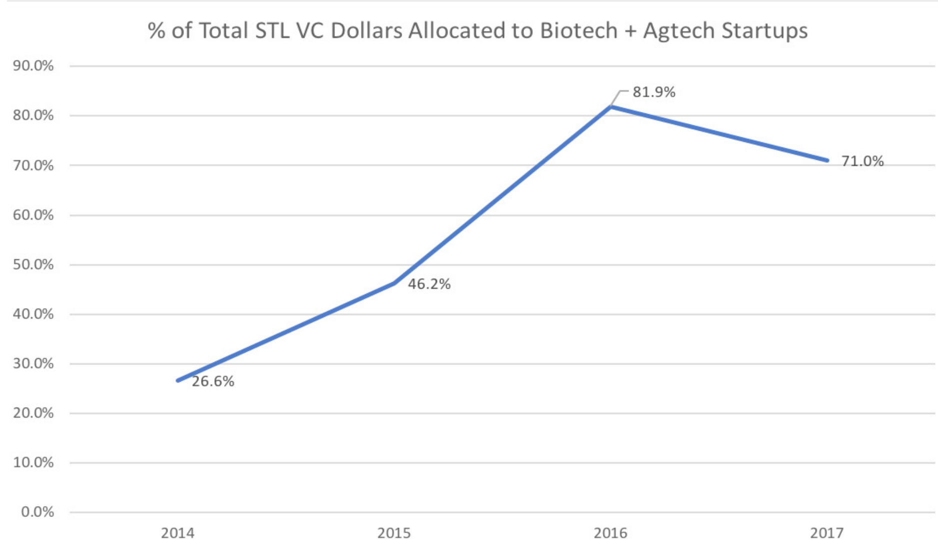
Let's start with the arguably the biggest question: "Did something different happen in 2017 that caused the change in the funding landscape?" Simply put, the answer appears to be "no." The ecosystem as a whole experienced strong continuity with previous years in terms of programming, support organizations, and overall funding levels available to entrepreneurs. The most notable changes were in the number and size of deals being funded. However, as seen in Chart 1 above, the ecosystem has shown impressive resiliency in terms of the number of minority, female, and foreign-born founders who are getting funded.

# SECTOR ANALYSIS



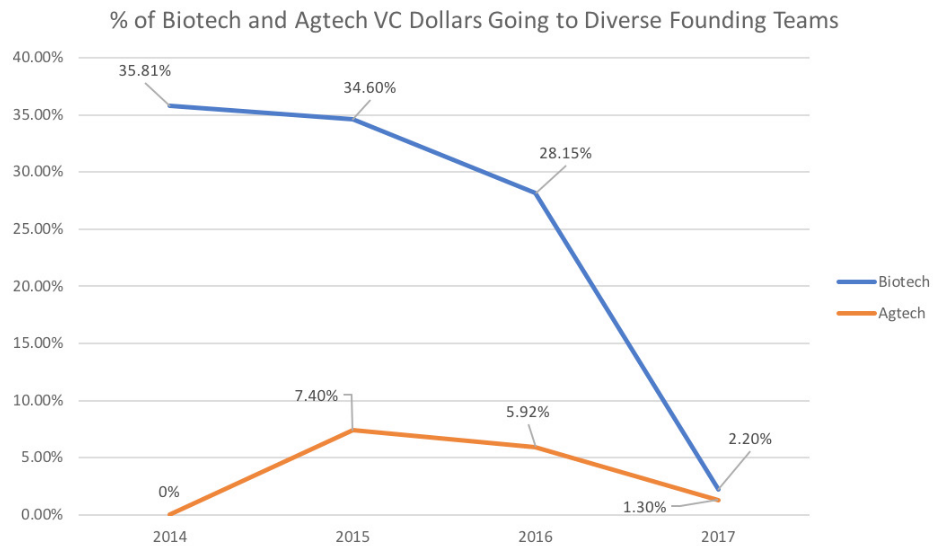

**Broadly speaking, however, there is clearly a trend towards increased investment in two sectors: Biotech and Agtech**

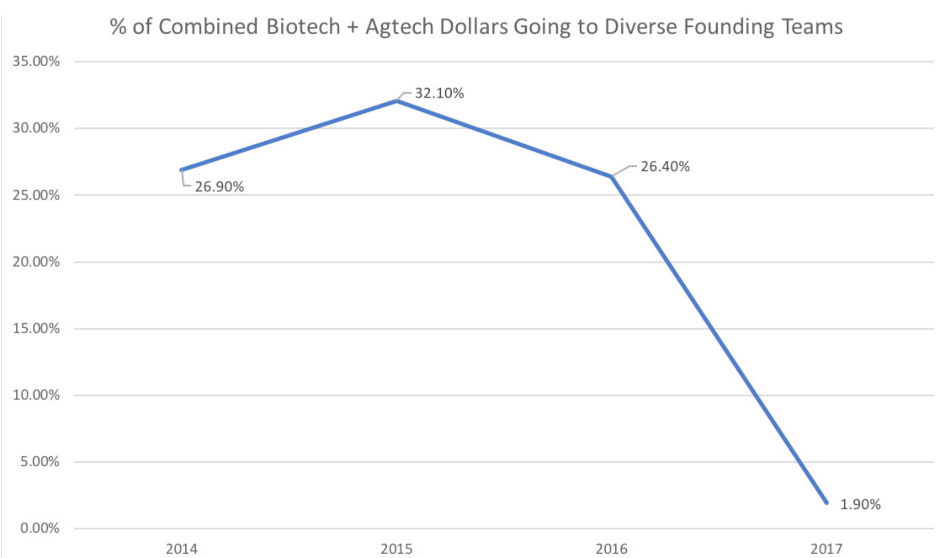
**In fact, the percentage of total VC dollars going into Biotech and Agtech firms is now nearly 3x what it was as recently as 2014:**



One possible explanation for the "2017 Cliff," then, is that the scientific and professional disciplines that tend to produce Agtech and Biotech startups are less diverse and that the increasing share of dollars going into such startups means that the overall share of dollars available to minority, women, and foreign-born founders will therefore be lower.

This is an easy enough theory to test. **All we need to do is look at the historical data from the years 2014-2017 on the percentage of Agtech and Biotech vc dollars going to diverse founding teams:**



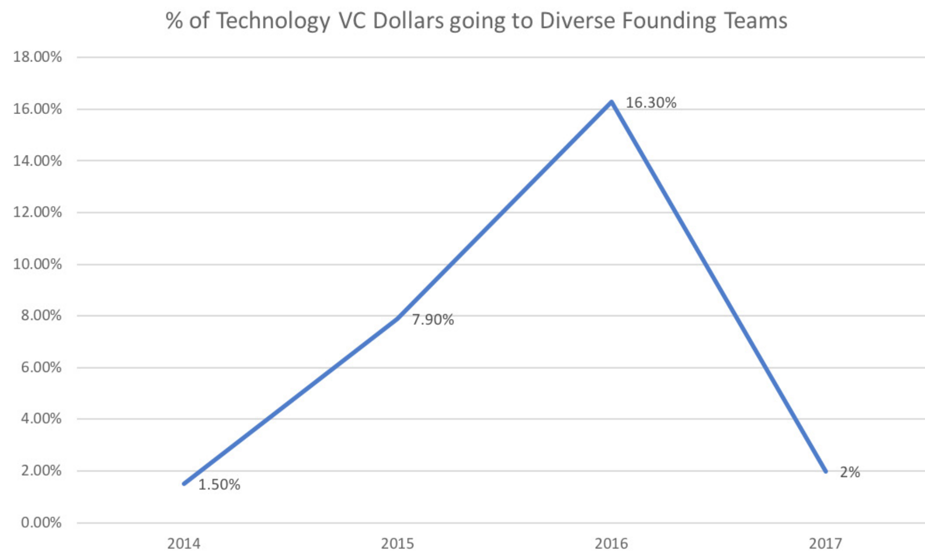




Here we see that, while the regional Agtech sector generally underperforms in terms of equity and inclusion, regional Biotech has historically outperformed. Biotech did, however, see a precipitous decline in funding to diverse founding teams in 2017.

**Because Biotech has predominated in terms of total investment dollars, the combined numbers mirror that sector closely.**

This appears to rule out the theory that Biotech and Agtech are inherently inaccessible to minority, female, and foreign -born entrepreneurs. If that were the case, the entire trendline would presumably look more like the 2017 datapoint.

**The only other sector that saw significant dollars invested during this time period was "Technology," for our purposes a bit of a catch-all category that includes media, online retail, app development, big data, SAAS, and professional services startups:**




Somewhat surprisingly, Technology underperforms against Biotech (and in some years against Agtech). As in the previous charts, the primary trend in Technology from 2014-2016 was looking strong … until the "2017 Cliff" phenomenon reared its head.

How are we to interpret this data? Clearly, there is significant room for improvement in terms of equity and inclusion in our Technology startup sector (as there is in Agtech), but the region seemed to be on a steady rise prior to last year. Thus, we arrive once again at the key question: "Did something material change in 2017 to cause the decline?"

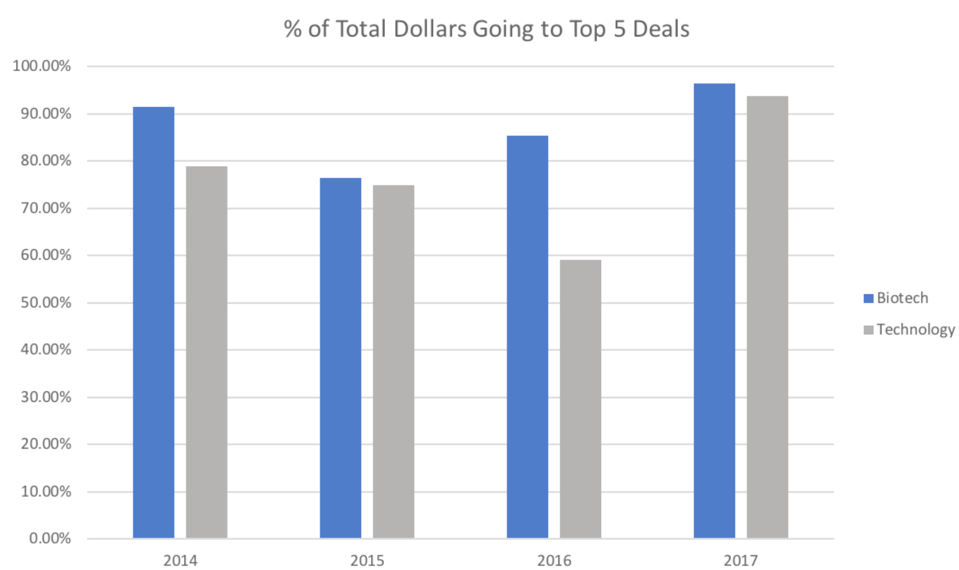
Based on the above sector analysis, the continuity in overall funding levels, the percentage of deals that are going to diverse founding teams, and the lack of any identifiable "exogenous event" that might have disrupted the ecosystem, the answer appears to be "no."

# SO WHAT IS THE EXPLANATION?

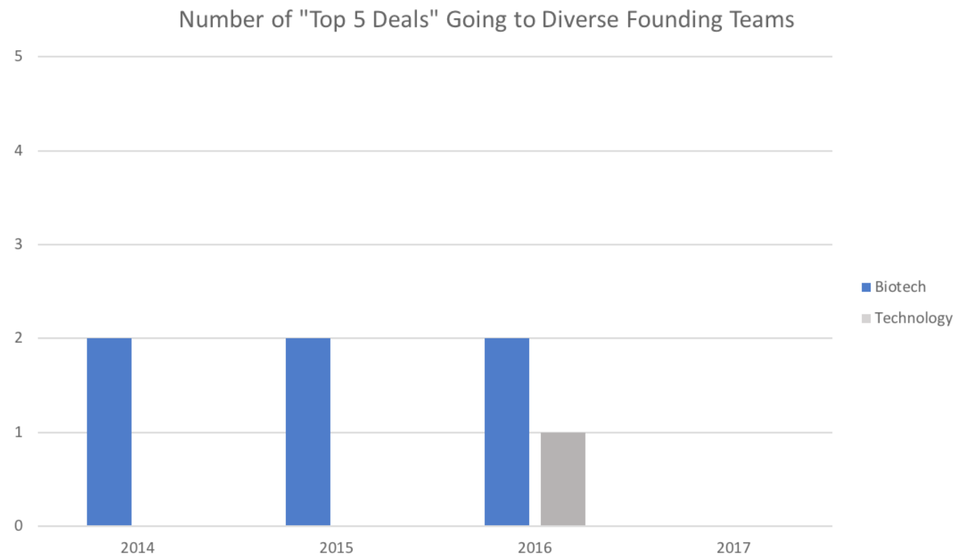
If there is no identifiable cause behind the “2017 Cliff,” can we safely conclude that it is a temporary phenomenon or an anomaly rather than an indication of structural inequities? To be sure, one year does not a trend make. If the percentage of dollars flowing to diverse founding teams rebounds in 2018 and remains strong in subsequent years, we will likely look back on the “2017 Cliff” as an outlier. The problem with this approach, of course, is that we do not want to wait 2, 3, 5 or more years to begin addressing structural funding inequities if they are present.

There is some evidence in the underlying data that suggests that 2017 may be an anomaly. The reality in the St. Louis ecosystem is that our topline numbers — the total dollars being invested into startups — are heavily skewed by a relatively small number of high-value deals each year.

**Let’s look at two key sectors, Biotech and Technology.**




What this shows is that two of the largest investment sectors, Biotech and Technology, are dominated each year by just 5 deals. If, as was the case in 2017, just 5 deals accounted for 96.5% of total venture dollars going into St. Louis Biotech and 94% of total venture dollars going into St. Louis Technology, then the issue of equitable representation is almost entirely a function of whether any of those top 5 deals happened to go to a diverse founding team.




### A possible answer begins to come into focus in the above chart.

From 2014-2016, the Biotech sector—the region's largest sector by VC dollar volume—had at least 2 diverse founding teams among its top 5 deals. In 2017, there were zero.

In fact, 2017 was unique in that not a single sector we track had a diverse founding team among its top 5 deals.

### *So....you are saying it's just an anomaly, then?*

### Not so fast.

While we cannot point to any exogenous events that explain the "2017 Cliff," and while the sector data suggests that it may be a temporary phenomenon, the underlying data does reveal a key vulnerability in our ecosystem. Because we are so heavily dependent on a few sectors (notably Biotech and Agtech) and because the big dollars flowing into those sectors tend to go to a VERY small number of companies, there is an inherent risk that the distribution of funding will be inequitable in any given year. Therefore, without sustained, intentional efforts on the part of funders to evaluate opportunities from diverse founding teams, the "2017 Cliff" could easily become a multi-year "valley."

# RECOMMENDATIONS

## 1

### Strengthen support systems and capacity-building for minority, female, and foreign-born founders.

St. Louis has a large number of entrepreneurial support organizations, and many of them — such as BioSTL and ITEN — have dedicated resources to supporting minority, female, and foreign-born entrepreneurs. Still, there is a need for better networking opportunities and capacity-building training for these groups of entrepreneurs. Ecosystem support organizations should continue to build outreach, training, mentoring, and networking programs for entrepreneurs of color, through specific programming.

## 2

### Consider forming a minority entrepreneurial accelerator.

St. Louis already has a model to follow for creating such an accelerator — Prosper Women Entrepreneurs (now known as Brazen). The region's broader network of Accelerators (including SixThirty, SixThirty Cyber, Stadia, The Yield Lab, Capital Innovators) have attracted a significant amount of capital and talent. A minority-focused entrepreneurial accelerator would not only provide access to capital to local entrepreneurs of color, it would serve as a magnet to bring in top talent from around the United States. Given the resources and capital now available in St. Louis, this seems like a relatively easy "win" that could make a significant difference over the long term. In previous reports, we have detailed the impact that Accelerators can have on "follow-on capital." While the direct funding an Accelerator provides is valuable, their most important function is to elevate worthy companies and founding teams so that these startups are well-positioned to attract larger rounds of financing.

## 3

### Support and scale programs to increase minority representation in our local VC ecosystem.

BioSTL's VC Fellows program is a model for how to pipeline minority, female, and immigrant talent into the VC ecosystem. The program not only provides participants the knowledge, skills, and experience they need, it also helps them establish the personal relationships that can accelerate their career development.

## 4

### Improve data collection and establish standard methodology for measurement.

This kind of analysis on any entrepreneurial ecosystem can be challenging for a number of reasons. Not least of these is the lack of widely accepted standards of nomenclature — i.e., "What constitutes a diverse founding team?" Another challenge is the sheer absence of any publicly available data. The ecosystem as a whole would benefit from a collaborative effort around data collection and definition, such as is currently being led by ITEN and BioSTL.

# APPENDIX:

## THE LIVED EXPERIENCE: INTERVIEWS WITH KEY STAKEHOLDERS

Christian Johnson

CEO

*Multipass*

**What has been your experience as an entrepreneur of color in St. Louis?**

I'd say it's been an interesting and challenging experience just like any other entrepreneur no matter who you are or what you background may be. It's an interesting ride trying to build a company and figure out who my customers are, who my team should be, how I should go to market, etc.. Being a black man in business, there are strong stereotypes to overcome. When you walk into a room you feel sometimes that you have to prove yourself that you are a legitimate business owner. Being young adds a level of difficulty, too. I will say that no matter what those circumstances are, I've learned never to give up, never to let those things stop me from succeeding. It has forced me to become more resilient.

**How so?**

Entering conversations or meetings where people felt like you didn't belong or are like "who is this guy?" That has helped me not only be more resilient, it's helped me never take no for an answer. I've learned that I DO belong, no matter what room I'm in: whether it is with investors, big companies, potential partners, etc.

There are all kinds of perceived barriers: "I'm too young," "I'm too inexperienced," "I'm the only person of color in the room." I've learned never to let that stop me. It's made me a better founder and a better teammate. I try to share that with my team, that idea that we never really settle for "no." It has helped me build a culture and a personal brand.

**How do you think St. Louis compares with other entrepreneurial hubs?**

I think St. Louis is positioned very uniquely because we are a city that has had to seriously reflect on our problems. Certainly from our experience after the Michael Brown shooting, we've taken that challenge of really looking at ourselves. Other cities are doing it too, but they haven't had to really look in the mirror like St. Louis has. It has created an opportunity here because we've experienced firsthand the importance of equity and inclusion and building up trust and what can happen if we don't.

**Do you see any structural barriers to minority entrepreneurs?**

I think one of the biggest ones is that among people who support the entrepreneurial community, the stakeholders, there is a perception that you only qualify for a certain type of help. When it comes to how do we help people of color in entrepreneurship, it's sometimes like "Hey, let's give them a $1000 grant to start a small business." That's great; small business is important. But there are so many startups that are looking at things like VR, AI, blockchain that are killing it, and there is a perception that we (minority entrepreneurs) can't do that. So sometimes entrepreneurs of color get routed into smaller scale opportunities. But we are doing high tech, high growth stuff, even though they often aren't talked about. As an ecosystem, we need to be focused on investing in them. So I think a huge barrier to success of people of color in the startup ecosystem is that we aren't shining a light on those big, transformative technologies that some of them are working on.

**What are some specific things you think we could do to improve equity and access?**

I would go to the funding. At my company, Multipass, we're creating a $10MM diversity fund. But it's also about getting more people of color and women into the venture capital world. When I started raising this fund, I was the first black venture capitalist in Missouri. I mean, that's crazy. So there aren't a lot of people out there at VC firms who look like me. We need more people of color in that world because VC is rocket fuel for startups. And the VC's need that too because the consumer market is shifting. We should say, hey within 5 years, we want X number of people of color in VC jobs in our region. That is something that would make a difference. On a more tactical level, we've seen public private partnerships in working space development where instead of having to pay $200/month to grow your business in a co-working space, instead you can get grants or maybe even exchange equity. I've seen that work in some cities. Maybe we could replicate that model here. We have great co-working spaces in STL, but the price of entry is pretty high.

**Do you think that the dominance of Biotech and Agtech here are an impediment to participation among entrepreneurs of color?**

I would say that working with ecosystem and higher education partners to get more people of color into these disciplines would make a big difference. We need to be very intentional and deliberate about finding diverse startups that are doing work in this field. They are out there. We also should be working with schools and colleges to help get more minorities into these academic fields. But we also need to be sure that we maintain a diverse base of investments — we can't be all about Biotech and Agtech. Those are great fields, but there is a ton of opportunity in other areas as well, like real estate technology for example.

**Is there anything we didn't cover that you think we should?**

I guess I would like to reiterate that diverse startups, people of color, we're not looking for ecosystem partners to make barriers lower. We're looking to widen the pool. It's not about making things easier. In the startup world, it's always going to be hard. That's just the way it is. It takes a lot to build a successful company. So the ask isn't "Let's make this easier," it's "let's make an effort to include more entrepreneurs of color and let's acknowledge that they are out there."

Yes, we need to bring more people of color into the ecosystem, but there are a LOT of people of color already here who, if you just invested in them, would help the overall ROI.

Jonathan Allen

CEO

*EQSTL*

**What has been your experience as an immigrant entrepreneur St. Louis?**

I came from the UK via New York, where I lived for 6 years. One thing people don't realize about me is that I'm half English, half Sri Lankan, so I'm mixed race. I'm a brown person. In England, I come from a middle-class background, and the startup community there was incredibly diverse. London is a diverse city. But a lot of the money that was sloshing around came from the traditional English upper class. And people there could place me on the social scale within seconds based on my accent alone. Here., it's just like a quaint, generic "English" accent that sounds nice. But they can't place it within a class system. So here in St. Louis, where the big "question" is "where did you go to high school," I'm kind of exempted from that. And in a way that's a very English question to ask. It's an attempt to place you within your class context. In New York, of course, it's different. It's more of a mash-up of different classes and backgrounds. But In St. Louis, that question is related to that ancient way of thinking about class. So with my accent, I'm somewhat immune to it here, but I am also quite familiar with the implications behind it.

Anyone who gets to London or New York is already operating from a certain level of privilege, just by virtue of the costs of living. The cost of living in NY is substantial, right. You need a good salary to survive, let alone thrive there. And everyone is working for venture backed companies whether they realize it or not. You take it for granted that "all companies have funding." The "eat what you kill" mentality is not a factor there like it is here. You are surrounded by wealth everywhere. So you perceive different lifestyle choices. I remember when I moved to New York, someone said "oh, no one here bothers to worry about their savings." The objective is career momentum, not savings.

The commitment to diversity and inclusion here in St. Louis is really quite admirable. STL isn't as scared as it thinks it is to look at its own shadow. Things like Venture Café play a role in that. It is very intergenerational. You'll see millennials mixing with retired professionals and everything in between. London was a bit like that. New York, not at all. It's all about youth there. But it's nice to see that mix here in STL. It's something people should be proud of.

**So do you find your "outsider" status to be more of an advantage or disadvantage?**

It gives me an outsider view. It's probably an advantage overall. Because I have an English accent, I'm assumed to be white. So in a sense, I'm not really "allowed" to talk on issues of race in America because I default to white in terms of people's mindset. But in England, I strongly identify with the fact that my heritage is both colonist and colonized. People don't realize that it's always black-white-brown, etc. down color lines. In fact, the most prejudice I get is from other Asians. For example, Indians and Sri Lankans … sometimes we're allies and sometimes we're not. I've been shouted out of conferences because I'm Sri Lankan, by other Asians. Not in St. Louis, but elsewhere.

In America, the whole diversity question assumes that the lines are drawn across color. But if you are from a diverse background, often the real 'threat' can come from other immigrants. And you have ambiguous status in the American racial context, which can be helpful at times and not so helpful at others.

**How so?**

I mean, I'm a minority, but I only own 50% of my business. My partner is white. So I don't have access to any of the benefits that, say, someone with 51% ownership would. It is really kind of bizarre in way. There is this rigid structure that is in place that says, "you must be at least 51% minority-owned," but in the real world the lines are much blurrier than that.

In our methodology for this report, we certainly found that to be the case. There were no "rules" that seemed to fit all circumstances. So we ended up going with the most liberal — not politically liberal, but liberal in the sense of generous—definition of "diverse founding teams." Basically, if a founding team had anyone on it who was female, of color, or foreign-born, that qualified them as a "diverse founding team" for our purposes. Do you think that is the right approach?

I think it is the only approach that is fair. The "official" approach is discriminatory, in my opinion. If you have minority business partners, you must be committed to these ideals. This kind of 51% threshold makes it much harder for companies to take advantage of their diverse founding backgrounds. So I think your approach on this is not only fair, it makes perfect sense. I really hate the way the system officially categorizes these businesses in such stark terms. I do understand why the rules are in place. I mean, it would be incredibly cynical if you were a white founder to find a token minority to bring on board in order to qualify for these benefits and programs.

But the net result is that there are a lot of diverse founding teams out there that are kept from really realizing the benefits that they should be able to realize. For example, we pitched the airport, right? There was a big push, as there should be, to bring in minority owned businesses. And in the end, because we didn't meet the technical, legal definition, it became clear that we really shouldn't apply. And then for those that did qualify, they ended up having to do all this paperwork to prove their status. It's another barrier.

**In a lot of ways, the standard question set doesn't apply to you**

Haha. Well, that's sort off the point, isn't it? It's complicated. Much more complicated than our official structures allow for. The definition is wrong and it's broken. Good for you for changing it.

**How would you address that problem of people "cynically abusing the system" if the rules were liberalized?**

In a sense. even if they did, they'd end up being poster children for diverse business enterprises anyway.

**What do you mean?**

Let's say that they brought in a 51% minority owner, even with the most cynical of intentions. You still end up being a minority owned company. So what have you accomplished? Even in all your cynicism, you're still a poster child for diverse businesses.

**Let's talk more about definitions and categories, because you have a unique perspective on that given your background.**

At the root of identity politics is … politics. It's about using identity as a tool to meta political power. So in a way, anytime we have a conversation about race, we end up stuck in a conversation that keeps getting politicized. And I'm not suggesting that identity is unimportant. It clearly is. In fact, it is essential for mutual understanding. Recently, I wrote a story on NappyMe, a startup based on African American hair. But to me, that phrase ("African American hair") instinctively sounded wrong. So I went to someone I trusted, someone with whom I knew I could have an honest conversation, and I asked her what she thought. She agreed that the phrase sounded awkward, especially coming from someone who isn't African American, so she said "call it textured hair." And what about this word "nappy." It's not a word we use in the UK. So she explained, well, it used to be a pejorative term, but people are reclaiming it as a celebration of their heritage. And you know, I'm really glad we had that conversation. It told me two things: 1) we have to admit we don't always know the right way to speak about things and 2) that not knowing is not a fault. It's an accident. But expressing that we don't know is a commitment to change, to understanding. And I really appreciate people who can have conversations like this without getting offended. I mean, there's this assumption that everyone understands the lines, but they don't. And the only way we can get there is through dialogue. And that dialogue has to involve more than just one identity. In the end, understanding the history of the word "nappy" added a whole new dimension to this company.

As a mixed race person, my perception is that the American system is pretty rigid. It doesn't allow people to be "both." You have to pick a side or choose "other," in which case you don't show up on anything.

In the world of Entrepreneurship and Innovation, we have to have some safe, neutral spaces where people can admit they don't know without fear of being castigated. We almost need a blood pact, like "we're all in this together." We don't need champions. We need dialogue.

One thing that I've noticed recently that kind of bothers me is something I call "diversity shaming.' You see it on Twitter or Facebook when someone makes the comment, "Nobody in this post looks like me." And that's a way to dismiss the entire group. But really…how do you know? I mean, identity isn't always evident on that surface level of skin color. Our leadership team looks like 2 white people and a brown person. But I'm half Sri Lankan, one of my partners is Jewish, one is white. So people should be careful about drawing conclusions too quickly.

**In other interviews, we've talked about structural barriers. Do you perceive them? If so, what can we do about them?**

One structural barrier is that people tend to invest in or buy from people they like. And human nature is such that people tend to like people they recognize themselves in. This is incredibly obvious in the venture investor community. If you've pitched vc's, you know this. Do those people see younger versions of themselves in you? Or do they just see the brilliance of your idea. Well, people are emotional. They are influenced by emotional factors, by charisma. I think a lot of the structural issues come from the fact that people invest in alumni from their school, for example. Or that they are just naturally predisposed, through no fault of their own, to identify with people who look like them. Those kinds of issues will always exist. It can look like prejudice. And it is prejudice, but its' not prejudice against, it's a bias for. That's what we need to correct for. I think sometimes we spend too much time talking about prejudices against other people when the real issue is addressing in-group bias.

**You've touched a bit on class, which makes sense given your English background. How much of a factor is it here in your experience?**

Right, rich or poor. This is a very American problem. America always thinks it doesn't have a class system. That's because it's so wedded to this idea of the American dream that it denies the reality of a class system. The dream of course is that anyone can rise to the top of the pyramid. In the end, the reality in America is that the entire question of race and identity can be compacted into economic class considerations. But we tend to talk about it in terms of race instead.

I mean, even in a completely open society with no "racism' per se, it will end up skewing towards the wealthier members of each racial group. If you are wealthier, you end up with a better network, more opportunities, etc.

**Is there anything we haven't covered that you think we should?**

Another thing I've wanted to get out there: when I moved to St. Louis, I was aware of the race issues here.  I wanted to be a part of solving those problems. When I moved to New York from London, I quickly figured out that I wanted to stay in the US permanently. And I read this article in the Atlantic on "should we pay for reparations for slavery?" To this day, it's the most read Atlantic article of all time. It was fascinating.  And so when I saw things like Ferguson happening, it wasn't something I wanted to run away from. I wanted to understand it. And when I got here, I found a whole city that was committed to transformation, not afraid to look at its own shadow. So it's never been scary to me. You can make a difference here. We should embrace that.

And really, a lot of community leaders here are truly informed, truly self-educated on these issues. You don't find too much group thinking here. People in St. Louis tend to be independent thinkers. We're really grappling with these issues in ways that, frankly, most other innovation hubs aren't. Take a look at Silicon Valley. San Francisco is one of the most homogeneous large cities in the United States. Rather than looking to the Valley, we should look to Washington DC. DC has much higher numbers of black business leaders, black entrepreneurs there than Silicon Valley.  If we want to learn, we should bring in DC leaders.

**Do you think that the entrepreneurial community can help the broader American public learn to deal with these issues?**

Zero sum thinking is really most people's default. The media presents everyone as a winner or a loser. That informs the debate, as it were. Entrepreneurs have to be very methodical. You have to have a big vision. But you also have to be extremely methodical and pragmatic around achieving that vision. That's the untold story behind every success story. It's about locking down your next set of priorities on a daily basis. You have to keep motivating yourself. You have to keep aligning yourself to the next target or achievement. What makes the news is the investment rounds. What never makes the news is the way you have to challenge your own thinking on a daily basis, change your approach, etc. That kind of flexible, problem-solving mindset is helpful. But the pragmaticism is what will make the big difference.

Take Arlan Hamilton. Arlan's pitch to investors is that there is tremendous buying power in underserved communities, that there is untapped value there. So as an investor, she's going to play in that space. She's not saying "give me a handout so I can help them." She's saying there's a value play there. And she's right.

Darryl Palmer

Founder

*Janus Choice*

**What has been your experience as an entrepreneur of color in St. Louis?**

There is not a lot of diversity in the technology field in terms of entrepreneurs. So it's been a little bit more difficult here to be effective. My wife and I both highly credentialed scientists. Sasha is an astrophysicist, and I am a computer scientist. And yet it can be really difficult for us to get access to the networks of capital and resources here in St. Louis.

My first job was at NASA, and I've worked for global companies, globally brands. But it's been difficult to feel respected, even with the experience I have, here in STL. With me being African American and my wife being female, not having a white male in leadership at our company has made it tougher.

**How so?**

Let's start with raising money. It's much easier for us to raise money outside of STL. We've had good success in Chicago, for example. We're a portfolio company of Singularity University, out of Silicon Valley. The capital is just more accessible to us outside of STL. People outside tend to see more of the value in our backgrounds and skill set. Even with local VC's it's hard to get traction.

**Why do you think that is true here?**

Race just seems to mean more in this city than in others. In the Valley, it is all about talent and experience. People will take time to really drill down and grill you on your business. Here, it's more like if you aren't a good "fit," you never even get to the point of having a real meeting. The first thing investors are interested in hearing is your elevator pitch. If they like it, they'll move you on to a 20-30 minute discussion where you can really get into the details of your business plan. Getting to that point is much harder here. I mean, when we were in Chicago, people told us "you need a white male to raise money." And this is coming from friends of ours, professors and others who are trying to help us. It's not as open here.

**How did you react to that?**

Well, Chicago is very political. And these are friends who are trying to help. So it wasn't offensive, it was more like a dose of reality. This was just the kind of discussion we would have because my wife was the CEO. Maybe if I were the CEO, they wouldn't have said it. It's one kind of risk to tell an African American male that you need a white male. It's another to say it to a woman.

**Have you ever encountered anything that direct here?**

No.

**How do you interpret that?**

Honestly, I sometimes wish people would be that direct. The one thing you have to protect as an entrepreneur is your time. Honesty keeps you from wasting time and money.

**Going back to what you said about race being more important in St. Louis than other places, to what extent do you think it is about race versus St. Louis simply being a bit more closed to "outsiders?**

From the experiences we had in other cities, it is difficult to judge how much is because it is "closed" vs. it is based on gender or race. I just can tell you our experiences from dealing with VCs in other cities.

When targetting investors in Chicago and even Portland, Maine that supports series A and pre-series A it has been far easier to have 2nd meetings than in St. Louis. Most VCs that invest in our field would have a short 20-30 minute meeting after an initial introduction because of the job of their analysts is for increasing deal flow. In St. Louis, we have met some fairly large investors in our area that would not even be interesting in seeing an executive meeting or setting up an appointment for a short meeting.

**You came to St. Louis in 2016. Have you seen any changes, for the better or worse, in that time?**

Haven't seen that much meaningful change yet. There's a bit of a menagerie aspect to the entrepreneurial ecosystem here, where people want to come look at it from the outside, but not necessarily buy.

**What are some specific things you think we could do to improve equity and access?**

From an investors point of view, they're investing other people's money. They have to generate a return on that money. It's all about trust. So people based on their subconscious, their biases, have these barriers. They might disqualify you based on criteria that aren't even at the conscious level. I'll tell you a story. My wife is Caucasian. Sometimes in STL, we'll walk down the street holding hands, and people will ask us why we're doing that, like they've never seen an interracial couple before. I ride public transportation all the time. And I remember I was on the Metro one time, and this lady — a white lady — asked if she could sit next to me. And I was like, "well, of course!" In Chicago, nobody even bothers to ask, so it struck me kind of funny. And then I looked at the train, and very rarely do you see people of different ethnicities sit next to each other. It's just this implicit divide. And it's about trust. Do you even trust someone enough to feel comfortable sitting next to them on a train? Do you trust them enough to invest millions of dollars of other people's money with them?

**What was it like being a minority computer scientist in corporate America?**

Well, wherever I went in the field, it was not very diverse. Even at NASA, it wasn't especially diverse. There were a lot more women than minorities. In college, you'd see other minorities in related fields like information science. But I was a computer scientist, and there were never any minorities other than me in that field. I mean, the only other minority engineer in the entire school other than me was my sister.

And when I went on to work in indstury, it was strange. I don't "sound" like an African America. My name doesn't "sound" African American. I'd go in for interviews, and they'd be shocked. And then I'd get "special treatment" because they wanted these big government contracts. I worked for an insurance company, headquartered in Denmark, and my boss introduced me to every other African American in the company. It turns out they all worked in the back-office functions. I would be the only Aam in the front office, worldwide.

Certain things would happen that are illegal, but they happen anyway. One time, HR came and asked if I had any "friends" who would be willing to apply for a job. It was code for "can you get us some more African Americans."

At this company, HR had sent out a survey with all kinds of questions, including demographics. Now, I never self-declare my race, except maybe on a census form. I always leave it blank or just check "I choose not to disclose."

A month later, I logged onto the HR site, and I saw that my race was logged as African American. They didn't want their number to be zero.

**That's a really interesting story, because it isn't so much about prejudice against, it's more about this kind of rigid, categorical thinking. It sounds like you've experienced both in your career.**

Yes, there is a kind of push and pull between what I'd call in-group preference and chasing after you because you represent an opportunity to "meet the numbers."

So yeah, it's difficult. My 4th or 5th CEO at the bank made the comment to the community development guy "we need someone like you running our community development." In other words, we need an African American. I mean, this is the 5th largest bank in the US, a well-trained, high-powered CEO, and he feels comfortable enough in a group of people to say this out loud The implication is you'll never get a promotion because this is the job for you.

Even at the Insurance company where I got the "royal" treatment from HR, they did a tour of floor. And they introduced me to one African American woman, and it turns out she was a librarian from a few floors down. But they felt like they had to introduce us. I told HR, I'm not comfortable with the lack of diversity, here. And when I turned them down, they immediately offered more money because they needed the numbers, right? The fact that they threw it all at me when I raised an issue made me realize it wasn't about how good I was at my job, it was about meeting their quota. I didn't take that job. My value to some people is that I get the work done. And to others, it's just the color of my skin.

Melanie Igwe

Founder

*Ilerasoft*

**What has been your experience as a female entrepreneur of color in St. Louis?**

It's interesting because it's been really good overall, but there have also been challenges. I always like to start with the good stuff, so let's talk about that first.

Ilerasoft was awarded an Arch Grant. Arch grants is an incredible community. They gave us so many resources, and they helped us fill in so many gaps. Ben Burke was there in our time and was a tremendous resource. I can't say enough about how great he was. So we were really lucky to have had that opportunity. It made us much stronger.

Now, on the flip side, you have other investment groups that really didn't take us as seriously as other founders. I would have to argue, especially comparing traction, that there may have been some implicit or even explicit bias in terms of race. We had a situation where someone told us that they didn't think Kwaku (my partner) would be able to raise money. But then we went out to the West Coast and raised $700K. So far, none of our funding has come from St. Louis. It's all from outside this market.

Ilerasoft is doing really well. We have channel partners, we're with Express Scripts, we have a pilot with a major pharmacy. It's unfortunate that the funding community here didn't really believe that we should be awarded funding. It was a missed opportunity.

So I would say that St. Louis is good on resources and support, but no so good on funding.

**That theme has come up quite a bit in these interviews. To what extent do you attribute it to implicit or explicit bias versus the perception that St. Louis just tends to be a bit more closed to outsiders in general?**

That's a great question. The way you open relationships is through organizations like Arch Grants. Arch Grants knows everyone in town. It was never like "of course we'll get funding now that we have an Arch Grant." We never assumed that. However, when you started to drill down into traction, addressable market, opportunity size, and how we compared to other startups — and you see how easy it was for them to get local funding, you start to wonder. And then you compare it to the coasts, where our conversations were so much more about understanding the finer points of the business, do we have the right team around us, etc. And the goal was clearly to get to a "yes or no" without wasting anyone's time. In St. Louis, it's been more like "let's keep having conversations and meetings with no end in sight." Meanwhile there have been other founding teams, other startups that had less traction, that weren't African American, and we would see them get substantial funding in a very short period of time.

So on the one hand you say, "well, St. Louis is a small town in a way," but then you have an organization like Arch Grants that acts as crowd-sourced diligence. And you work with these other funding organizations over the course of a year and they SEE your progress and yet can't make a decision, while they make decisions on other startups with less traction much faster. It's hard not to see some bias in that.

I am not someone who likes to jump to race to explain things. But I'll be honest, living in STL has made me much more aware of bias and racial disparities.

Ultimately, you have to be able to ask yourself as a founder: 'Am I not getting funding because my business isn't viable, isn't getting traction?" Do I have a plan for how to get to the next level of success. And I try to be very, very VERY realistic about where we are before we ask for more money.

**What about structural barriers in the ecosystem? Do you think they exist?**

Arch Grants has the highest multiple on follow on capital and yet has no requirement on return on capital. It's pretty incredible if you think about it. They just want to bring companies to STL. And yet somehow they have greater traction than professional venture groups where the entire function is to evaluate and assess deal flow to make smart funding decisions.

**What do they have that the VC's don't?**

I think Arch Grants is very astute about how they look at companies and founders. They do it in a holistic fashion. When you apply for an Arch Grant, it's a long application. It's cool because I have been through the entire process and now am part of reviewing applications and sit in on pitch practices. I've seen all sides of that process. The application is really really good. It really helps you understand the applicant's model. And it forces the applicant to be very clear and specific about their model. Arch Grants also does a good job of crowdsourcing input from past recipients to be sure that there is a diversity of opinions around the applications. It's very thorough. They apply multiple lenses to each deal. And there is a big community of practice that has a strong track record. So I think they do a great job of getting people with different backgrounds — not just different racial backgrounds but different professional backgrounds — to evaluate deals. So as an entrepreneur that's a huge value.

They source great applicants and then as you go through the pitch competition, there's a ton of feedback at every step. So you quickly learn your strengths and weaknesses and improve as a result. And from the Arch Grants perspective, they learn a lot about the founders. "Is this person coachable?" That's huge. They get to see how the founders act in real life. That's what I mean when I say it's a holistic evaluation process. And that's why so much talent has come out of Arch Grants, because they are so intentional about it. They also understand how to leverage people who have greater knowledge to asses deal opportunities. It's not just the same group of people sitting around the table giving a thumbs up or thumbs down.

Frankly, it's the most holistic due diligence process of any organization I've ever researched or been a part of. I'll put it that way. And that's why I'm so excited about the deal they announced with the Chaiffetz Group. There's a need for support for these companies that come through their process, because their process works. Why not have a fully integrated deal pipeline where you track people all the way from ideation to prototyping to growth and scaling?

St. Louis has so much potential. We have to close the gaps to turn it into something that is kinetic and sustainable.

**Do you think it is an advantage for Arch Grants to be non-equity?**

Good question. I mean technically, Arch Grants is out there raising money. And if you're raising money, investors always expect something back in return. Their return is economic development—jobs, talent, and growing our ecosystem.

I think that their investors hold them very accountable to those metrics. I think it would behoove VCs to adopt a more holistic approach to their diligence process because, let's face it: 80-90% of VC deals fail. And those companies are pretty homogenous. Meanwhile, the success rate for Arch Grants companies is extremely high. So maybe approaching it more like Arch Grants does would allow them to capture more value.

**Are you from St. Louis?**

No — Kwaku and I are from Houston. Arch Grants brought us here from Houston.

**So how would you say St. Louis comparison to other startup ecoystems in terms of equity and inclusion?**

In all transparency, we weren't that involved in the startup ecosystem in Houston. So, I can't speak to that. I've heard they're doing really well. I can speak to Cincinnati because we did an accelerator there. And we did a lot of work in NYC on the fundraising side.

I think St. Louis has an amazing ecosystem. The kinds of companies that are here coupled with the support resources like AG, BioSTL, and other ESOs like ITEN. We have a lot of momentum and support. I think that were STL could really blow things out of the water is modeling something that Cincinnati does. They have this place, Union Hall, which is like T-Rex (but T-Rex is way better!), where they have figured out a way to talk to all the big incumbent companies in Cincinnati — P&G, Kroger, Macy's, etc. — and bring them into the fold in terms of the startups. So if there is something that P&G is looking for, they'll got to Union Hall first. And they may hire or acquire the startups they need. St. Louis has a great opportunity to do that. I mean, especially in healthcare — we have so many great institutions here. If there was a way to have an intentional way of putting the big companies together with startups, that would benefit everyone tremendously.

And I don't mean startup showcases, which are great in their own way. I'm talking about an integrated approach. Let me give you an example. Let's say you are a software company dealing with, say, productivity in the construction industry. At Union Hall, they have a database of all the construction companies in the region and will actively help the startup network.

**That sounds like something the Chamber should be doing!**

In Cincinnati, the Chamber is definitely involved in that. It's just a great service for both the entrepreneurs and the big players. Everybody gets value from it. I mean, it gives entrepreneurs the chance to pivot in a really intelligent way — you get to understand the pain-points better.

**Is there anything we haven't covered that you think we should?**

Top of mind, I think it would be cool for more for the funding organizations here to understand that there may be an implicit bias and for them to challenge themselves to look at how it is affecting their investment thesis. Are they missing opportunities?

Could a minor shift in their thinking open up opportunities for more wins? That would be my thing. I mean, diversity and inclusion just for its own sake is ridiculous. This is not charity. People shouldn't be looking at it for altruistic reasons but because it is an opportunity to make more money. I mean, just look at it strictly in business terms. I don't want this to be a charity initiative — let's really drill in and understand how, by taking a different vantage point, we can increase returns to investors and to the community as a whole.