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Why Is Venture Capital Still A Boys' Club?

Maureen Farrell, 07.10.08, 12:40 PM ET

In May John Doerr, legendary financier behind the likes of Google, Amazon.com and Intuit, shared a secret of his success with the audience at the National Venture Capital Association's annual conference: Invest in "white male nerds who've dropped out of Harvard or Stanford."

Investing in very young but promising companies is a sexy, high-stakes game; it's also a boys' club, both in terms of who writes the checks and the entrepreneurs they fund.

Take the rarified world of venture capital: As of the first quarter of 2006 (the latest data available), just 4.8% of all VC dollars were behind female-owned companies, down from (a still meager) 7.1% in 2000, estimates Venture One, a research arm of Dow Jones.

Meanwhile, overall female entrepreneurship has been on the rise. Between 1997 and 2006, the number of companies majority-owned by women grew 42%, nearly twice the rate of growth in the number of male majority-owned outfits, estimates the Center For Women's Business Research, in Washington, D.C.

The quality of the investment ideas doesn't seem to be the issue, if interest by angel investors (loosely formed groups that fund even earlier-stage companies) is any proxy. Last year, 14.8% of male-owned companies that submitted proposals to angel investors managed to bag funding, estimates the Center for Venture Research at the University of New Hampshire, compared with 13.3% for women-owned companies. (Comparable figures for VC-funded companies are not available.) In terms of both genders' ability to get investors attentions, it's basically a dead heat.

So what gives?

A big reason women don't scare up more early-stage capital is that they don't go looking for it in the first place. In 2007, women submitted just 8.9% of all proposals to U.S. angel funds.

And the reason for that? "There's lots of work to do on education [that helps not to] limit women's thinking about business," says Patricia G. Greene, provost of Babson College and a founding member of the Diana Project, a research group focusing on women and the venture capital industry. "Too often, we teach women to how to run a small start-up. Who decided it should be small?"

Rita Geiger thought big. Knowing that VCs need a few home runs to pay for a preponderance of ground-outs (often eight out of every 10 investments) in their portfolios, Geiger decided to shift her business model to selling software to drug companies instead of consulting for them. (The former business model scales up nicely; the latter always requires additional bodies.)

Six years after launch, Geiger's consulting company was rolling--clients were shelling out \$100,000 to \$200,000 per year--but she had only landed six software buyers. "Investors were wary that we could successfully switch to a product company," says Geiger. "We had to prove it."

Gingerly, Geiger phased out her consulting business. Her courage paid off: In late 2006, she raised \$500,000 in angel financing, much of which she put toward marketing her software, and last January landed another \$1 million.

Another reason, perhaps, that few women manage to crack the VC code: A vast majority of the VCs themselves are men. "It's hard when you have an all-male venture capital firm," says Sharon Vosmek, chief executive of Astia, a San Francisco-based non-profit that works with women entrepreneurs seeking financing. "It's often difficult to understand the leadership potential of people who are different than you."

To rebalance the scales, some women like Stephanie Hanbury-Brown, a former JPMorgan Chase executive, are starting up investment firms that solely target female-owned businesses. "We have great deal flow," says Hanbury-Brown of her new Golden Seeds fund in Cos Cob, Conn., which looks at 15 to 25 deals a month, though has only invested in 18 companies in three years. Average bet: \$400,000.

There's definitely hope for women entrepreneurs, says Astia's Vosmek. Of the 124 companies Astia has worked with since 2003, she claims, more than 60% have successfully nabbed financing. "Once the curtains of fundraising are pulled back, women do very well," says Vosmek. "The women we work with get funding at an exceptional rate. I think a lot of it isn't about a glass ceiling but about women stepping up to the opportunities."

And those opportunities may not be in Silicon Valley with Doerr and company, where the competition for capital is fierce. When Cynthia Francis first went hat-in-hand for her Reality Digital, a media-software company which allows users to easily create and share videos, she admits she had a tough time--despite her extensive Valley network and "a client roster that most start-ups would kill for," including the Travel Channel, Lonely Planet and the British Broadcasting Channel.

Her solution: Look elsewhere. This March, Francis nabbed \$6.3 million from Boston-based OpenView Venture Partners. "It wasn't until I finally started looking outside the Valley that I finally gained traction," she says.