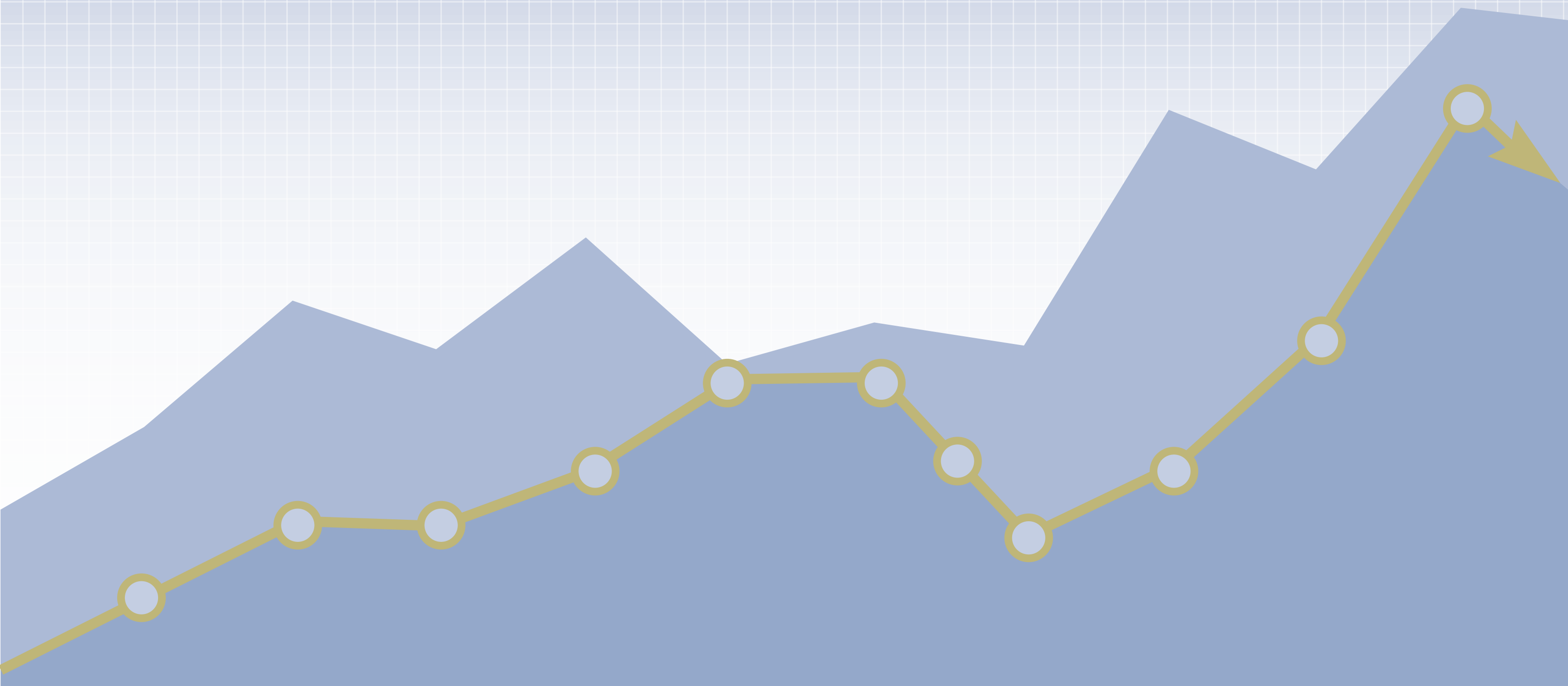

CHANGING CAPITAL:

EMERGING TRENDS IN ENTREPRENEURIAL FINANCE

October 2016

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Introduction

Capital is obviously vital to entrepreneurs, and the sources and types of capital available to them are changing. The gaps that exist between investors and entrepreneurs have narrowed due to networks created by new technologies. Easier communication has created new ways for investors to aggregate and deploy capital. Furthermore, the transaction costs of capital formation are falling rapidly, as evidenced by the growth of phenomena such as crowdfunding, online angel syndicates, online lending, and new venture funds operating beyond traditional hubs and with novel investing goals.

The Kauffman Foundation seeks to provide improved data and analysis about trends in entrepreneurial capital formation so that we can encourage efforts to enhance the success rates of entrepreneurs everywhere. This report examines current developments in the field, draws out some broad trends, and considers their implications for entrepreneurs.

Data collection was carried out across several parts of the emerging capital landscape. Fourteen interviews were completed with experts across venture capital (VC), angel, crowdfunding, microfinance, and others involved with new financial technologies and products. Datasets and key industry publications were analyzed for venture capital (National Venture Capital Association and Thomson Reuters), angel syndicate investments (Angel Capital Association, Angel Resource Institute, Halo, and Pitchbook), angel investors (Center for Venture Research), and crowdfunding (Equity crowdfunding portals, Crowdnetic, and Kickstarter). More information on methodology and the datasets used can be made available upon request.

Based on interviews and data collected, we identified the following trends:

1. The VC industry is shifting at the biggest and smallest ends of the market.
2. Online platforms—for crowdfunding, angel syndication, and lending—are increasingly important options for seed-stage and early-stage startup needs.
3. Sources of capital are emerging outside of traditional geographical hubs.
4. Women are playing more decision-making roles in entrepreneurial capital.
5. There is robust experimentation with differentiated capital models.

Following, we explore each of these trends based on a review of data, analyses, and case stories.

1. The VC industry in shifting at the biggest and smallest ends of the market.

There has been a sizeable increase in the number of new small venture funds since 2010. Data from Thomson Reuters show that, between 2010 and 2015, the number of new funds raising $100 million or has increased by a quarter, from eighty-eight to 119 (Fig. 1). These smaller funds tend to have one or two partners who often are entrepreneurs or investors with deep sector experience and often are re-investing money they made from an earlier venture as a part of their funds.

New funds, those that are three years old or younger, appear to be making smaller investments and increasingly play a part in first rounds for the earliest-stage deals. Between 2010 and 2015, new funds increased as a proportion of total investments in first rounds for seed-stage and early-stage deals, growing from 9.2 percent to 11.3 percent of the total (Fig. 2).

Venture capital industry insiders hypothesize that one possible reason for the surge in this type of new funds is a shift in the VC landscape: bigger funds are investing proportionally more in giant, late-round deals, thus allowing an increase in market share for newer funds committed more to seed-stage and early-stage investing.

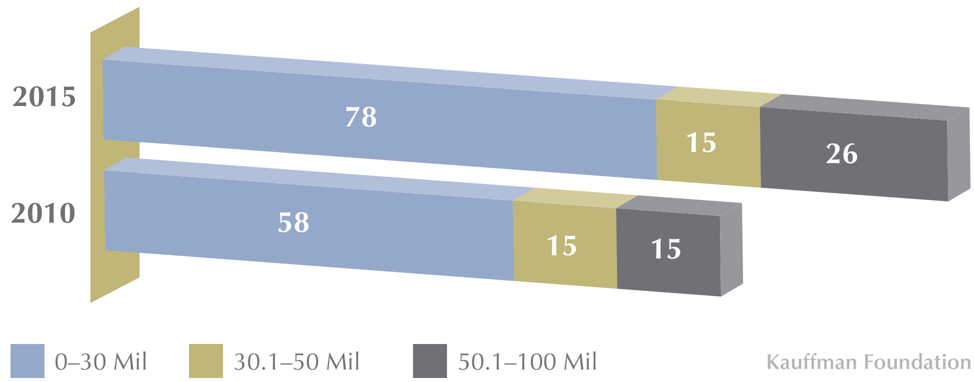
Between 2013 and 2016 (thus far), the total dollars invested in venture deals essentially doubled to an annualized $60 billion, without an accompanying change in deal counts or first-time funding counts. This change has instead been driven by investments in a handful of outliers like Uber: exceptional, high-potential companies that, instead of going public and further growing the business from IPO proceeds, elected to remain private and accept additional private funding. Many of these later-stage "venture" rounds became quite large, in some cases reaching $1 billion or more.

As companies have chosen to stay private longer, more money from outside the traditional VC industry also has poured into venture deals. The recent rise of corporate venture capital has been a primary driver of this trend. Data from the second quarter of 2016 show corporate groups deploying $1.2 billion in that quarter alone, participating in 20.6 percent of all venture deals.[1]

Figure 1

The number of small venture funds has increased in recent years

U.S. venture funds raised for selected vintage years by fund size bracket (U.S. dollars)



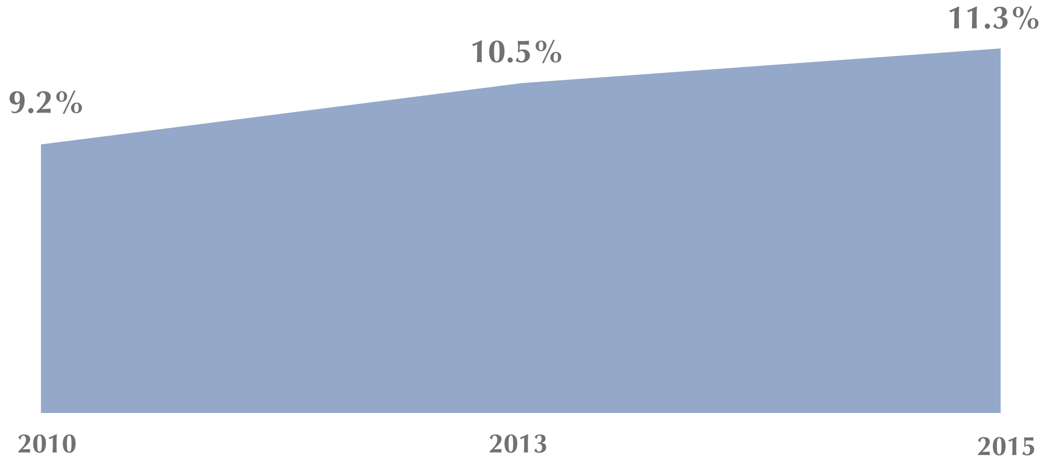
Source: *Thomson Reuters*

1. PricewaterhouseCoopers et al. (2016).

Figure 2

New funds are increasingly playing a part in first rounds for early-stage deals

Venture firm age 3 years or younger as a proportion of all dollars invested in first funding rounds for seed and early-stage deals for selected years



Source: *Thomson Reuters*

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Cross Culture Ventures | Cross Culture Ventures is an example of these new small funds. Founded by Troy Carter, who previously was Lady Gaga's manager, the firm aims to invest $500,000 to $1 million at a time. It looks for "culturally driven" companies that will benefit from mainstream cultural trends. This strategy includes leveraging their insights into African American and Latino consumer markets to target niches that previously were overlooked.

Typical Cross Culture investments include Thrive Market and Maven. Trevor Thomas, a general partner at the Cross Culture, describes Thrive Market as "Costco meets Whole Foods," riding the "democratization of health and wellness" cultural trend. Maven, a company that makes artificial hair products for African American women, addresses the $9 billion U.S. hair weave market. This market has no e-commerce players and significant room to be more efficient.

Cross Culture also offers expertise in business development, marketing, and public relations in order to differentiate the fund and give it an edge over super-angels or crowdfunding. This effort to be more innovative in order to get into the most competitive deals is typical in the VC industry today. Thomas reports: "It's easier than ever to raise money, but harder than ever for funds to get into the best deals. You have to be able to offer something that's really different to get into competitive deals."

Thomas describes a shift in the terms between investors and entrepreneurs. In 2010, after the financial crisis, term sheets were harsh. Between 2013 and 2015, they eased up as money poured into venture capital-backed companies. Now, Thomas explains, "there is some rationalization on valuations and a little bit sharper elbows on the funding and founder side." There is more discussion of redemption rights and liquidation preferences to protect investments, but VCs are all being more innovative—offering access to networks, mentors, and customer relationships—in order to attract the best entrepreneurs.

2. Online platforms—for crowdfunding, angel syndication, and lending—are increasingly important options for seed-stage and early-stage startup needs.

Online platforms play an increasingly important part in the democratization of capital. The data show that increasing numbers of platforms and networks are making it easier for entrepreneurs to access smaller amounts of capital, from either angel investors, crowdfunders, or online lenders.

Angel syndication

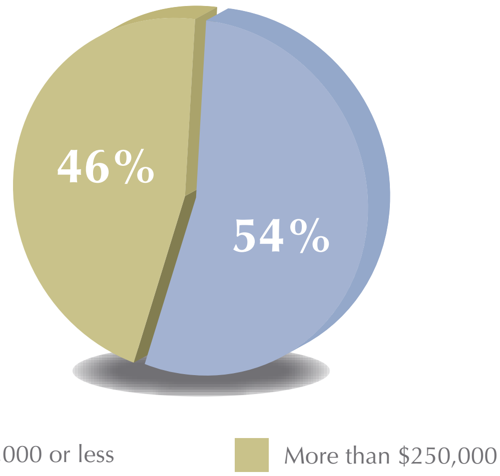
Angel investments reached over $20 billion in 2015,[2] approaching the traditional size of venture capital at $30 billion.[3] In recent years, angel investing has become more sophisticated, with syndicates of angels forming to take larger stakes in deals and build diversified investment portfolios.

The Angel Capital Association and Angel Resource Institute conducted a survey of angel groups, including committed capital funds and networks, to better understand syndication and average investment sizes in early-stage deals. They report that 46 percent of angel groups surveyed invested $250,000 or less into each deal (Fig. 3). Given that the median round size

Figure 3

Many angel groups invest less than $250,000 in deals

Average investment size of angel groups surveyed



Source: *The Angel Capital Association and Angel Resource Institute conducted a survey of angel groups, including committed capital funds and networks, to better understand average investment sizes in early-stage deals.*

2. Center for Venture Research (2015).
3. Massolution (2015).

in 2015 was more than $800,000, a typical deal would require syndication and might need three or more groups working together to close a round. Non-angel partners, such as venture funds, private equity funds, and family offices, co-invest more often in these larger deals.

More sector-specific and geography-specific angel funds are emerging, through which investors can bring more expertise and connections to a deal. Marianne Hudson of the Angel Capital Association noted that she is seeing more platforms for angels and greater specialization. For example, there are platforms specifically focused on women (like Portfolia), doctors (AngelMD), and data science (Propel(x)). This trend is occurring alongside more education for angel investors about diversification and methods to bring value to their investments.

Crowdfunding

Crowdfunding is a smaller, newer sector than either angel investing or venture. It typically refers to the act of sourcing relatively small contributions of money from a large number of individuals (the "crowd"), using the internet as a platform.[6] Massolution's 2015 report estimates that $17.2 billion was invested in North America through all crowdfunding websites, and has been rapidly increasing year on year.

The crowdfunding sector consists of four major categories: equity, rewards, debt, and donation. Our discussion will focus on the first two due to the proliferation of rewards-based crowdfunding, the potential of equity crowdfunding, and availability of data.[7]

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4. AngelList data.

5. Center for Venture Research (2015).

6. Belleflamme, Lambert, and Schwienbacher (2014); Mollick (2014).

7. Debt crowdfunding is part of larger innovations in finance typically categorized as "fintech." It includes firms such as Lending Club and Prosper. Donation crowdfunding allows backers to donate to their favorite charities. Platform examples include Crowdrise and Causes. Neither debt nor donation crowdfunding are included as part of this report.

AngelList | AngelList evolved out of a blog called VentureHacks in 2010. In six years, AngelList has gone from matching individual investors and entrepreneurs to enabling the formation of angel syndicates, and now to managing purpose-built angel funds for both individual and institutional capital. AngelList investors have invested $445 million in 1,040 startups since the company's inception.[4]

Kevin Laws, AngelList's COO, explains that the company's broad and expanding social network serves the following key roles today:

- A place for investors and companies to learn about each other.
- A place for companies to find talent and vice versa. AngelList now has more than 20,000 startups posting jobs on its site.
- A place to find funding.

AngelList has three basic funding models. The first is a straightforward connection between an angel and a company. This type of traditional angel investing appears to have remained fairly steady from 2002 to 2015.[5]

The second model utilizes a syndicate structure, a VC fund created by AngelList, to make a single investment in a startup. The investment is led by experienced technology investors and is financed by sophisticated angels and institutional investors who are attracted by the diversification and the opportunity for gains. The typical size of a syndicate is between $200,000 and $350,000, comparable to a seed-stage or very early-stage VC investment. AngelList now has more than 200 active syndicate leads who have invested $440 million so far.

The third funding method is through AngelList's Access Fund, a portfolio of startup investments on AngelList. Through this structure, people can invest in startups while spreading their investments across a portfolio rather than investing in a single company, thereby creating a lower risk profile.

Laws says that AngelLists's efforts today are focused on reducing other frictions faced by entrepreneurs. The company seeks to use new fintech (financial technology) tools to simplify the time-consuming and costly diligence, audit, and valuation processes investors and startups face.

**Disclosure: The Ewing Marion Kauffman Foundation owns a minority stake in AngelList, LLC, and manages this investment as a part of the Foundation's investment portfolio.*

Equity crowdfunding allows backers to buy shares of a firm over the internet.

Rewards-based crowdfunding, the most prolific category in the United States, typically offers backers a modest prize or prototype product in return for investment. Its most famous example is perhaps PebbleWatch, and its best-known platform is likely Kickstarter. This form of crowdfunding has raised more than $3.5 billion since it started, according to Indiegogo and Kickstarter websites.[8]

Equity crowdfunding allows backers to buy shares of a firm over the internet. This type of crowdfunding is newer, and its development has been slow due to regulatory concerns. It was signed into law April 5, 2012, through the Jumpstart Our Business Startups (JOBS) Act. There are two categories of equity-based crowdfunding:

- Title II or "Access to Capital for Job Creators" allows crowdfunding and investment opportunities for accredited investors.[9] Crowdnetic, a data platform that collates real-time offerings from securities-based crowdfunding platforms, states that the total amount raised between 2013 and 2016 was $1,651,993,174.
- Title III or "Regulation Crowdfunding" enables crowdfunding and investment from non-accredited investors in the United States. It became available to non-accredited investors May 16, 2016. As of September 20, 2016, twenty-two issuers have completed raises. Of those, twelve were successful in raising a total of $5,285,759.

These billions of dollars also have been invested in smaller amounts than we saw for angel funding, where the average deal for a syndicate was $800 million. For rewards-based and equity crowdfunding, investments are typically between $10,000 and $1 million on Kickstarter and between $128,000 and $1 million on Crowdnetic. These amounts tend to be more suitable for smaller startups (Figs. 4 and 5).

Overall, it appears that crowdfunding can be an effective way for entrepreneurs to test their concepts with smaller amounts of money, build a customer base, and generate publicity for a new product. Crowdfunding success also appears to increase the chances of subsequent rounds of outside capital when projects are small (under $100,000), according to a report published by the U.S. Small Business Administration in May 2016.[10]

Online lending tools

Many businesses need funds to manage cash flow and access short-term financing. A 2015 Federal Reserve Bank of New York study found that the most commonly used financial tools for small businesses are loans (57 percent) and lines of credit (52 percent).[11]

Merchant cash advances are becoming more popular at the small end of the market. The same study found that 7 percent of small businesses had used merchant cash advances in the previous year. The smallest businesses were more likely to use this tool, with 10 percent of microbusinesses[12] taking out merchant cash advances in 2015.[13]

The emergence of new fintech companies and products is transforming this field. For example, OnDeck and Kabbage offer rapid online vetting for small business loans, drawing on personal data other than credit scores. This process has allowed financial services to make faster decisions, which are particularly important for cost saving when investment amounts are lower.

Online lending platforms play an important role in the financial ecosystem for entrepreneurs. This sector is an area of strong interest for future monitoring.

8. Kickstarter and Indiegogo data.

9. Accredited Investors are individuals who have earned income exceeding $200,000 (or $300,000 with spouse) in each of the prior two years and reasonably expect the same for the current year, or have a net worth over $1,000,000 (excluding value of primary residence). In 1983, 1.5 million people qualified. In 2013, 12.4 million people qualified.

10. Kuppuswammy and Roth (2016).

11. Federal Reserve of Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, and Saint Louis (2016).

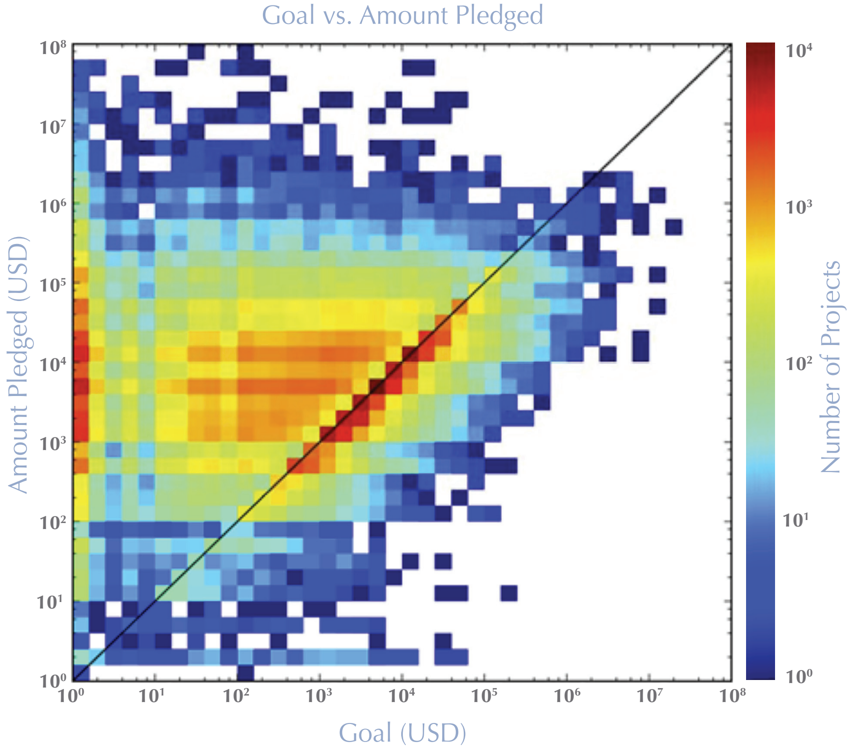
12. Microbusinesses have less than $100,000 in revenue.

13. Federal Reserve of Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, and Saint Louis (2016).

Figure 4

The typical amount invested in Kickstarter projects is between $10,000 and $1 million

Heatmap of number of Kickstarter projects and success rate, from 2009–04-21 to 2016–08-01, U.S. projects only.

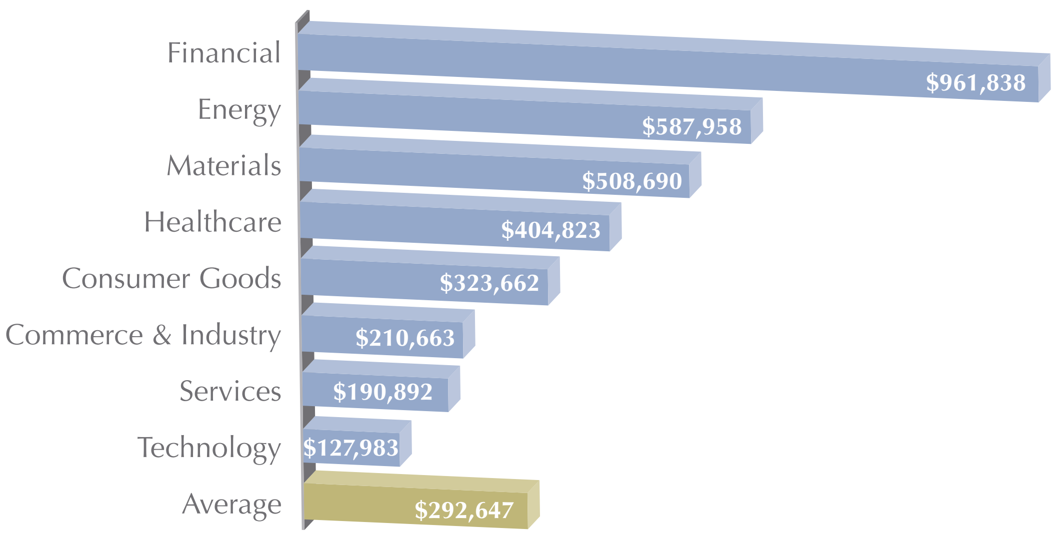


Source: *Kickstarter* Kauffman Foundation

Figure 5

The average amount invested in Crowdnetic projects is between $128,000 and $1 million

Data on all 506c offerings captured by Crowdnetic from 9/23/2013 to 9/12/2016



Source: *Crowdnetic* Kauffman Foundation

Indiegogo | When Danae Ringelmann co-founded Indiegogo nine years ago, her mission was to break down barriers facing entrepreneurs. The biggest barrier at the time was funding, and the internet seemed to be the best means of making funding more democratic. Indiegogo's model allows anyone to pitch an idea and see if people are willing to support it. There is no application process.

Entrepreneurs have raised more than $835 million on Indiegogo alone since its founding, and venture capitalists have committed more than $500 million to companies that launched on the platform.

As venture capital firms and AngelList have discovered, however, initial funding is not the only obstacle facing entrepreneurs. Indiegogo now has expanded its offerings to entrepreneurs, allowing them to continue raising money after their campaigns end and connecting them with manufacturers and retailers. These additional services were inspired by the phenomenal success two entrepreneurs experienced last year with their Indiegogo campaign to sell "cat ear" headphones, a headset with a pair of triangular speakers on top, in the shape of cat ears, that allow users to switch from listening to music privately to sharing it with friends. The product easily exceeded its $250,000 fundraising target on Indiegogo, raising $3 million.

In response, Indiegogo created InDemand, an opportunity for potential customers to sign up for products long after fundraising targets are reached. These additional funds for entrepreneurs after their campaigns are over help them advance to producing real products. InDemand also allows entrepreneurs to iterate with customers on the characteristics of their product, test product options and price, and get feedback before going into production.

When the entrepreneurs behind the cat ear headphones then needed help with manufacturing, Indiegogo ventured into new territory again, introducing them to the retailer Brookstone, which helped them find the right manufacturer, test the product's feasibility, and eventually sell it. Indiegogo formalized this process by creating a relationship with Arrow, the electronics components manufacturer, to offer its expertise to entrepreneurs. The company also developed relationships with retailers who can distribute Indiegogo products.

On the funding side, Indiegogo is exploring the possibility of more formal relationships with the angel syndicates and venture capitalists who already scan the website for potential investments. It also is looking at the opportunities provided by equity crowdfunding, but Ringelmann describes this effort as the "Wild West in this area," as parties try to discern the consequences and opportunities from changes in regulations.

Accion Chicago | Accion, a non-profit credit provider, has observed the impact of these recent changes in financial technology. In Chicago, its customers are primarily those that cannot otherwise get loans due to damaged credit or scores below those required by banks. Most are self-employed small businesses providing services such as food, cleaning, daycare, and transportation. Accion Chicago's average loan size is $10,000, and the average term is eighteen months. Loans are used primarily for working capital, and 30 percent of the customers who make up Accion Chicago's $6 million loan book are startups. The remaining 70 percent are going concerns.

Mano Kamaleson, the Chief Program Officer of Accion Chicago, explains that the impact of financial technology isn't always good. The automation of pre-qualification for financial services has resulted in faster decisions that, he says, "have been revolutionary in our industry." It has also, however, been very costly for Accion's customers. Many businesses have taken cash advances against revenue from merchant processing companies and then found that the cash turned out to be more expensive than the businesses understood. In response, Accion is pioneering its own product to compete with the merchant processors that link repayment to cash flow, rather than to an arbitrary date.

3. Sources of capital are emerging outside of traditional geographical hubs.

Entrepreneurial capital historically has skewed toward a handful of geographies. At first glance, this trend appears to be continuing: the bulk of venture capital still tends to be raised in large funds managed by established firms, and the majority of these large firms remain in California, followed by Massachusetts and New York.

The data show, however, that the VC sector may be changing, and capital now is emerging in new regions more strongly than in the past. New VC firms (first-time funds) are geographically more broadly distributed than large, established firms are (Fig. 6).

The crowdfunding sector suggests a similar trend. While nearly half of all VC dollars were invested in Silicon Valley last year, new crowdfunding investments are much less skewed toward California. According to Crowdnetic, a data platform that collates real-time offerings from securities-based crowdfunding platforms, 27.3 percent of Title II crowdfunded dollars were made to California-owned companies. For early offerings in Title III, 32.7 percent came from California.

Older rewards-based crowdfunding websites such as Kickstarter have larger datasets and demonstrate the wider potential of crowdfunding. Projects on the site are still more common on the coasts, with 20.7 percent of successful projects occurring in California in 2016.[14] However, many new U.S. counties saw their first projects in 2015 (Figs. 7 and 8).

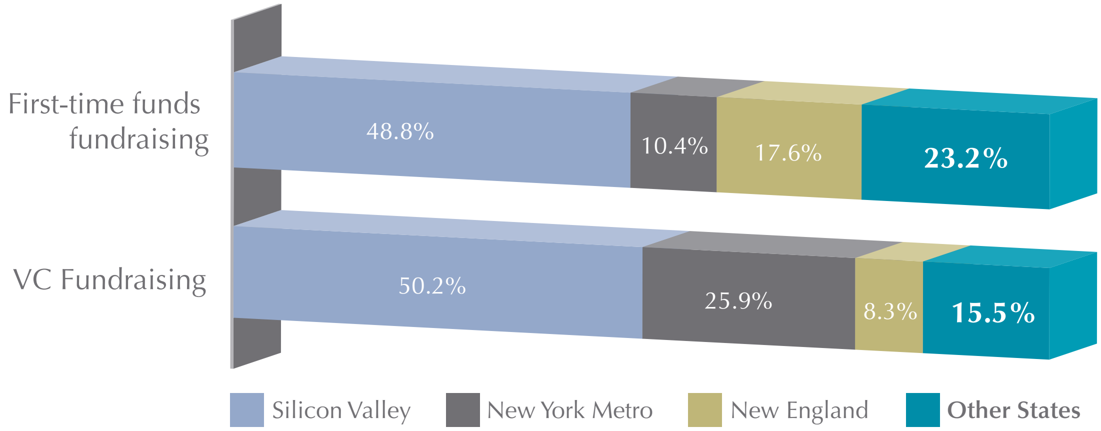
The organized angel market is even less focused on California, perhaps due to the decentralized nature of angel investment. Data from the Angel Capital Association show that only 17.9 percent of angel group dollars are invested in California. This concentration is the lowest of any form of capital examined in this report, which may be due to the fact that, on average, angel groups spend the majority of their investments in their own regions. Investment within a region typically is between 58.5 percent and 88.8 percent.[15]

Analyses from experts on angels support these numbers. Alicia Robb, a Kauffman Foundation senior fellow and visiting scholar at University of California, Berkeley, says that, while California and Boston are still the main centers for early-stage investing, she has seen thriving communities of angel investors in Kansas City, Minnesota, Michigan, Ohio, and Houston, which has the most active angel network in the country.

Figure 6

New VC firms are geographically more broadly distributed than large, established firms

Venture capital firm fundraising and first-time fund fundraising by U.S. regions in 2015



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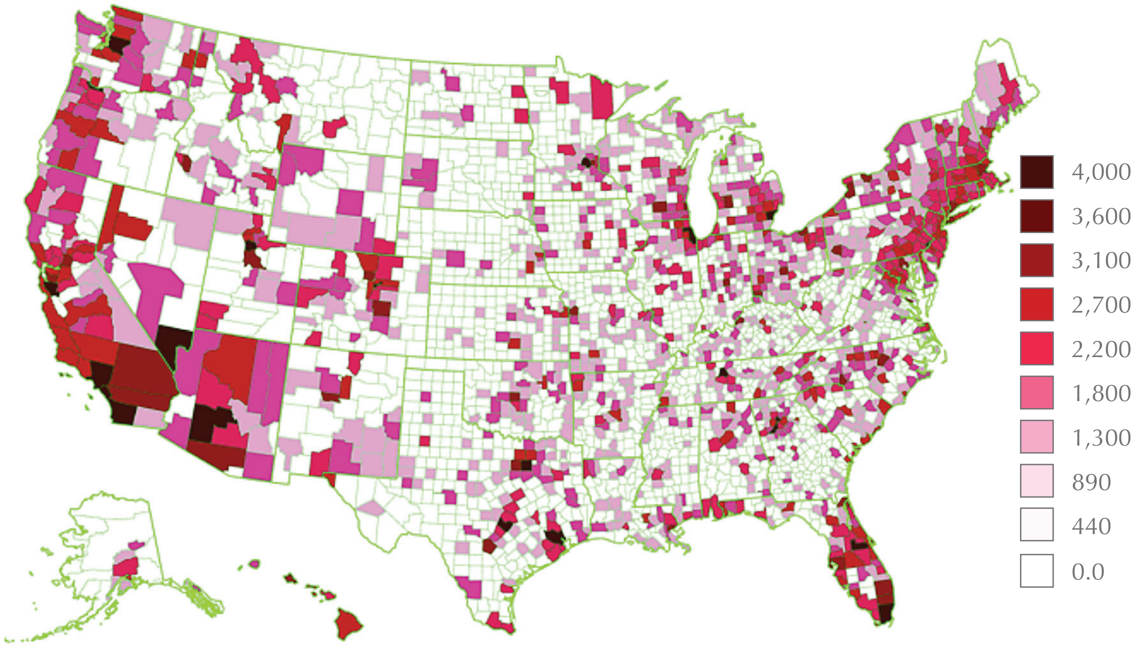
Source: *Thomson Reuters*

14. Data was collected up to August 1, 2016.
15. Angel Resource Institute (2015).

Figure 7

Kickstarter projects are still most common on the coasts

Kickstarter project counts by county in 2015



Source: *Kickstarter and CrowdBerkeley*

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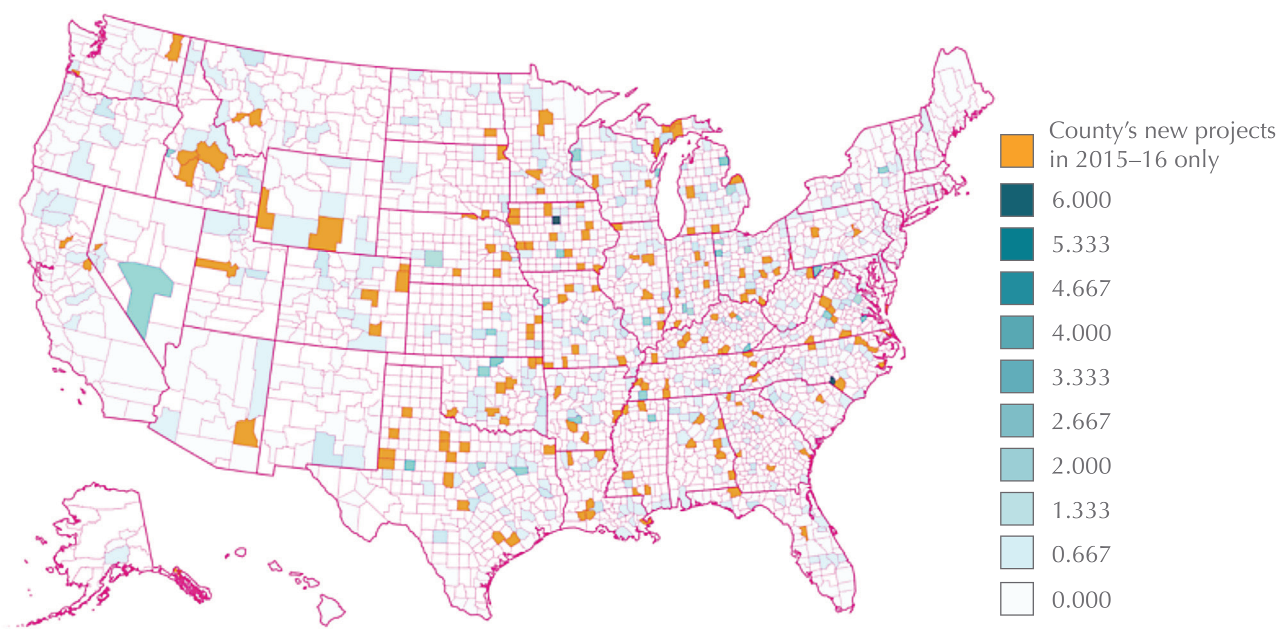
Figure 8

Many new counties around the United States saw much more activity in 2015–2016

Kickstarter ratio of project counts by county 2015-16 over 2009-14



Source: *Kickstarter and CrowdBerkeley*

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Kevin Laws, AngelList's COO, has observed AngelList investments happening in locations as varied as Montana and Croatia.

Overall, the trends in our investment data point toward an idea gaining traction with entrepreneurs and investors, including AOL co-founder Steve Case. When Case launched *The Rise of the Rest*, his book and campaign to encourage entrepreneurship across America, he wrote: "As the cost of starting companies continues to decline, and connectivity makes it easier for entrepreneurs to hire the best talent from across the U.S., the 'rise of the rest' will give entrepreneurs more flexibility to start companies where they prefer to live." The evidence suggests that the geographical spread of capital already is happening today.

4. Women are playing more decision-making roles in entrepreneurial capital.

New trends in financing indicate more inclusion along gender lines. Venture capital has traditionally been led by men and invested in male-owned companies. In the 1990s and 2000s, studies showed that fewer than 5 percent of all VC investments were made in companies with a woman on the executive team.[16]

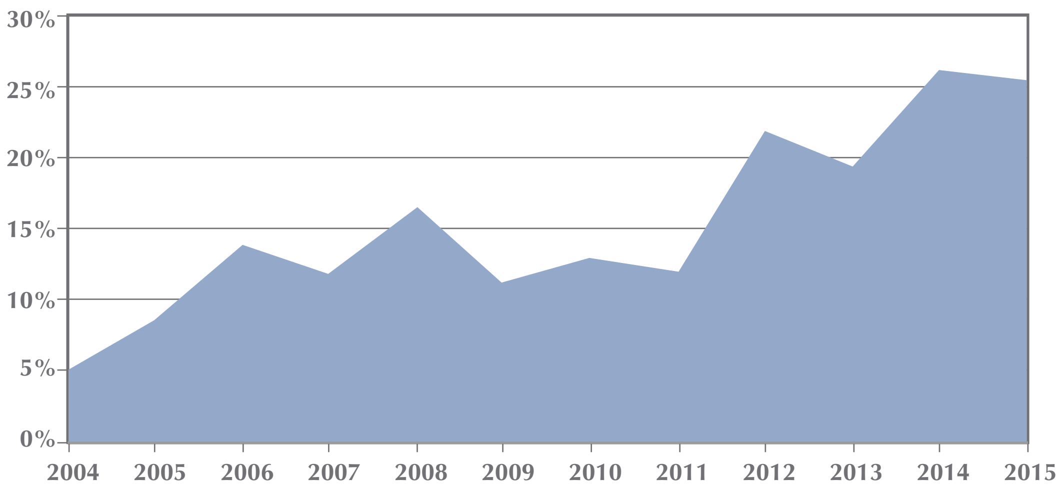
In recent years, however, more attention has been paid to this issue, and women are playing an increasing role in venture capital and angel funding, and within startups raising capital. A 2016 National Venture Capital Association report cites a number of steps the industry is taking to increase diversity.[17] Initial signs are positive and a recent study using data from 2011 to 2013 demonstrated that more than 15 percent of the companies receiving venture capital investment had a woman on the executive team.[18] Similarly, a Crunchbase study shows that the percentage of companies with a female founder getting their first funding in 2014 is 18 percent, nearly doubling between 2009 and 2014.[19]

Data on single angel investors from the Center for Venture Research at the University of New Hampshire suggest similar trends. The percentage of women angel investors has increased between 2004 and 2015, as has the percentage of women-owned ventures seeking capital (Figs. 9 and 10).

Figure 9

The percentage of women angel investors is increasing

Women angel investors as a percentage of all angels



Source: *Jeffrey Sohl, Center for Venture Research analysis reports*

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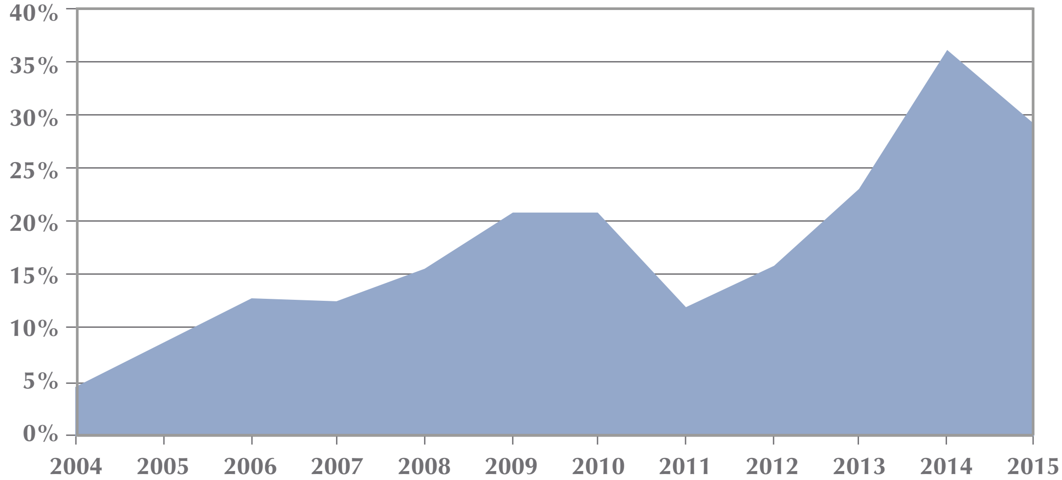
16. Carter, Brush, Greene, Gatewood, and Hart (2003); Becker-Blease and Sohl (2007).
17. National Venture Capital Association (2016).
18. Brush, Greene, Balachandra, and Davis (2014).
19. Crunchbase statistics in National Venture Capital Association (2016), page 25.

Figure 10

The percentage of women-owned ventures seeking capital is increasing

Women-owned ventures seeking capital from angel investors as percentage of all venture seeking capital



Source: *Jeffrey Sohl, Center for Venture Research analysis reports*

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Crowdfunding websites also are beginning to gather data on women investors and founders. Crowdnetic data on equity investments from accredited investors on crowdfunding platforms (Title II) show that 15 percent of companies that receive funding are women-owned. For rewards-based crowdfunding, signs are even more positive. Danae Ringelmann, the co-founder of Indiegogo, says the jury is still out as to whether crowdfunding has truly "democratized" funding for entrepreneurs, but 30 percent of Indiegogo businesses are started by women.

Initial trends suggest that more traditional investment methods are beginning to include women, and that women are receiving more capital from traditional as well as new funding sources. While the situation is improving, it's clear that women still are represented at less than 50 percent across all sectors, and many investors intend to collect more information on inclusion in order to assess the situation better.[20]

5. There is robust experimentation with differentiated capital models.

Changes to the financial sector and signs of further inclusion across a wider market are putting investors in a new position. As the options for early-stage investors become more competitive, firms are finding ways to differentiate themselves and appeal to specific groups of entrepreneurs.

Several new funds are experimenting with models that allow entrepreneurs to keep their companies private and not lose control of their businesses. Indie.vc, co-founded by the publisher Tim O'Reilly, offers entrepreneurs the option of paying out cash distributions to investors instead of exiting via the public markets or selling to an acquiring company. As Bryce Roberts, a co-founder, explains, the company is "about embracing independence and empowerment of

20. The National Venture Capital Association has formed a Diversity Task Force to foster greater inclusion across the innovation ecosystem, and the Angel Capital Association also has demonstrated their interest by planning reports on gender and investing.

CircleUp | CircleUp is an equity crowdfunding site, founded in 2011, that offers accredited investors a stake in businesses. Entrepreneurs looking for capital are invited to upload their investor presentations, financials, and any other relevant data to make their cases. CircleUp is more highly curated than AngelList is: CircleUp evaluates companies and researches their founders before presenting them to investors.

The company claims that its model is making it much easier for women to raise capital for their small businesses. A 2013 MIT study found that pitches delivered by men were between 60 percent and 70 percent more likely to receive funding than those delivered by women, even with the same content.[21] Online, however, the gender gap starts to close. CircleUp asserts that women "are nine times more successful raising capital online than with traditional banks, and five times more successful when compared to venture capital funding." Women receive 34 percent of funding raised online, while they receive only 7 percent of venture capital. Furthermore, on CircleUp, women raise money at higher valuation-to-revenue ratios (4.3 to 1) compared to men (3.4 to 1).[22]

entrepreneurs over investor appeasement and loss of control."[23]

Dave Whorton of Tugboat Ventures takes a similar approach. Having been a technology CEO and worked at Kleiner Perkins and the Texas Pacific Group, he now is focused on investing in "evergreen" companies, those whose founders never intend to sell and who consider external capital a distortion of their plans. "I represent a network of individuals and family offices that want to invest this way," says Whorton. "The owners of the companies maintain full control. There are no exit requirements. It puts us in alignment for long-term value creation."

To strive for differentiation in a market that appears to be expanding, branding and positioning also have become more important. One of the most successful venture capital firms in recent years is Andreesen Horowitz, which was founded in 2009 and branded itself the "anti-VC," fighting for entrepreneurs as well as investors. The fund marketed itself as a talent agency for its startup companies, and it quickly acquired stakes in high-profile companies like Instagram, Airbnb, and Lyft by leveraging its relationships. One of the two co-founders, Marc Andreesen, already a well-known figure for having founded Netscape, reinforced his reputation through frequent, provocative postings on Twitter. His co-founder, Ben Horowitz, wrote a best-selling book about entrepreneurship, *The Hard Thing about Hard Things: Building a Business When There Are No Easy Answers.* This high-profile approach to competitive differentiation and marketing, coupled with deep pockets and well-connected founders, has rapidly elevated the firm into one of most visible VC firms.

Conclusion

Several conclusions become evident in this review of trends in entrepreneurial capital formation. First, changes at the top end of the VC industry apparently have created a gap for more new, small funds to invest in seed and early rounds. In addition, shifts in technology are changing the way startups are funded. Online platforms are helping to democratize capital by making it easier for entrepreneurs to access smaller amounts of capital, whether from angel investors, crowdfunders, or online lenders. And finally, inclusion is beginning to increase. Women are receiving more capital from traditional as well as new funding sources, although they are still far from parity with men. And geographic inclusion is broadening, although California still receives the most investment dollars of any state.

In sum, these trends indicate movement toward new opportunities for investors, entrepreneurs, and entrepreneurial communities around the country. Capital is being deployed using new tactics and methods and is beginning to be deployed to new groups of entrepreneurs across the country. These are fascinating trends to watch as they unfold.

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If you have any questions, please contact
Amisha Miller at the Kauffman Foundation at ammiller@kauffman.org.

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4801 ROCKHILL ROAD
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816-932-1000
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