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Bridging the Black Founders Venture Capital Gap

Time for a Great Correction

Venture capital investors funneled $150 billion[1] to startups in 2020. That's a 7% increase from 2019. Good news, right?

While that record-smashing number is impressive, a major problem lurks beneath the surface. Only approximately **1%** of those funds were distributed to Black founders, significantly below the representation of the Black population in the United States. And that discouraging stat is not unique to last year. The inequity in venture capital funding has been rampant for decades and doesn't seem to be easing up.

It's clear: Black founders are at an astounding disadvantage when it comes to accessing venture capital. Despite the rapid growth of Black entrepreneurship, the venture capital (VC) funding gap is growing. Funding is not commensurate with the Black population nor equal to what non-Black founders are getting.

In fact, the average deal size is expanding, yet Black founders' CAGR is -7%, compared with 19% for non-Black founders, according to Accenture analysis of Crunchbase data between 2016 and 2020. This widening gap can in part be explained by the global increase in late-stage funding where the presence of Black founders is notably limited. A sizeable pipeline of Black entrepreneurs in early rounds is required to increase representation in late-stage opportunities and curb the funding gap. In absence of efforts to increase the pipeline, Black founders will never achieve funding parity. By funding parity, we mean equitable investments in Black founders at each stage AND sustained support throughout the life of the Black enterprise.

Our analysis reveals a reason to hope. With proper planning and a well-executed strategy, this unfavorable trend can be corrected. Reversing the course won't happen overnight, but with targeted actions in place, it is possible.

However, it's now or never: if immediate action isn't taken to correct the disparity, the gap will never be closed. This disproportionate lack of access to capital will impact the global marketplace for the foreseeable future because some of the best innovations designed to solve big challenges will never make it to market.

By funding parity, we mean equitable investments in Black founders at each stage AND sustained support throughout the life of the Black enterprise.

Black representation and parity in venture capital is important across many dimensions and outcomes, both financial and non-financial. This research discusses the underlying factors behind the growing gap and identifies some ways to close it.

Time for a great correction

Based on economic modeling analysis, we hypothesize that the venture capital gap can be closed assuming three differently paced scenarios: **accelerated, moderate** and **slow.** The first and most ideal is the accelerated scenario, which would close the gap in 30 years (see Figure 2 on Page 5).

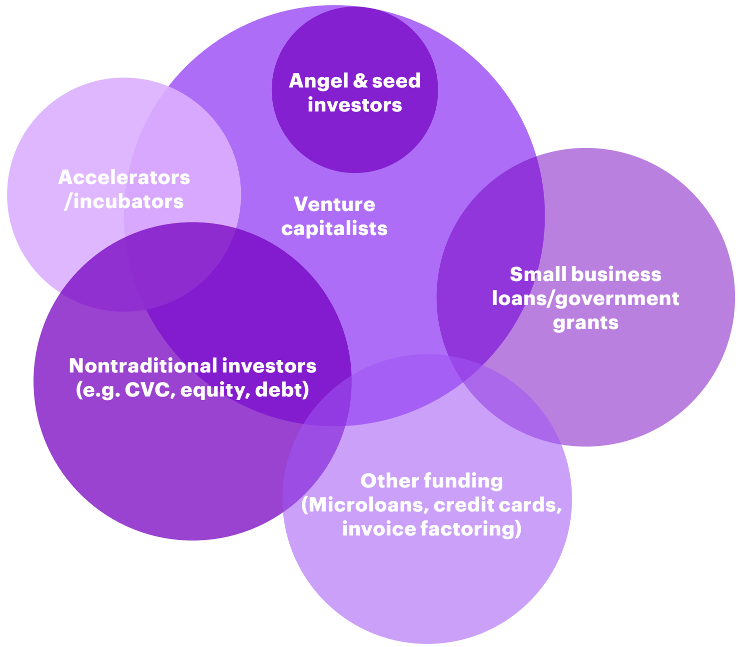
If we act now, we can help close the deal parity gap. Granted, it's going to take meteoric solutions to tackle the investment disparity in our lifetime. In fact, it will take $1.4 trillion. If that number seems out of reach, it's not. Just think, $50B was pledged and committed[2] to racial justice in a matter of months. That alone could get us halfway through the initial five years of investment needed to reach parity within the next 30 years.

Here's an illustrative breakdown: in the first five years between 2022 to 2027, it would take funding an additional 373 Black-founded companies with an average deal size of $75M to help achieve an accelerated path to parity, followed by 700 Black-founded companies from 2027 to 2032. Finally, from 2032 to 2052, it would take 1,022 Black-founded companies with an average deal size of $1B to equalize the playing field (see Figure 2 on Page 5).

An alternative approach to closing the deal parity gap includes targeting Black founders in early stage rounds over the next 30 years (see Figure 2 on Page 5).

The pool of over 125K Black employer businesses in the United States provides a reasonable starting point for elevating Black founders' inclusion in the VC funding pipeline.[3] That's a sizable number to work with to begin filling the VC funding void even for other funding sources such as private equity and corporate VC (see Figure 1).

Figure 1 **Illustrative funding ecosystem**



Source: NVCA, SBA, Crunchbase

A viable alternative would require meteoric solutions to close the average deal size gap within 30 years, but it's possible.

Figure 2

An alternative path would require $1.4T, and could close the average deal size gap within 30 years

* This number represents how much an increase over the next 30 years would take to close the average deal size gap for the Accelerated scenario

**Compared to the five Black founders between 2016-2020

***The Pre-Series A deals were scaled by the increase of each benchmark average deal size

$1.4 Trillion*

How much it will take to close the average deal size gap over 30 years

If we act now

Between 2022-2021 it would take **373 Black-founded companies**** with an average deal size of $75M (similar to Compass' average deal size across rounds) to help achieve an accelerated path to parity.

This is equivalent to **26,431** Black-founded companies, with an **average Pre-Series A deal size of $1.1M** (compared to 473 Black Founders between 2016-2020)

$28B

Between 2027-2032 it would take **700 Black-founded companies**** with an average deal size of $500M (similar to Compass' largest round) to help achieve an accelerated path to parity.

This is equivalent to **49,559** Black-founded companies, with an **average Pre-Series A deal size of $7M*****

$350B

Between 2032-2052 it would take **1,022 Black-founded companies**** with an average deal size of $1B (similar to top-ten largest deals during the period) to help achieve an accelerated path to parity.

This is equivalent to **72,356** Black-founded companies, with an **average Pre-Series A deal size of $14.1M*****

$1.02T

2022 2027 2032 2052

Clearly, the moderate scenario will take longer to achieve, with 86 years to close the gap. It will take 110 years before we reach parity under the slow option, as its name implies. In addition to achieving equal funding, increasing representation creates opportunities and positive outcomes (both financial and non-financial) for society.

All three scenarios would be beneficial for society. The sooner investments are made, the faster society will reap the benefits. We know that venture capital is an important source of employment, innovation and economic growth. So, greater representation of Black founders in venture capital could help create new sources of generational wealth. What's more, equitable investment would help reduce additional disparities that affect the Black community. In 2019, the median wealth in white households was **7.8x** [4] that of US Black households.

Regardless of how you look at the numbers, two things need to increase: the number of Black founders and the size of the check. Neither is out of reach, especially as the number of Black founders in the United States has increased faster than any other demographic.

It starts at the top

If you walk into any Fortune 500 company boardroom, chances are you'll see very few Black people. If you do, they're rarely in positions of power. While there are many Black executives who are qualified to take on these challenges and responsibilities of corporate leadership, they are not getting the opportunities they deserve.

19 out of 1800 (0.01%) Fortune 500 CEOs have been Black[5]

<1% (or 4) of current Fortune 500 CEOs are Black[6]

Only 3% of US companies with 100 or more employees have Black leaders holding executive or senior-level roles[7]

The number of Black entrepreneurs is rising despite roadblocks

In part because they are discontent with corporate opportunities or a lack thereof, Black Americans have continued to launch businesses at an accelerated rate, despite barriers:

Black non-employer businesses increased by **64%** between 2007 and 2017 (1.8M to 2.951M).[8,9]

Black-owned employer businesses in the US increased by **32%** (124,511 from 94,518 between 2002 and 2019)[10,11] with as many as **19%** in technology.[12]

20% of the Black population compared with **12.9%** of US Hispanic/Latino and **12.2%** of the white population were in the process of starting or running a business over 2014-2018.[13]

17% of Black women compared with 10% of white women and 15% of white men were starting or running a business.[14]

1⁄4 of Black women in the US have a college degree or higher, but **3⁄4** of Black women entrepreneurs have at least a college degree.[15]

Black Americans have not had a seat at the table, and they are building their own and paving the way for others to follow their lead.

Without capital, great ideas aren't kept afloat and innovation sinks

While Black Americans are opening businesses at a faster pace than their white counterparts, they still face one major challenge: a lack of capital. Why is this crucial? Ultimately, this prevents their businesses from scaling and reaching their full potential. How pervasive is the impact? The lack of capital is catastrophic for Black business owners:

Large banks approve about **60%** of loans sought by white small business owners, **50%** of loans sought by Latino or Hispanic small business owners and **29%** of loans sought by Black small business owners.[16]

Black entrepreneurs, in particular, are almost **3x** times as likely as whites to have profitability hurt by lack of access to capital and more than **2x** times as likely as whites to have profits negatively impacted by the cost of capital.[17]

Only **3%** of Black women are running mature businesses, and only **56%** of Black entrepreneurs in the US survive the first three years of startup compared with **66%** of white-owned startups.[18,19]

The difference of **10 percentage points** may not appear substantial at first glance, but when you consider the potential losses in innovation, business creation, wealth, investment in the community etc., that can result over the life of a business after its first three years, it becomes quite significant.

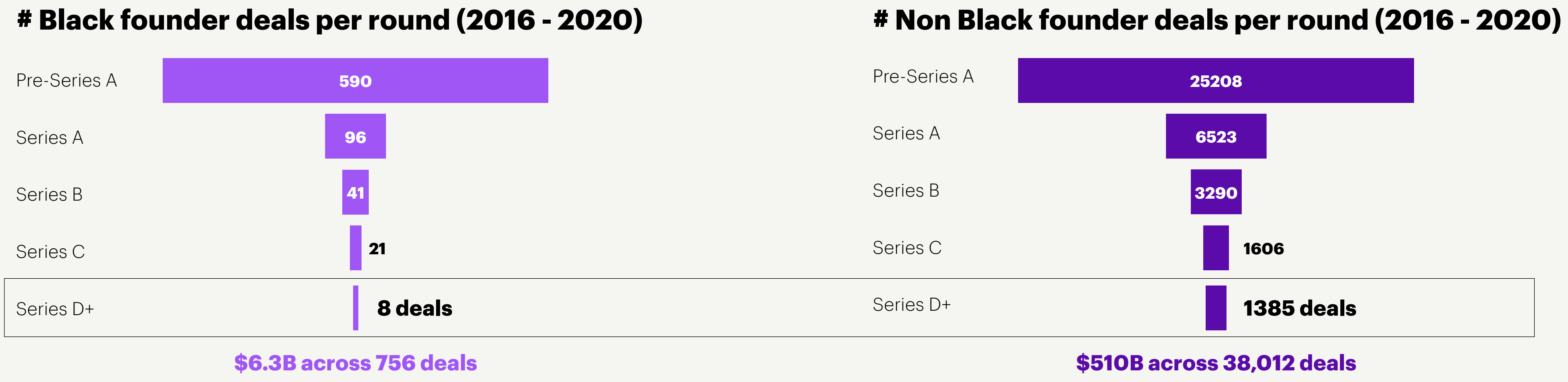
The downward spiral: diminishing rounds

Right now, Black founders' share of venture capital remains disproportionately low across the board—at every funding round. For example, early-stage rounds, intended for companies in the development phase, has the least funding but the highest share, **1.8%**, while the late-stage rounds (for more mature companies) funding share ranges from **1.1%-1.4%.**

In order to build more mature, Black-led firms that can attract late-stage funding, we must create a pipeline of companies in early stages that can make it to late-stage investment—where the largest funding gap exists (see Figure 3). To combat these dismal statistics and dire outcomes, we must move towards equalizing funding.

What's more, the drop off in number of deals from Pre-Series A through D+ is 4.1x steeper for Black founders than non-Black founders.

Figure 3 The drop off in number of deals from Pre-Series A through D+ is 4.1x steeper for Black founders than non-Black founders.



A lose-lose situation: staggering opportunity costs

By not having equal representation of Black founders commensurate with the percent of Black Americans overall, there is a venture capital funding shortfall of **$67B** (between 2016 and 2020), based on Accenture's economic modeling analysis. What other opportunities are being left behind?

- Venture capital is an important source of employment, innovation and economic growth.[20] Ensuring diversity at the onset could help improve racial equity and inclusion as companies scale.
- Increasing Black representation in VC could help create a new generation of Black wealth.
- Racial equity investing can elevate "proximate leaders" to help drive solutions that tackle systemic issues.[21]
- Without Black and diverse representation, dangerous tech bias will become harder to mitigate and reverse as tech investments dominate the VC landscape (78% of all investments in 2019).[22]
- Diverse-led firms financially outperform their counterparts.[23]

Closing the gap

How can we create an equitable playing field? By mobilizing actions that can be executed over a span of 30, 80 or 110 years. Without any action, it will be virtually impossible to close the gap. The ideal and optimal scenario is the accelerated plan—but it's only attainable if we act now.

The implications of our research suggest that three targeted actions can help achieve parity

Action 1

Support Black founders in pre-series stages

First, we need to elevate the Black founder experience and pipeline to demonstrate new sources of innovation. Then, provide early and stage-relevant support to underrepresented technology start-ups.

Alternatives to the friends and family model

Friends and families are typically the first ones to help support founders' businesses with capital. Unfortunately, for many Black founders, that's not always the case—simply due to a lack of funds. Because of historical financial inequity, the traditional friends-and-family model is not a viable equalizer for Black founders. This is why a new pre-seed stage model is needed to create more effective pathways to gain visibility in the marketplace earlier. These companies bring value to the marketplace, so it is imperative that this model expand beyond the Black founders' friends and family network.

Creating targeted investments is also a way to support Black founders. Using pledged funds, companies can direct investments to Black founders in the areas they care about (like healthcare or sustainability). Not only will this support Black entrepreneurs, but it will also connect investors with Black-led companies who bring untapped business opportunities to market.

In addition, creating pre-seed-focused programs in conjunction with universities and other institutions can help address any educational gaps around navigating venture capital funding for Black entrepreneurs.

VC investor diversity

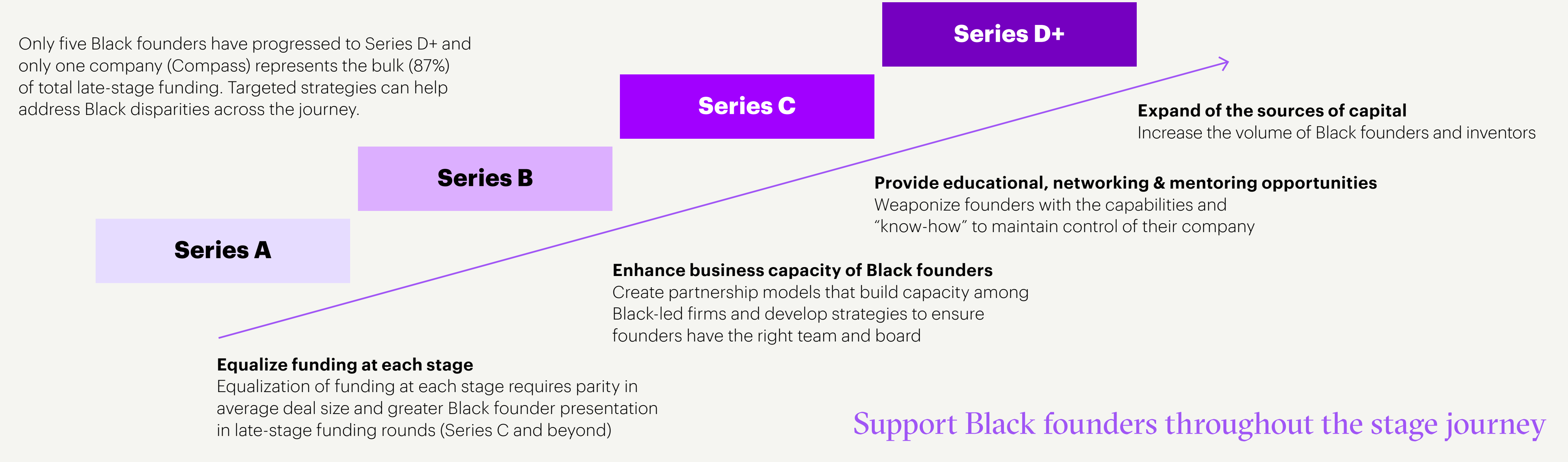
Additionally, it's imperative that we promote the diversification of corporate venture capital decision-makers. Different Funds reports that 10.4% of new funds launched in the first quarter of this year were led by Black companies, more than twice the rate of 2019.[24] Why is this important? Because more diverse gatekeepers at the top lead to more opportunities. According to our analysis, Black investors were 3x more likely to invest in Black founders.

Action 2

Support Black founders throughout funding stages (A through D+)

Our research shows that only five Black founders have progressed to Series D+ from 2016 to 2020 and only one company (Compass) represents the bulk (87%) of total late-stage funding. Series D+ level funding is relatively new but making it a priority now is crucial. We need to take proactive steps to prevent being in the same position as we are with early-stage funding. Targeted strategies can help address disparities across the journey. How can we accomplish this? Well, it can be achieved by implementing a pointed, four-step strategy that effectively outlines the most impactful actions:

Figure 4: Action 2



Equalize funding at each stage

Funding equality at each stage requires parity in average deal size and greater Black founder representation in late-stage funding rounds (Series C and beyond). This would pave the way for funding throughout the financing process.

Enhance business capacity of Black founders

Beyond funding, it's important to create partnerships and explore innovative ways to strengthen Black entrepreneurs' capabilities to scale their product or services more effectively in a global marketplace. This is especially critical as global companies aim to increase their spend with minority businesses by 2025.[25] But this requires a greater understanding of how to better support large enterprises in meeting their business demands. Ensuring founders have the right board and team can help them obtain a better share of multi-billion-dollar markets.

Provide education, networking opportunities and mentoring

Equipping founders with the capabilities and "know-how" to maintain control of their company is essential. Knowing the ins and outs of running a business is critical to its success. Starting a business involves understanding and managing a wide range of issues, including financing, marketing, legal, human resources, liability, intellectual property and much more. That's why Black founders must have a strong understanding of how to maintain control over their companies as well as how to manage their businesses. For instance, it's not uncommon for founders to give up a board seat in exchange for capital. Typically, this occurs when business owners are unaware of the various options available to protect and retain control over their company. Mentors and an extensive network can provide supplementary education and support in many of these areas.

In addition, access to the right network can help to open doors to not only investors, but also large companies in need of innovative and diverse suppliers to meet customer demands. But the onus isn't only on entrepreneurs; companies need to change outdated and cumbersome practices to engage the existing pool of Black suppliers.

Expand the sources of capital

Black founders face greater risks due to their over-reliance on a smaller number of investors. In fact, the top-five Black founder investors share of total deals in late-stage funding is 6x greater for Black founders, compared with non-Black founders. When compared with non-Black founders, the top-five Black founder investors share of total dollars in late-stage funding is almost 6.9x greater for Black founders. Increasing the volume of Black founders and investors at earlier stages is the goal. We can get there by connecting Black founders to investors who are willing to back them from the beginning.

Action 3

Engage corporate venture capital (CVC) decision-makers and scale their presence to help ensure inclusive, enterprise-ready innovation.

A diverse VC ecosystem with greater Black representation yields financial gains for Black founders and investors.

Research shows that diversity improves and strengthens financial performance at the individual portfolio-company level and fund returns as a whole.[26]

Beyond financial gains, diversity in VC can deliver more spillover benefits to society and CVCs can help to enable such value in alignment with corporate sustainability and governance goals.

In addition, engaging startups is critical to driving enterprise innovation across business ecosystems. Large corporations are already playing an integral role in helping startups scale. Therefore, CVCs must commit to diversifying the VC ecosystem to co-create and drive value for their customers and clients. Not only is this important to addressing funding inequity; it is also critical to ensuring inclusive, enterprise-ready innovation.

The bottom line

Equal funding is only the start. An equitable VC ecosystem will move the needle even further. To bring brilliant ideas to fruition and better serve more markets, Black talent must be supported at all levels, from scaling businesses to tackling systemic racial injustices. But intentional changes across the entire VC ecosystem will yield progress. Ultimately, every leader must have an inclusion mindset. Investing in racial equity empowers entrepreneurs and "proximate leaders" to develop solutions to systemic problems. When they do, they promote economic equality and open up opportunities for Black business owners of today and for generations to come.

A case in point

To help correct long-standing racial disparities, Accenture Ventures launched the Black Founders Development Program. This initiative seeks to help Black business owners and leaders advance and grow their technology businesses through more direct access to venture capital, corporate mentorship and strategic connections with Accenture business partners and clients.

> "Black entrepreneurs are innovating at a rapid rate, yet their funding remains lower than their peers. The time for change is now. Accenture's Black Founders Development Program is paving the way for Black entrepreneurs to advance and grow their technology businesses."
>
> **Paul Daugherty,** Group Chief Executive, Accenture Technology and Chief Technology Officer

The new immersive engagement and investment program seeks to address key business challenges of the Global 2000 by closing strategic innovation gaps. Called Project Spotlight, the program represents a new approach to engaging the global startup community. It will offer unprecedented access to Accenture's technology domain expertise and its enterprise clients beyond capital investments. In our Innovation Hubs, Labs and Liquid Studios, startups will work with subject matter experts to adapt their solutions to the enterprise market and scale faster and more efficiently.

SwayBrand

One glance at your social media feed will confirm that influencer marketing is a rapidly growing, billion-dollar industry. With savvy influencers posting about everything from laundry detergents to tropical destinations on Instagram and TikTok, it's evident that brands are turning to independent creators to help sell their goods. But while there are countless influencers in the marketplace, brands are connecting with very few creators of color.

SwayBrand, a Los Angeles-based multicultural media technology platform, wants to change that. Founded in 2017, the company plans to disrupt the industry by tapping overlooked or undiscovered talent who define and drive global consumer trends. SwayBrand hopes to develop partnerships that benefit the creators and brands alike by bringing "cultural intelligence" to brand content. By connecting and collaborating with Black, Latino and Asian creators, brands can develop content that resonates with a diverse audience.

"Despite America's increasing diversity, most brands are playing catch-up when it comes to creating relevant content that reflects this growth. Through our work with multicultural creators, we're able to get brands up to speed by leveraging cultural intelligence that fosters more authentic and equitable connections between companies and their target audiences," said Horace Flournoy, co-founder and CEO of SwayBrand.

It's a prime example of the innovation and creative thinking that Accenture looks for when supporting Black entrepreneurs and business owners. That's why SwayBrand is Accenture's first investment through its Black Founders Development Program.

> "By creating new opportunities for Black business owners and leaders, and leveraging the full power of Accenture's global technology business, the Black Founders Development Program is seeking to help correct the imbalance between Black entrepreneurs, who too often face a lack of access to capital, and their counterparts"

Kathryn Ross, Global Open Innovation lead and the Black Founders Development Program lead for Accenture Ventures

SwayBrand

More than 3,000 influencers have worked with SwayBrand, and the company has partnered with a wide range of businesses with varying needs, including assistance with enterprise, consumer packaged goods, e-commerce, mobile apps and events. The investment will allow the platform to expand with innovative technology, such as a camera app that will change how brands source content from diverse creators.

With access to Accenture's global innovation network, SwayBrand will be able to co-create with Accenture at its Innovation Hubs, Labs and Liquid Studios, collaborating with subject matter experts to adapt its solutions to the enterprise market and scale faster and more effectively.

"By providing access to resources, opportunities and strategic guidance, the Black Founders Development Program will be an invaluable support system that will help us advance our mission and achieve our goals."

The excitement is mutual. Ross added, "We look forward to continuing to collaborate with SwayBrand on in-house and other client projects, while also helping the company's leadership accelerate the growth and expansion of the business."

Horace Flournoy,
co-founder and CEO
of SwayBrand

About the research

Our definition of "Black Founder" comes from Crunchbase database's feature known as the "Diversity Spotlight." This is a self-reported feature that allows for the racial and ethnic identification of either the Founder(s) of the company or the Executives. We defined a Black Founder based on if the executive or founder is African American. The type of investments that were taken into consideration (under Crunchbase denominations) are: Product and Equity Crowdfunding, Angel, Pre-seed, Seed and all Series rounds (from A to J).

Parity modeling scenarios

The scenarios were derived by projecting the current (2020) average deal sizes obtained from Crunchbase with the Compounded Average Growth Rate (CAGR) obtained through various market estimates analyzed by Accenture Subject Matter Experts.

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