

Lived Experience

The X Factor in Finding Great Companies

Through our work, we have come to the conclusion that, if everyone who has a great idea and the entrepreneurial skills to bring it to life could operate on a level playing field—in other words, if entrepreneurship were more democratic—our society would be much better off.

From the customer’s perspective, a pedigree doesn’t matter, but from an investor’s perspective it often matters far too much. A top investment bank or consulting firm will care where you went to school and what your grades were, and your CV may determine whether a Fortune 500 company will “buy” your expertise. But these things won’t matter to your customers—as long as you are giving them a great product or an outstanding service.

We have learned the value of empowering entrepreneurs who have lived experience, and the competitive advantage this offers forward-thinking investors. Locating and supporting entrepreneurs with varied life experiences can lead to more successful companies. We believe that it can, in fact, lead to the development of products and services that the majority of people actually need and are asking for, rather than those that a small segment of investors think people want.

This competitive advantage is particularly true with financial services technology, or the FinTech sector, where new ventures are more likely than those in other fields to be business-to-consumer enterprises. Many EdTech companies, for example, deal with schools and school boards or offer their services to major companies like Pearson. In the health sector, entrepreneurs are more likely to deal with hospitals or insurance companies than to be at a patient’s bedside.

FinTech is different. While there are certainly plenty of business-to-business financial services, many of the most innovative ventures deal directly with the consumer—investment advisor and money manager services, fraud protection, and, increasingly, alternatives to predatory check-cashing and lending companies. Therefore, the product seller and the product user are likely to have a stronger connection, due to their lived experiences. FinTech also addresses the needs associated with small businesses, which many aspiring entrepreneurs are familiar with.

In this essay, we introduce a number of entrepreneurs from backgrounds and regions that traditionally have received too little investment, but who nevertheless

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have made the case for the value of lived experience. We also talk about the Village Capital model, which seeks to empower entrepreneurs through a different method of investing. The venture capital system is biased in many ways, and capitalizing on people's lived experience is one way to make it more democratic and to get better returns by making products that meet users' specific needs. Doing this will require a conscious decision by investors, and it will allow venture capital to live up to its potential. We argue that, if entrepreneurship is going to change the world for the better, it will have to give everyone the opportunity to innovate.

EXCLUSIVE ENTREPRENEURSHIP:
NOT IN ANYBODY'S SELF-INTEREST

In the summer of 2015, President Barack Obama took Kenya by storm on a homecoming visit—and as the first sitting U.S. president to visit Kenya. In his keynote address to the Global Entrepreneurship Summit, President Obama highlighted the importance of investing in startup founders from diverse backgrounds: “If you're playing a game and only half your team is on the field, you're not going to win.” In an address the next day to an arena full of Kenyan citizens, he stated that not involving women in the economy “is stupid”—for which he received thunderous applause.

The embarrassing truth is that, here in the United States, we are playing the game shorthanded. Entrepreneurs who are women, people of color, and individuals from underserved communities are too often left on the sidelines, unable to attract serious attention from investors or even to get a great idea off the ground.

The most explicit view of this gap is demographic. According to a Babson College study, between 2011 and 2013, women led just 3 percent of venture-backed companies in the U.S. This is also a familiar story for entrepreneurs of color, as less than 3 percent of venture capital goes to underrepresented minorities, and African Americans and Latinos are significantly less likely to own a business than Whites and Asian Americans: 11.1 percent of White workers and 11.8 percent of Asian workers are self-employed business owners, as compared to only 5.1 percent of Black workers and 7.5 percent of Latino workers.

What accounts for these discrepancies? Investors often cite a “pipeline problem”—that is, a lack of qualified entrepreneurs. That may be part of the problem, but it also ignores other troubling truths.

First, there is the serious problem of implicit bias. Paul Graham, founder of Y-Combinator, reflected his sincere self-awareness when he admitted, “I can be tricked by anyone who looks like Mark Zuckerberg.”

Then there is the problem of social networks. The average firm's funding strategy goes like this: “Smart guy (and yes, it's almost always a guy) with cash finds company and convinces partners it's a good deal,” often taking advantage of a “warm introduction from someone we know.” What if a brilliant entrepreneur doesn't happen to know anyone who knows smart guys with cash? Moreover, a would-be entrepreneur's social network usually determines how much advice or

mentoring they get and how good it is.

The third problem is the all too common lack of pre-seed (a.k.a. “friends and family”) funding, which is what enables entrepreneurs to get out and test their ideas and assumptions, and to get a startup to the level where a venture investor might be interested. People from wealthy families or who have connections clearly have an enormous leg up in this area.

If the U.S. is going to fully leverage the strength and genius of our entrepreneurial community, then building an inclusive entrepreneurial ecosystem that recognizes the value of people’s lived experience is the right thing to do. But is there a business case for doing this? Below we explore a number of ventures where entrepreneurial thinking was informed and encouraged by the key individuals’ lived experiences.

THOSE WHO KNOW BEST: EXAMPLES OF LIVED EXPERIENCE

As we mentioned above, the financial sector provides great examples of how lived experience can help to create successful and impactful companies. This section provides a few examples from our own experience.

eMoneyPool

Inspired by the “money pools” their immigrant mother had relied on to put them through school, Luis and Francisco Cervera founded eMoneyPool, which currently manages informal lending circles for millions of Americans each year.

You might be asking, “What’s a money pool?” For 30 million people in the U.S., mostly immigrants, it’s the primary point of access to financial services. For Filipinos in Los Angeles or Ethiopians in Washington, D.C., a money pool might be a pillowcase full of cash that is kept in the kitchen of the most respected woman in their network. Members of the money pool who have an emergency or want to make an important purchase can access these funds, with the group’s consent. Money pools turn over millions of dollars each year, yet the participants have no cash security and they aren’t building credit.

Luis and Francisco didn’t discover this billion-dollar market that serves 30 million people in a vacuum—they got the idea for a business based on money pools through their own lived experience. When they decided to start a company they did so because they wanted to solve a problem they knew of through their extensive network. Their company is now a thriving alternative to predatory lending practices.

StudentLoanGenius

Tony Aguilar grew up in Austin, Texas, the son of two immigrants and the pride of his community. When he was accepted by the University of Texas at Austin, he was worried he wouldn’t be able to attend, due to a lack of money. But he landed some student loans and, although the interest rate was painful, he was able to go

to college.

After college, Tony was hoping to launch one of a few different business ideas, but with student loans to pay and no savings, he could not even give his big ideas a shot. He instead accepted a job with American Airlines, optimistic that the company would help him with his debt. It turned out that, while the airline offered him a gym membership and a 401k, student loan repayment was not on the table.

Tony then pitched American Airlines on the idea of a corporate-sponsored student loan forgiveness plan—it would be similar to a 401k and of similar cost—but they turned him down. He soon left his job at the airline and, with help from the Capital Factory in Austin, founded Student Loan Genius and put his idea into practice. Within the first year Tony secured contracts with John Hancock and Prudential, both of which began to offer Student Loan Genius with each of their 401ks. Tony's idea has since reached more than a million employees who are eligible for their employer's student loan repayment plans.

Every time Tony pitched Student Loan Genius he got the same reaction: "This is brilliant—but what's the catch? Why hasn't anyone tried this before?" Like the Cervera brothers, Tony didn't dream up the idea for his company in a vacuum; he discovered it through his everyday experience and his need to solve a very real problem he shared with millions.

M-Power Financing

Mike Davis and Manu Smadja are first-generation Americans—the children of immigrants—who met in graduate school. Both super-high achievers, the two had significant potential but thin credit files, and thus they had struggled to get graduate school financing.

The amount of student debt is a crisis across the U.S.; for immigrants and first-generation college students, taking on a student loan is a particularly significant obligation. Moreover, a student's ability to access financing is largely the result of family circumstances they cannot control, and yet it might direct their destiny. Lenders typically view a student's background as an asset or a liability, and those from low-income families are considered a risk.

What Mike and Manu believed, based on their own lived experiences and those of many others, is that student lending could be an asset. They turned this realization into M-Power, a firm that helps lenders assess a student's potential by gathering data on specific student traits, such as GPA, extracurricular activities, etc. This gives students from low-income backgrounds or those who have at best a thin credit file access to fairer loans with better interest rates. For these striving students, M-Power's credit assessment tool means they will have a chance for a better future. Through their own life experience and using their skilled understanding of technology, Mike and Manu created M-Power, which has enabled them and countless others to make meaningful progress.

Beyond FinTech

There are also many examples of the power lived experience can bring to sectors other than FinTech. Frederick Hutson, who spent 51 months in prison on a marijuana charge, used his experience to create Pigeon.ly, which uses technology similar to Google Voice to cut the cost of the phone calls inmates make from prison by up to 80 percent. Tristan Walker cut his teeth at Foursquare and Andreessen Horowitz before he founded Walker and Co. and the Bevel shaving system, a line of grooming products targeted to Black men. And Morgan DeBaun, drawing on her discussions with other Black students at predominantly White Washington University in St. Louis, cofounded Blavity, an emerging news site that has been called the “HuffPost for the Black millennial.”

HOW TO EMPOWER ENTREPRENEURS WITH LIVED EXPERIENCE— BOTH IN THE US AND GLOBALLY

So what can we do to empower entrepreneurs who are not wealthy or well connected? We created Village Capital as a means to “reinvent” the venture capital system, which has so much promise but has not been accessible to so many entrepreneurs.

The Village Capital idea is an extension of the village bank, the investment methodology that helped to scale microfinance. Banks around the world were not extending credit to low-income people in rural areas unless they already had a formal financial footprint. It was simply not cost-effective to send loan officers into these areas to conduct the necessary due diligence on borrowers who were typically asking for a loan of one hundred dollars.

Instead of top-down decisions about who was credit-worthy made by a bank representative, the village banking model brought together groups of women who knew each other well. Through a process that relied on a combination of transparency, peer pressure, and relationships, the women decided who would get a loan and when, without any formal due diligence or underwriting. With a repayment rate of 99 percent, the village women could be trusted to make great investments.

The Village Capital model draws on the same principles, including a peer-selected investment model that empowers entrepreneurs. The entrepreneurs we recruit are focused on innovations that center around a particular problem. Recent programs have revolved around the unbanked population in India and the “health-wealth” gap in the United States. Our 12-week program enables a select group of entrepreneurs to focus on building their businesses. We then put the power of investment in their hands, as the two ventures ranked highest by their peers at the end of each program are awarded investment capital.

Since 2009, Village Capital has sourced and trained over 500 entrepreneurs on five continents, where they have created 8,000 jobs and leveraged \$118 million in investment capital. Most importantly, our peer-selection model has succeeded in

democratizing entrepreneurship: 38 percent of our portfolio companies are founded by women, and 25 percent of our companies in the U.S. have Black or Latino cofounders.

Our results are also compelling from a business standpoint. Over the past five years, Village Capital has partnered with Goizueta Business School at Emory University to track and monitor the performance of more than 500 graduates from its entrepreneur programs, and 55 investments made through its affiliated fund over time. The findings show that teams with women cofounders are outperforming all others in terms of both revenue growth (20 percent) and jobs created.

Investors will only build the next great FinTech companies by localizing and contextualizing the way they support entrepreneurs. Village Capital recently announced VilCap Communities, a new initiative to help investors everywhere use peer review to back the strongest entrepreneurs, regardless of their background. Village Capital and Jason Towns will be working together to support entrepreneurs of color in Washington, D.C., and Village Capital will also be working with Lighthouse Labs in Richmond, Virginia, to support entrepreneurs in emerging FinTech hubs.

CONCLUSION

Few of the world's entrepreneurs have access to the capital they need to test and scale their innovations, especially first-time entrepreneurs who cannot self-finance, and they therefore must rely on investor partners to make their vision a reality. However, investors tend to make decisions based on "market wisdom" and "pattern recognition," and some ideas are just too far outside the mainstream to get a chance. This means that, to secure funding, many entrepreneurs feel they must match their vision to investors' criteria—which too often falls within funders' limited realm of acceptable ideas rather than coming from a real understanding of customer needs.

We have found that many investors don't enjoy this power dynamic; as one investor sarcastically put it, "It's amazing how smart you become when you represent capital." This essay is intended to encourage investors to approach new ideas more thoughtfully, for if we want to promote prosperity among people less well-connected to mainstream society, we should look for and support ideas that come from people's lived experience.