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From the Baltimore Business Journal:

<https://www.bizjournals.com/baltimore/news/2020/09/18/black-founders-battle-share-vc-funding-baltimore.html>

## Black founders battle for their fair share of VC funding in Baltimore

Sep 18, 2020, 7:00am EDT

Otha Smith III has learned firsthand how challenging it can be to access capital as a Black startup founder.

He and his two business partners have built a business around a recently launched app, called Tetragram, which is designed to help medical cannabis patients better track and understand the products they are buying and using to treat various ailments. The founders have spent about three years and \$200,000 of their own money working on Tetragram, Smith said, and are now seeking about \$750,000 in venture capital funds so they can execute on a growth plan.

But they have run into some roadblocks. In addition to seeing a slowdown in investor introductions during the Covid-19 pandemic, Smith said the Tetragram team has had to make some adjustments in how it presents its tech to potential funders.

“Whenever I was the spokesperson, out in front and doing the talking with



VCs, we could kind of see the mood and body language change in the room,” Smith said. “We paid attention to that.”

It didn’t escape Smith’s attention that most of the time when the Tetragram team members were meeting with investors, he was the only Black person in the room. Although he is CEO of the company, he said he often lets his co-founders G. Lucas Roe, who is white, and Julius Moore, who is mixed race but lighter-skinned than Smith, take the lead on pitching.

“Those meetings always seemed to go a lot better. People were more engaged and we’d get follow-up emails and phone calls,” Smith said. “I guess it’s natural for people to feel more comfortable around people who look like them. But that has to change.”

Smith’s experience is backed up by years’ worth of data that shows less than 1% of all venture capital each year goes to companies run by Black founders. In addition, data compiled in 2018 by Richard Kerby, a partner at Equal Ventures, showed 81% of VC firms didn’t have a single black investor.

McKeever “Mac” Conwell, a Black entrepreneur and investor in Maryland, said VCs are often more interested in investing in people and teams they like and believe in than in the technologies being built by startups. And because most VC firms are led and staffed by white men, implicit bias is bound to display in their investment decisions, he said.

“If a founder reminds a VC of someone they know or of themselves, it makes them want to take a chance on them,” Conwell said. “And they can end up holding other folks to different standards.”

Another common problem for Black-led startup leaders is the lack of access to wealth or capital within their social circles, so they aren’t able to raise what’s commonly referred to as the “friends and family round.” They also may also struggle to build relationships with experienced advisers and



supporters who can provide business building know-how.

“Lots of founders come from places or backgrounds where the idea of starting your own company is socialized,” Conwell said. “But in a lot of the circles we’re in, that’s not the case. People don’t talk about entrepreneurship in terms of how to execute a venture-backed company.”

That’s why many Black-led startups have to bootstrap their way through the first few years of growth. Many founders of color also turn to non-traditional sources of funding like pitch competitions or accelerators. Conwell said he has even known founders who have sold their cars to pay for patents.

Smith said the Tetragram team didn’t have any “rich friends or uncles or parents” to turn to when they needed funding. Although he is working on building the business full-time, Smith said he also plans to apply for a job at a Maryland cannabis dispensary so he can bring in some additional income and better support the team.

And even though Tetragram has been able to launch and secure a strong early user base unfunded, the time and money the team has spent building the app may cost them in the eyes of investors.

“Often, by the time [Black founders] get their foot in the door, their contemporaries are already further along,” Conwell said. “VCs are going to respond differently to someone coming to them saying, ‘We’ve been building this for three years and have this much traction,’ versus someone else who says, ‘We’ve been building this for eight months and we’re this far along.’”

Conwell said there are three things the startup realm needs to begin addressing the apparent racial funding inequities: More Black venture capitalists; more Black founders getting pre-seed stage funding; and more



education to fix the entrepreneurial knowledge gaps in minority communities.

He hopes to address some of those needs head-on with his own new venture capital firm, called RareBreed. Conwell said he plans to support under-funded and under-networked founders from the pre-seed stage all the way through their companies' growth cycles.

*Read the rest of the BBJ's coverage of the racial wealth gap in Baltimore's business community in our ["Color of Money" series](#).*

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