

Taking the Pulse of the St. Louis Startup Community:

Funding, Diversity and Region's Image Weigh on Respondents' Minds



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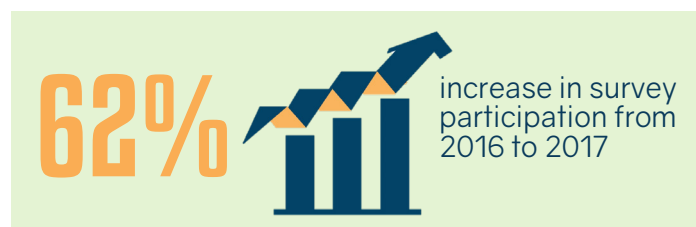
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WHY CONDUCT A SURVEY?

The second annual Brown Smith Wallace St. Louis startup community survey was designed to identify the business challenges and opportunities the startup community faces and discover what has changed since our survey last year. “For the second year, we had an opportunity to monitor successes and pain points in the ecosystem,” says Cathy Goldsticker, Partner and Startup Practice Leader. “We look forward to continuing the dialog about how we’re doing and what we can do to build upon the success that we’ve had.” Brown Smith Wallace conducts this reoccurring survey to benchmark the community’s sentiments.

ABOUT THE FINDINGS

While this survey doesn’t constitute a scientific study, the responses and observations can help focus the conversation about our startup community. In general, the respondents are optimistic and positive about the St. Louis startup community. Startups, and the community that supports them, are largely in agreement on the business challenges startups face and what factors are critical to a startup’s success. In our second report, we have included results from our previous survey to compare how respondents have answered year over year.



PERSPECTIVE FROM AREA EXPERTS

The St. Louis metro area has received national acclaim for attracting, supporting and retaining startup companies. From 2009 to 2014, the startup rate rose in about 30 percent of U.S. metro areas and 12 of the 50 states, and Missouri led the way, according to data from the U.S. Census Bureau. In fact, three of the five with the fastest-growing rate of new startups cities, were in Missouri, including St. Louis.

That growth is part of the reason entrepreneur Chris Motley, founder of Better Weekdays and most recently The Whether, moved to St. Louis from Chicago in 2014. He points to a few catalysts for his move – first, Scott Bernstein, previously with Capital Innovators and now with Lewis & Clark Ventures, thought that Better Weekdays could be a good fit for Capital Innovators. Second, he spoke with St. Louis entrepreneur and fellow Chicago transplant Ed Domain who had written a “very compelling article” in Fast Company in 2010 entitled “Why You Should Start a Company in...St. Louis.”

As a portfolio company of Capital Innovators, Motley says the accelerator did a great job of putting together resources for his startup to access. “The hard part,” he says, “is discerning which resources provide the important value at a particular point in time.”

Still, the St. Louis Startup Ecosystem is not immune to difficulties in funding. For the second year, our survey results show that cash flow is the top challenge faced by startups in the St. Louis region.

“Our challenge seemingly has always been funding companies beyond the angel/seed round of funding, such as Series A or Series B,” says Joe Pimmel, Principal at Detalus Consulting. “There has not been sufficient co-investment by angel investors in St. Louis to support what [various new accelerators] are doing. Early-stage companies need more than the \$50k Arch Grants award or the \$50k they receive from Capital Innovators; we need more investment capital to co-invest

What is the most critical factor for a startup's success?

Startups 2017 1 Execution 2 Good Product/Determination 3 Adaptability/Raising Capital	Startups 2016 1 Execution 2 Vision 3 Good Product
Support Community 2017 1 Execution 2 Raising Capital 3 Other (Good Management Team, Sales Traction, Doing the Right Things at the Right Time)	Support Community 2016 1 Execution 2 Adaptability 3 Good Product/Fundraising

Results from Brown Smith Wallace St. Louis Startup Community Survey

PERSPECTIVE FROM AREA EXPERTS

At Washington University's Skandalaris Center for Interdisciplinary Innovation and Entrepreneurship, Managing Director Emre Toker and his team are seeking grant funds to develop a nationwide startup performance metrics database to make the risk and reward assessment process for startup investment opportunities easier.

"Most early stage startup investors do not have access to the kind of quantitative metrics venture capital and private equity do," says Toker. According to Toker, there are 300,000 organized angel investors in the U.S. who have invested \$24 billion in early stage startups and 40% of them received zero return on investment -- a significant market inefficiency.

The proposed database would enable quantitative, benchmarked risk and reward assessments, which would not only help early stage angel investors, but also help startup founders to rigorously analyze their ventures for improved investment opportunities.

So, why invest in St. Louis startups? According to Pimmel, valuations in the metro area are routinely lower than for the same type of companies found on the East and West coasts. "From an altruistic standpoint, we need to support companies raising money here so they stay here," Pimmel says. He also believes that more investors will "get off the sidelines" once more startups begin having significant exits or raising large Series A and B rounds here. "We aren't the 'Show-Me' state for nothing; most investors here won't jump into this asset class until they see more liquidity events."

What 3 factors make startups a good investment? 2017 and 2016 Responses



**In 2017, we changed the answer option from "High growth potential" to "Market potential"*
Results from Brown Smith Wallace St. Louis Startup Community Survey

According to an annual report published by ITEN, an entrepreneurial support organization, money invested in St. Louis-based tech startups decreased dramatically in 2016 when compared with 2015 figures. What's more, entrepreneurs in non-tech industries in the report cite additional difficulties securing funds, as do women, minorities and other underrepresented entrepreneurs. The gender gap in St. Louis business ownership has gotten wider over the past few years and the racial gap (more whites starting businesses than African-Americans and others) has stayed about the same since the mid-2000s.

Several new initiatives are working to change those trends. In November 2016, BioSTL, an entrepreneurial resource organization that oversees the BioGenerator and other local bioscience startup initiatives, received a \$420,000 grant from the Kauffman Foundation in Kansas City. The money is being used to support the St. Louis Equity in Entrepreneurship Collective, a collection of 12 organizations working to advance gender and racial equity in the St. Louis startup community.



“We have great entrepreneurial resources in our region,” says Dr. Cheryl Watkins-Moore, Director of Bioscience and Entrepreneurial Inclusion at BioSTL. “We’re often collaborating anyway, so here was a great opportunity for the entire ecosystem to align and support women and those that are underrepresented in our ecosystem. We have a shared agenda: how can we ensure that the entrepreneurship ecosystem is free of barriers for all types of people? When you look at innovation, you don’t want just one community involved, you want as many individuals involved of different backgrounds, race and gender.”

Christy Maxfield, Director of Entrepreneur Development Services at the Center for Emerging Technologies (CET) echoes the importance of making resources available to a wide cross-section of individuals – entrepreneurs, small business owners, the “entrepreneurially curious,” subject matter experts and mentors – from various industries.

“We’re very focused on advanced technology, high-growth potential startups that are attractive to the IT and IPO advanced technology space, but most new businesses are being created by ‘Main Street’ entrepreneurs,” says Maxfield. “We need to celebrate the spectrum of entrepreneurship in our region.”

“Our innovation ecosystem is truly dependent upon the foundation of inclusivity where all races, gender, experiences, perspectives, etc. are valued, encouraged, supported and appreciated. This is not a nice thing to do--this is an economic driver for our region.”

- Dr. Cheryl Watkins-Moore, BioSTL

In the Benton Park neighborhood, serial entrepreneurs James and Kristy Jackson opened DK Annex in February 2017. Having lived in the community for the past 18 years and seen redevelopment taking place, the Jacksons said they wanted to be part of that growth and open their business in the community that represents the diversity they want reflected in their clients.

Kristy says the gaps in the St. Louis startup community include “unequal distribution of funding resources to non-tech industries and not fully providing space for underrepresented entrepreneurs.” DK Annex offers incubator space, business workshops, networking events, mentor matching, media support and funding resources to underrepresented entrepreneurs that have been in business for five years or fewer.

“The energy in the startup community is infectious. We meet with many entrepreneurs who are hopeful and grateful to be in a city that has a thriving startup community. I am excited about inclusion in new projects that will benefit more startups,” says Kristy.

Read on to see what our survey results tell us about the St. Louis startup community’s business challenges, strengths, resources and future opportunities in 2017, and how those compare to our 2016 report findings.

SURVEY RESULTS

ST. LOUIS STARTUP COMMUNITY SCORECARD

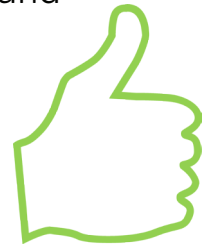
What does the St. Louis startup community do well?

Startups said:

1. Connect people, network and collaborate
2. Show support and mentorship
3. Foster growth and innovation

Startup support community said:

1. Show support and mentorship
2. Connect people, network and collaborate
3. Provide resources



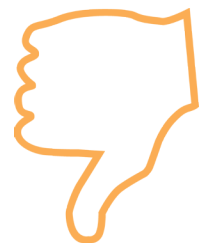
What does the St. Louis startup community do poorly?

Startups said:

1. Provide access to funding for all startup stages
2. Promote St. Louis, the startup community and its successes, inside and outside of the city
3. Support all industry types and provide opportunities for women, minorities and outsiders

Startup support community said:

1. Provide access to funding for all startup stages
2. Promote St. Louis, the startup community and its successes inside and outside of the city
3. Provide opportunities for women, minorities and outsiders



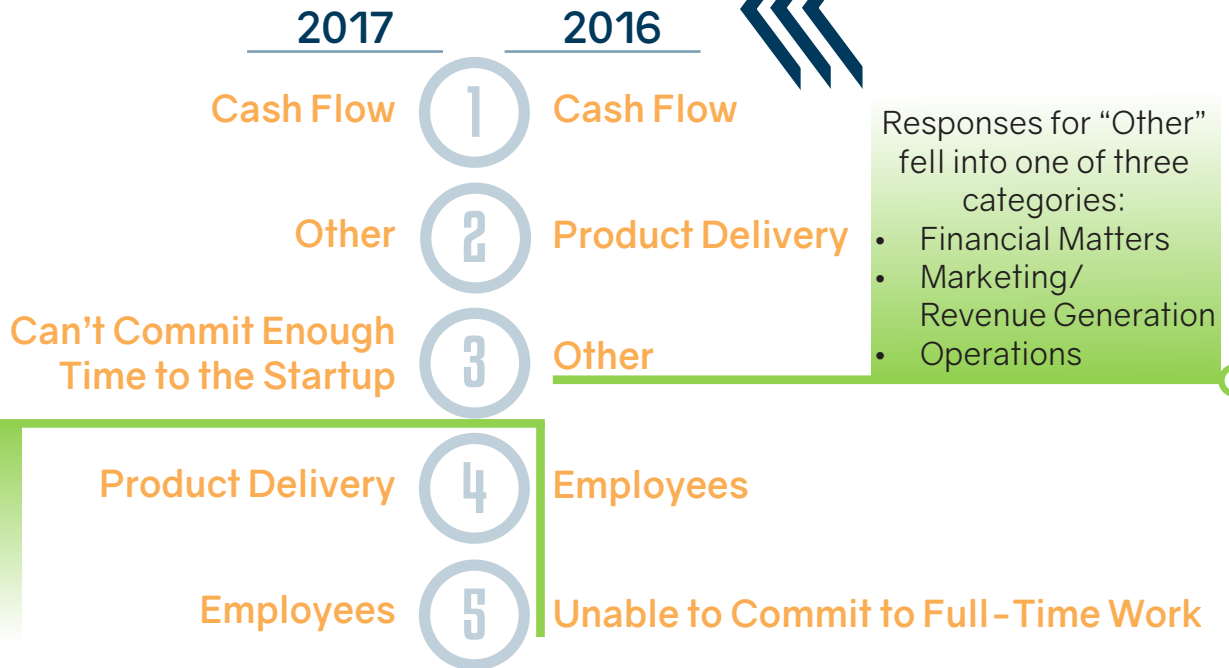
“Entrepreneurship can be transformational for our region. We have figured out how to start up, but we must now figure out how to scale up.”

- Francis Chmelir, ITEN

BUSINESS CHALLENGES

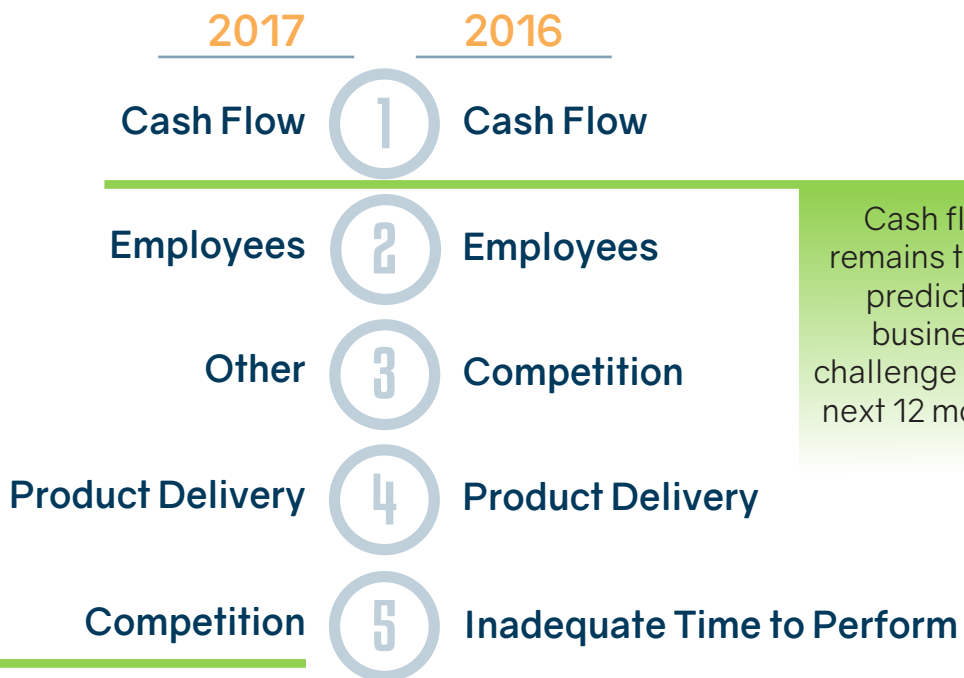
The Startup Perspective

The top business challenges startups faced in the *past* 12 months:



Time commitment continues to be a challenge for startups.

The top business challenges startups predict they will face in the *next* 12 months:



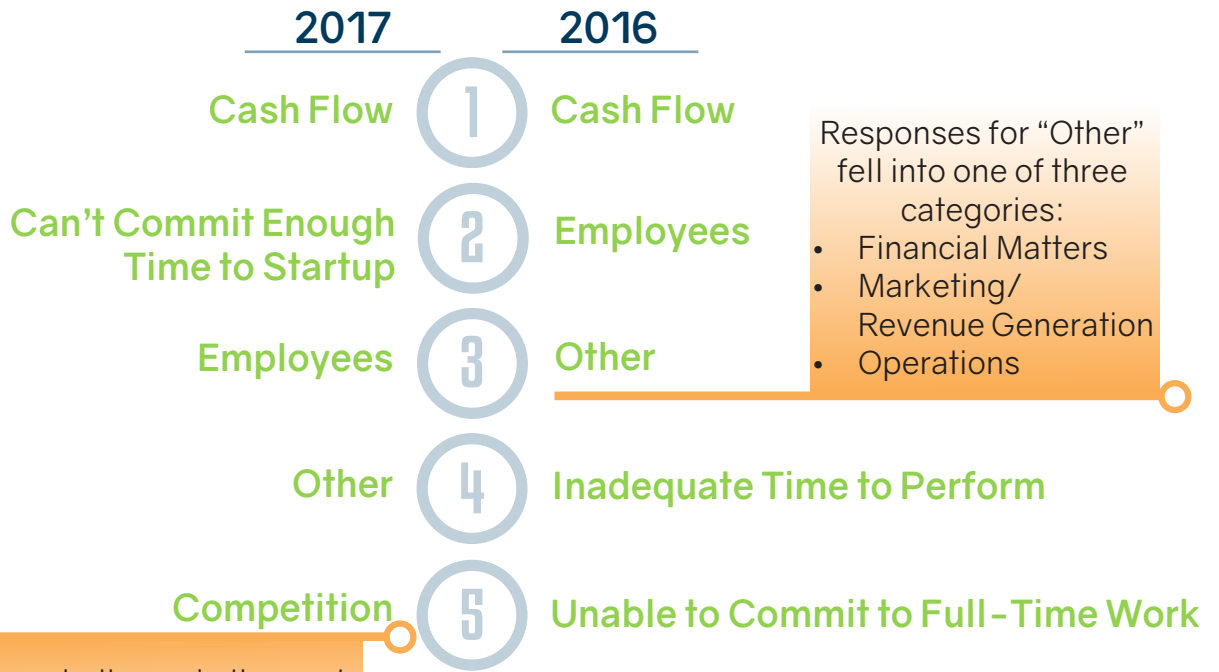
Competition is a new business challenge startups expect to face.

BUSINESS CHALLENGES

The Support Community Perspective



The top business challenges for the startups you encountered in the **past 12 months**?

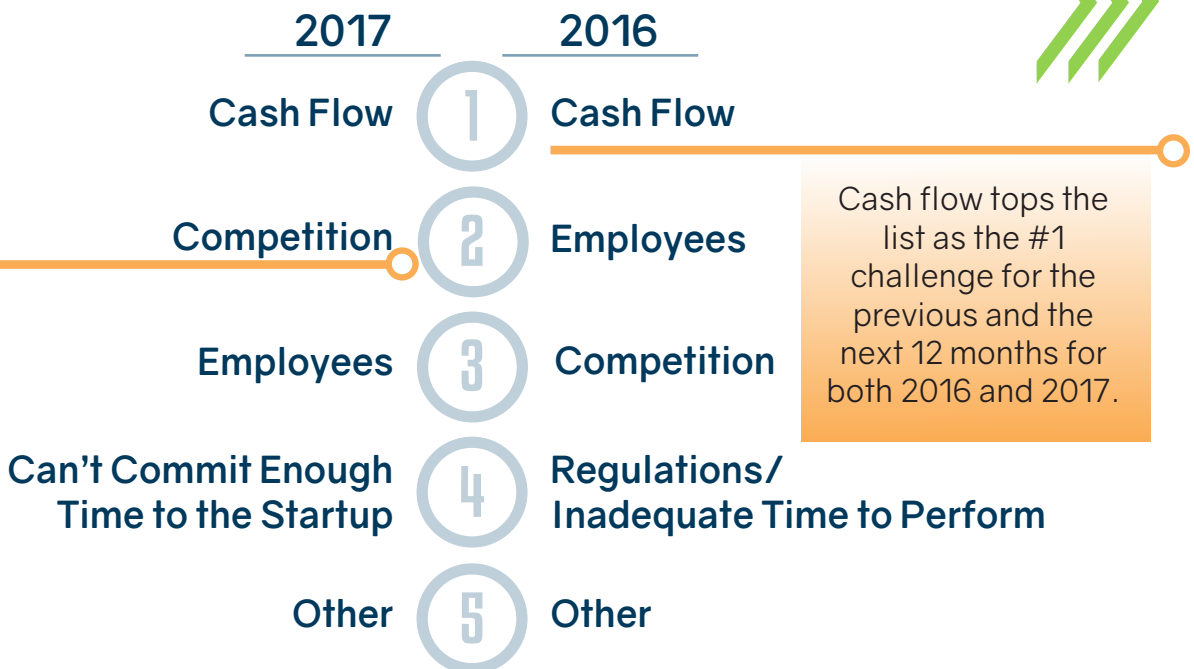


Responses for "Other" fell into one of three categories:

- Financial Matters
- Marketing/Revenue Generation
- Operations

Competition was a challenge in the past 12 months, and continues to be an issue for the startup community.

The top business challenges startups predict they will face in the **next 12 months**:



Cash flow tops the list as the #1 challenge for the previous and the next 12 months for both 2016 and 2017.

How can the St. Louis startup community be strengthened or enhanced?

Startup respondents said:



OUR CITY

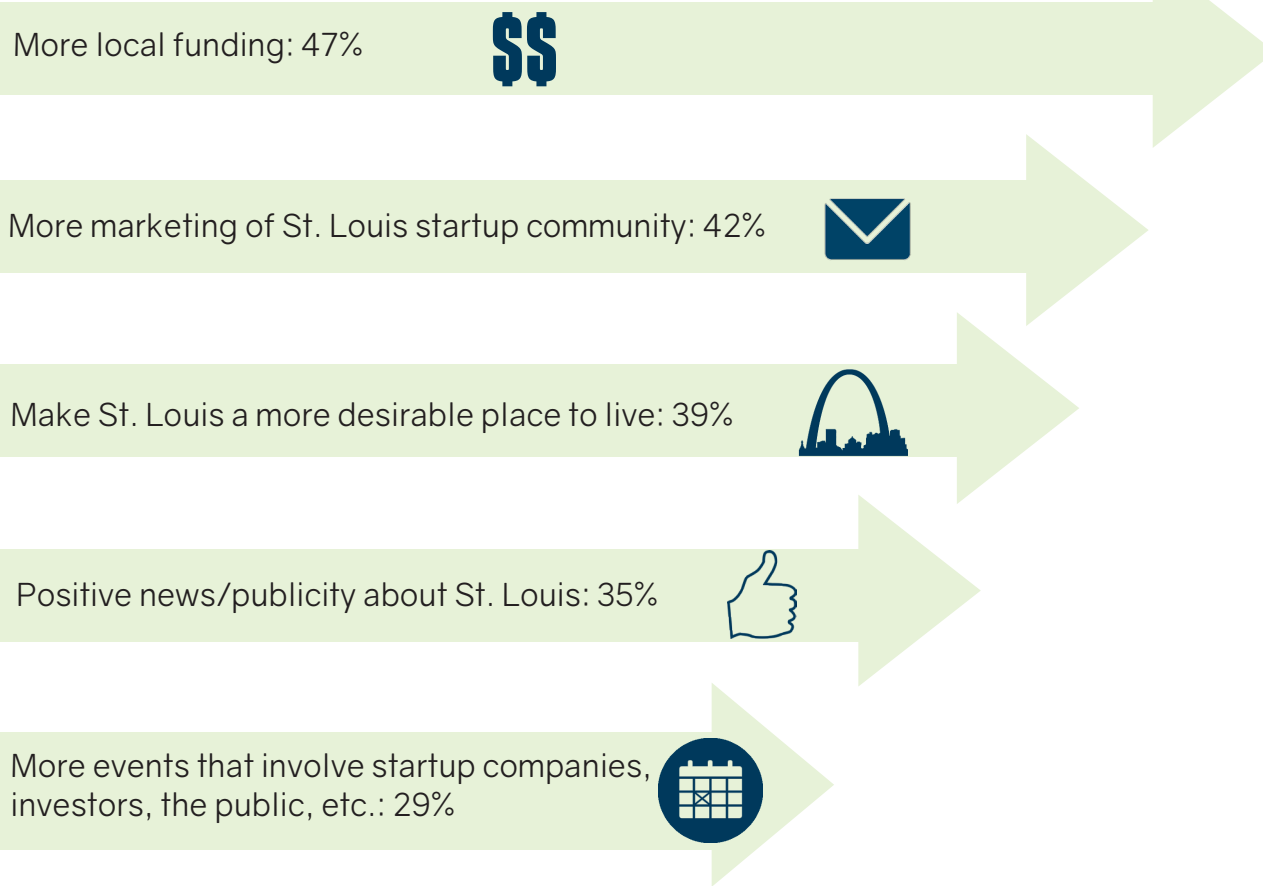
For the second year, the number one way startups indicated that the St. Louis startup community can be strengthened or enhanced is by having **more local funding**. This year, the support community also agreed. Startups and the support community also agreed that the next way the community can be strengthened is by **more marketing of the St. Louis startup community**.

“What society really cares about is what comes out of the bottom of the entrepreneurial funnel – formation of sustainable and scalable companies. Consequently, it is time for us to start focusing more on the middle of the funnel. If we don’t deploy more rigor to the middle of the funnel – understanding how to continuously and rigorously assess and improve a venture and the founding team - our success may be limited.”

- Emre Toker, Washington University’s Skandalaris Center

How can the St. Louis startup community be strengthened or enhanced?

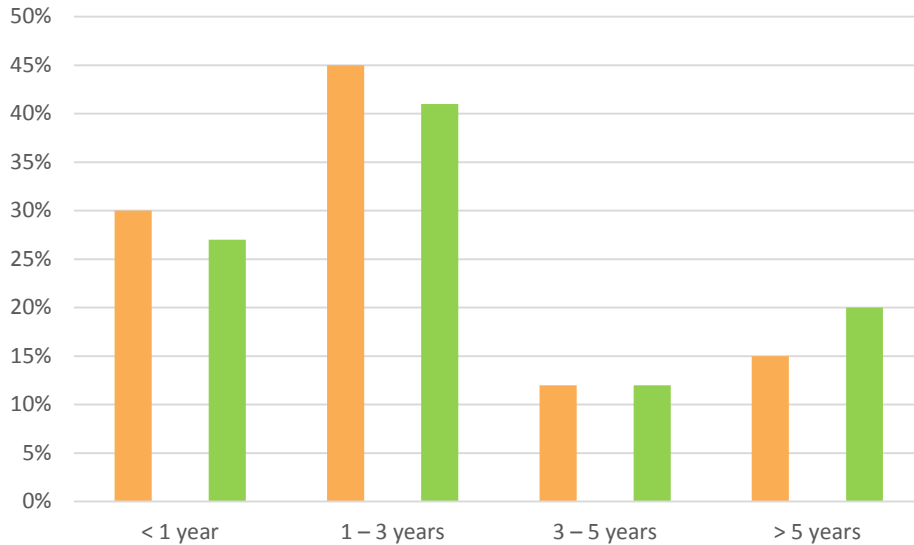
Support community respondents said:



“Early-stage entrepreneurs must be able to clearly articulate their value proposition. So many entrepreneurs have it in their head, but can’t verbalize or don’t have it on paper making it harder for others to comprehend. Mentors, prospects, and potential investors need to understand pretty quickly the value prop., differentiation, and compelling reason to buy.”

- Chris Ruzicka, TechShop

How old is your startup?



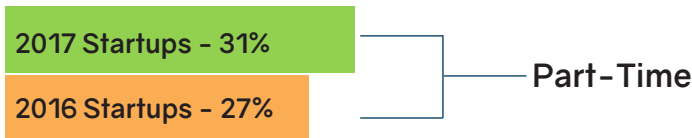
Startups are getting older.
The number of startup survey respondents over five years old has increased by five percent.

As older startups continue to succeed, the initial boom of new startups is slowing, as those startups still in their first year have dropped three percent.

2016 Startups

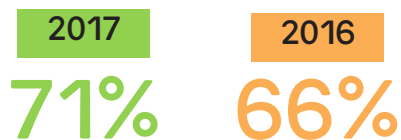
2017 Startups

Are you working full or part-time at your startup?

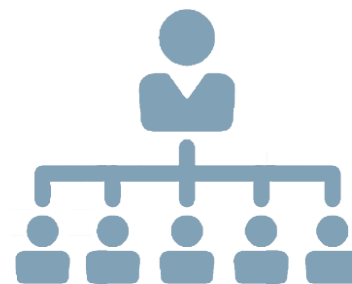


How many full-time workers work at your startup?

Fewer than 5 full-time workers:



Full-time help has decreased, as more startups have fewer than five full-time workers.



STARTUP SUPPORT ORGANIZATIONS

The St. Louis startup community has a breadth of startup support organizations that provide services to startups. The organizations include universities, accelerators and incubators, grant providers, work spaces, networking events and others.

When asked to name up to 3 startup support organizations that provide great services to startups, most startups named:

- 1 Venture Café
- 2 Arch Grants
- 3 TREX/BioGenerator
- 4 ITEN/CIC Coworking/Prosper
- 5 OPO

The startup support community agreed, indicating the support organizations that provide great services to startups are:

- 1 Arch Grants
- 2 Venture Café
- 3 TREX
- 4 ITEN
- 5 BioGenerator

What does each of these support organizations provide that sets it apart from other support organizations in the community? Open-ended responses from startups and the support community boiled down to four things:

Startup Support Organizations

- 1 Networking and meaningful introductions
- 2 Capital and funding
- 3 Mentorship and support
- 4 Resources and accessibility

As evidenced in several question responses, funding remains the top resource requested in the St. Louis startup community.

What services or features would you like to see more startup support organizations adopt?



Funding (including raising capital, larger grants to smaller number of startups, access to follow-on capital)



Widespread, **industry-agnostic support**, training and advisory



A **resource database**, including legal, accounting and financial guidance



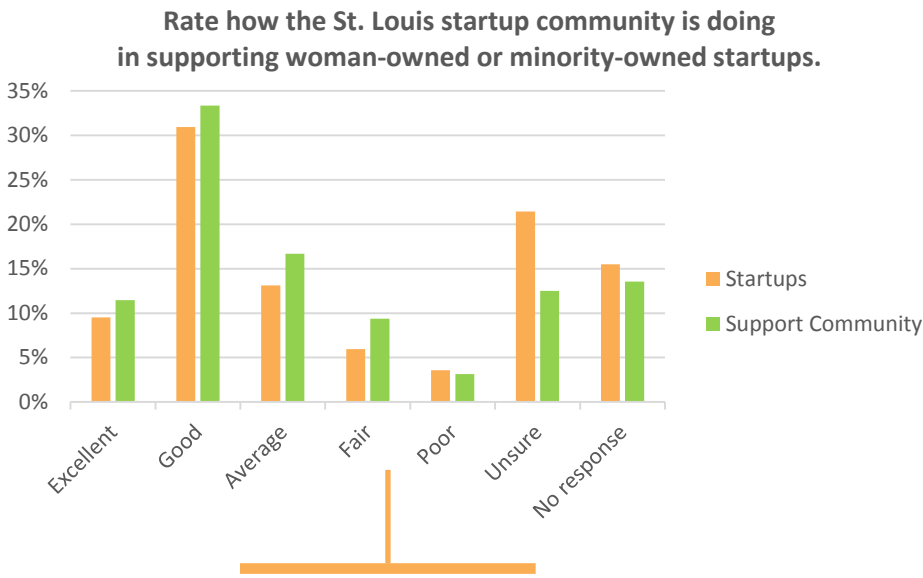
Outsourced functions, including human resources and back-office support

“2017 is the year that various startup organizations need to figure out how to merge and create more streamlined services to enhance a startup’s chances of success.”

- Francis Chmelir, ITEN

WOMAN-OWNED OR MINORITY-OWNED STARTUPS

We asked survey respondents in the startup and support communities to rate how well the St. Louis startup community is supporting woman-owned or minority-owned startups.



“I would love for St. Louis to be recognized and celebrated as THE city for women, immigrants, minorities or really anyone who wants to start and grow a thriving business. We must have the right resources, support and will to ensure success for all.”
 - Dr. Cheryl Watkins-Moore, BioSTL

Individuals that answered “Fair” or “Poor” were asked the open-ended question, “How do you think the St. Louis startup community could improve in supporting woman-owned or minority-owned startups?”

“I believe St. Louis at large is more receptive to help women business owners who service the food, cleaning, and sewing/retail industries.”

“I think one place to start would be for greater discussion to be had on the topic in public forums. Use grant money to have a speaker series. Invite women/minorities from startups on the east and west coasts so they can share lessons learned and best practices.”

“Open up funding options to take chances on woman-owned and minority-owned businesses... They lack the connections, family funding or credit scores that make this possible.”

“Funding. It is also important to separate woman-owned from minority owned.”

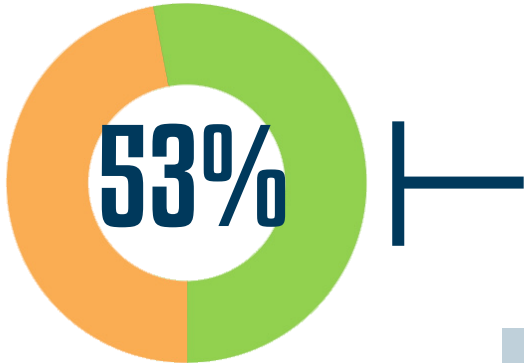
“Get more women investors and start training more women in STEM early in the education process.”

DEMOGRAPHICS

ABOUT OUR SURVEY RESPONDENTS

Between October 2016 and February 2017, we received 180 complete responses to our survey, a 62% increase in participation compared to our inaugural survey.

Forty-seven percent of respondents identified themselves as a startup founder, owner or employee. The remaining 53% of the respondents come from the diverse community that supports the St. Louis startup ecosystem.

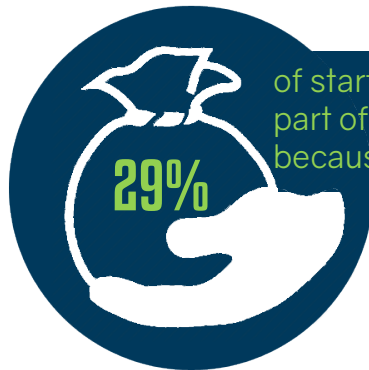
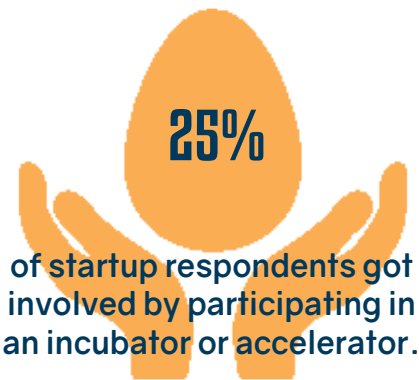


Startup Support Community

- Investors 7%
- Incubators/Accelerators 5%
- Educators/Mentors 6%
- Consultants 18%
- Co-Working Office Space/Workshops 2%
- Other 15%

31% of the respondents from the startup support community became part of the community through their employer.

18% got involved because they wanted to give back to the community.



of startup respondents indicated they became part of the St. Louis startup community because they are serial entrepreneurs.

INDUSTRY

Startup respondents represent a number of industries. Most of our participants came from the following sectors:



IT/Technology
19%



Consumer Products/
Services
17%



Healthcare
14%

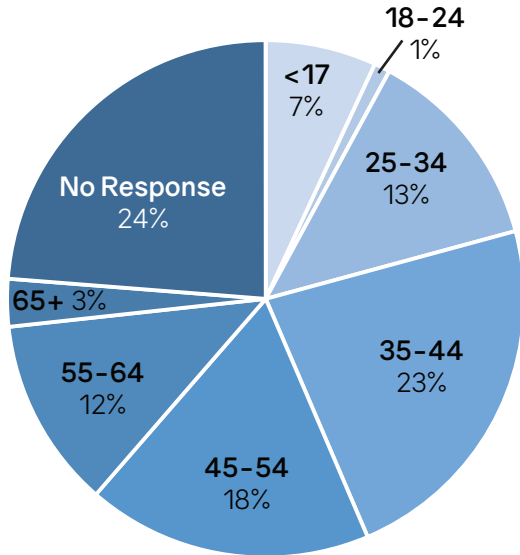
Other sectors include: Other (14%), Bioscience (10%), Education (7%), Financial Services (7%), Media/Communications (6%), Manufacturing (4%), Not-for-Profit (1%), Agriculture (1%)

ABOUT OUR SURVEY RESPONDENTS

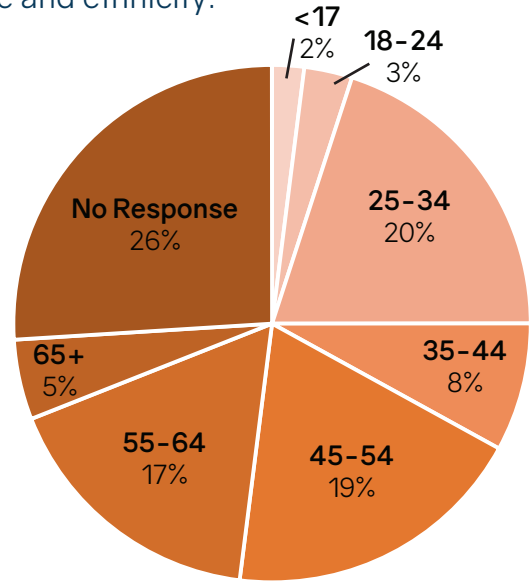
The startup respondents to our survey were predominantly white (63%) and male (51%). Roughly a quarter of startup respondents did not select an age range, but the startup respondents who did are predominantly age 35-44 (23%). Fifty percent of the support community respondents were male and predominantly white (68%). Twenty percent are age 25-34.

About 75% of respondents provided their age, gender, race and ethnicity.

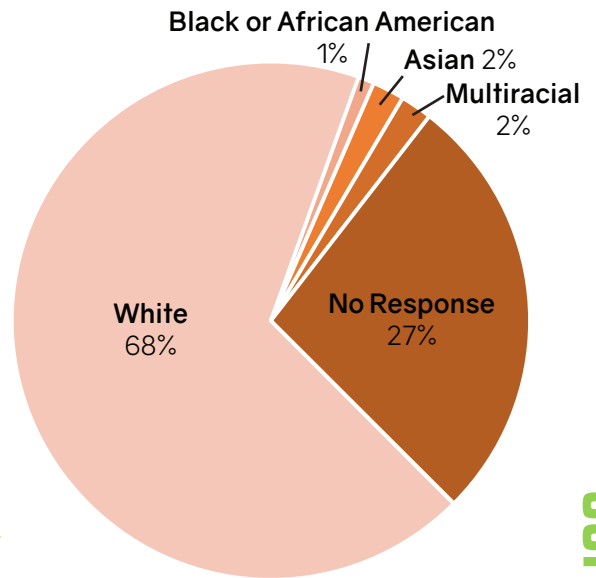
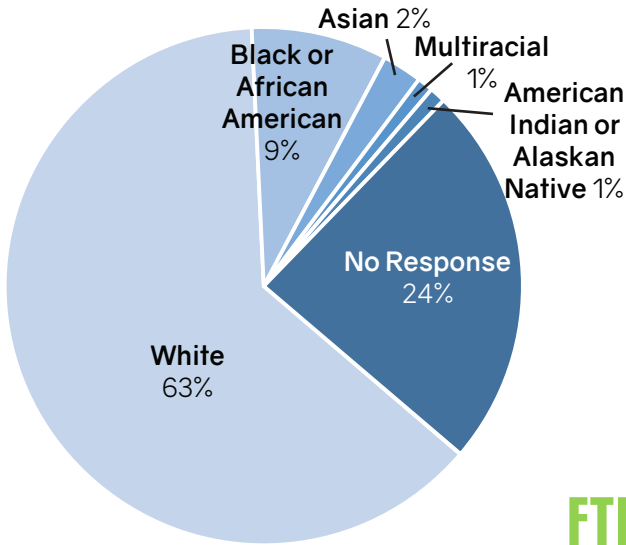
STARTUPS



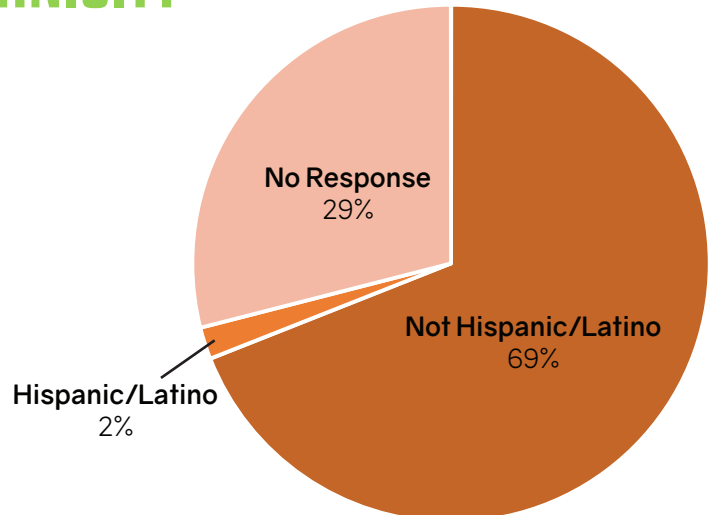
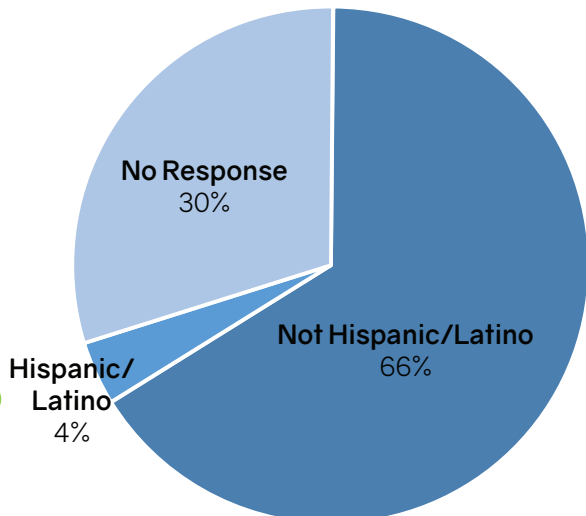
AGE



RACE



ETHNICITY



SUPPORT COMMUNITY

56%

Fifty-six percent of the startup respondents indicated that they were raised in the St. Louis area.

51%

Fifty-one percent of the startup support community respondents were raised in the St. Louis area.

28%

Twenty-eight percent came to St. Louis for a job opportunity unrelated to the startup community.

“St. Louis could use some significant exits in the next year or two, and I believe they are coming. This will start a cycle of even greater activity in the start-up community.”

- Bill Schmidt, Cultivation Capital Life Sciences Fund

“It’s an exciting time for entrepreneurs in St. Louis! So much support and community is available. It’s not just in Cortex or at TechShop, but Downtown, St. Charles, North and South.”

- Chris Ruzicka, TechShop

“Overall, the state’s support of entrepreneurship is going to be really important. This is a long-term investment; company formation and company growth is not an overnight thing. You have to have your eye on the long term.”

- Christy Maxfield, CET

Thank You!

We'd like to thank the survey respondents for making our second annual St. Louis startup community survey a success! If you'd like to learn more about the survey, suggest a question for next year or learn more about our startup services, please visit bswllc.com/startup-business.



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