

Ramona Schindelheim, WorkingNation editor-in-chief:

Entrepreneurship is part of the American Dream, and it is booming. A record 5.4 million new businesses were started last year as workers across the country struck out on their own, searching for a different path to a fulfilling career and economic mobility. But that road isn't always a smooth one for some new business owners who hit roadblocks, such as access to financial capital, lack of a strong social network, and other barriers to success.

In this special four-part Work in Progress Series, Economic Mobility Through Entrepreneurship, we'll look at those headwinds and solutions. We'll hear directly from entrepreneurs and get advice from leaders in business, education and government to learn how entrepreneurship can be a fulfilling and profitable career choice and a boon to a community.

In the last episode, we heard from business owners and experts who explained the difficulties non-white entrepreneurs face in accessing capital. In this episode, we meet two more Latino entrepreneurs who share how they launched their businesses, and the struggles and eventual success they faced in growing them.

They're part of a legion of new Latino business owners who are starting companies at a record pace, but often don't find it easy to get the funding they need to grow. According to research by the Stanford Latino Entrepreneurship Initiative, the odds of Latino-owned businesses getting loans from national banks are 60% lower than all other businesses. And in 2020, Latino-owned businesses received less than 2% of the available venture capital funding in the US. That's despite Latino-owned businesses pumping \$470 billion into the economy.

Nevertheless, the number of Latino-owned employer firms has grown 35% over the last decade, compared with 4.5% among white-owned businesses with job growth outpacing even that.

And according to a new report from McKinsey & Company, if Latino businesses' access to capital was improved, and their representation in growing sectors such as tech increased, they would contribute an additional \$2.3 trillion in revenue to the economy. They would also create 750,000 new employer firms, resulting in more than 6 million jobs.

Martha Montoya started her own tech company five years ago, Agtools, after spending 25 years in the agricultural industry working in the US and around the world.

Martha Montoya, Agtools founder:

I come from two parents that were entrepreneurs. Heavily on our Latino community, you always have somebody in the family who are entrepreneurial, whether it's your grandmother selling arepas in the corners, or for the friends. There's always an entrepreneurial side in the Latino community. In my case, definitely my two parents were entrepreneurs. So I grew up in the family where the 15th and the 30th was painful, painful days because we had to pay the payrolls.

Ramona Schindelheim, WorkingNation editor-in-chief:

Montoya worked in logistics, also known as supply chain management. That's a science of moving goods to their final destination, something that most Americans might not have thought about until supply chains broke down during the COVID pandemic. Agtools, which provide supply chain market data to agriculture companies, has been called the Bloomberg of the food industry.

Martha Montoya, Agtools founder:

So it's a real-time data of all the fruits and vegetables worldwide in the market. So in real-time, any buyer, or any farmer, or any banker, or any insurance company can have in a billion transactions per second, how much are pineapples in Philippines or in Costa Rica, how much are tomatoes in California or Florida, or how much is lettuce in Spain and Salinas Valley, all of them in seconds. And then all the weather patterns of those commodities in those varieties in those regions, so we can see the trends and we can forecast the future.

Ramona Schindelheim, WorkingNation editor-in-chief:

Montoya says she had a social impact in mind when she started Agtools.

Martha Montoya, Agtools founder:

We Latinos are very community, social enterprise people. All our lives have been. We just have to channel that through business. And the good news is the business world is starting to understand social impact, thank God. But before that, when I started Agtools, is because when I traveled the world, I saw that the farmers always lost. Everybody gets paid on the system, and the one who always loses is the farmer. And that's why we have lost so many farmers. United States used to have 2.2, we're down to 1.7 million farmers, and every day we have less farmers around the world, so who's going to farm? And it has to do with the fact that people don't have the data to manage better their contracts, manage better the logistics, manage better the crops. And who's our number one customer, who are we taking care of, is the farm.

Ramona Schindelheim, WorkingNation editor-in-chief:

Montoya's family background gave her the understanding that she could be a business woman, but she admits that starting a business as a Latina in the US is very different than where she grew up.

Martha Montoya, Agtools founder:

My father was born in coffee farms world, and he migrated from one city to the big city in Bogota, and started a school with two gentlemen, the first school that was the night school for working families. And then they opened a university for working families, and then the second university for working families. So for people that couldn't afford it, I grew up in the business of social enterprise they call now, which we didn't know that word existed. And then my mother joined him when she got married, and she was the business administrator, the investor and my father was the academic one. They have over 400 - 500 employees across the different organizations. And so I grew up in that world of education, business, social enterprise.

Ramona Schindelheim, WorkingNation editor-in-chief:

Before Montoya started Agtools, she had a very successful career in logistics as an employee, well paid but not completely fulfilled. Still, she learned a lot that would help her when she finally started her own company.

Martha Montoya, Agtools founder:

I worked so hard for so long, for, yes, money, no question, but many people were making more money with less amount of time. And that's when I... the aha moment is like, "I know this industry, but how do I merge this with software, which is where there's a lot of money?" And so going from an industry that is no technology, to starting to ride the wave of technology into what now is AgTech and FinTech, that I

think has been the interesting road map change. And I remember sitting at the UC Davis program, entrepreneurship that I had registered, that I was privileged of getting a scholarship to do that four years ago, and sitting there and saying, "Ah, I can do what I have, the industry knowledge that I have, and if I put it with software, now maybe we have something bigger than 5% to 10% gross profit, to 60% to 90% gross profit."

Today I can say that I have gone to every single incubator, accelerator event, you name it, because you find that one person who's going to lead you to another one. And so my funding has come through that, and then Angel Investors, Angel groups like San Diego, or [inaudible 00:07:33], social impact investors, and then now funds, real funds, large funds. So it's been a preschool, kinder, elementary kind of thing, which you have to be humble at certain age to go back and say, okay, I'm going to do it slowly, though I could give classes to many of my young entrepreneurs that are much ahead of me, but that's okay.

Ramona Schindelheim, WorkingNation editor-in-chief:

It's often said that it takes money to make money. And that was true for Montoya. But she found that getting funding at first, even with all her experience, was difficult, especially as a Latina and a woman because she says the investment world is still a boy's club.

Martha Montoya, Agtools founder:

If I was working for a company, no problem. I would walk in with my boss, and my boss will introduce me, and because my boss introduce me, I could say anything and the money will come. But I had a guy that will kind of convince the other guy that this woman knows what they're doing. But once you are on your own, you don't have that guy who will tell the other guy, she's telling the other guy that I could do the job. That was a cold shower for me that I could walk out of, literally, I walk out of one investment world with \$50 million check for a processing plant of mangos in Peru, and I couldn't walk now with even half a million dollars or anything for that matter.

Ramona Schindelheim, WorkingNation editor-in-chief:

Now she has employees scattered across the US and Mexico, mostly working from smaller towns connected by the internet. Montoya advises new entrepreneurs to look for good talent when you're ready to grow your business. And she advises entrepreneurs to not run out of cash, and expect to spend a lot of time fundraising. And she has one more bit of advice; don't be in a hurry to quit your day job. You might gain some valuable experience you can use to start your own company.

Martha Montoya, Agtools founder:

If I had a way to come back to this country and start from scratch, the first thing I would say is go and work for the largest company of the industry that you want to grow into. Do a good five, 10 years of that. If I would have done that, I would have saved myself a lot of learning curve. I did work for wonderful people and wonderful companies, but never the large conglomerates, and that would have saved me a lot of time. But the risk of that is that you might like it and stay there... because there's nothing like a paycheck every month. So that's the danger side of it. The other part is the combination of creativity and business. Latinos have something that very few people have, and it tends to be minorities, by the way. It's not only Latinos, African-Americans, Asians different than the regular market world is the creativity.

The brain of the creativity is heavily into music, art, and that gives us a lot of thinking process. I'll give you one example. My second brother study in a high school that had zero math, but it was all arts,

everything, music, art. He's a aerospace engineer and was number one in the university. So the creativity is more important than many skill sets. So don't be afraid of the creativity to open yourself to creativity within the business, because when you do that, then you start thinking creative on everything, the business, the financials gives you creativity to survive, to trade, to barter, to do things that normally you would do if you were in a situation that is not a straightforward line.

Ramona Schindelheim, WorkingNation editor-in-chief:

Southern California doesn't have a shortage of micro breweries, but what it did lack is a place to find Mexican craft beer using flavors of Mexico.

David Favela, Border X Brewery:

We're not Czech, we're not Polish, we're not English or German. We're Mexican America. So we understand our palette, our culture, our preferred flavors, and we said, well, how could that show up in our brewing process?

Ramona Schindelheim, WorkingNation editor-in-chief:

That's David Favela, CEO and founder of Border X Brewing Company.

David Favela, Border X Brewery:

We wanted it to be legitimate, authentic to ourselves above all else. And my nephew took that, went off brewed this beautiful ruby red beer that he brought to our next meeting, served it to each of us, and it was this beautiful glass of bright, bright red beer. I'd never seen anything so bright before in my life. It was so red that it even had pink foam. And so I try it and the flavor is incredible. He had gone and used Jamaica or Hibiscus flowers, which is a very traditional tea that most Mexican root restaurants have, and he made a beer out of that. And that's what it meant to him to reflect his culture in the beer making process. And it was delicious.

Ramona Schindelheim, WorkingNation editor-in-chief:

Like Martha Montoya, who you heard from earlier, David Favela had a background in business before starting Border X. He has a degree in economics from Princeton, and he worked at Hewlett Packard developing new business models, which came in handy when starting Border X, which stands for the border between the US and Mexico.

David Favela, Border X Brewery:

One of the most influential books I'd ever read was this book called The Blue Ocean Strategy. And the Blue Ocean strategy basically says, don't play the competitive game by the game's rules. Reinvent the game and play it by your own rules and by being different. Well, how are we going to be different? And when we asked that question, obviously being Mexican American, we said let's make Mexican American craft beer. Let's fuse these European brewing traditions and recipes with Mexican ingredients and traditions and history. And so we put the two together. That has given us so much differentiation in this space, and it's become a key part of our business model.

Ramona Schindelheim, WorkingNation editor-in-chief:

Though we had a business model, he didn't expect Border X to grow as large as it has, with three breweries throughout southern California. He tells us brewing beer started as a hobby almost 10 years

ago, something to keep in the family. There was no industrial equipment. It was Favela, his nephews and a home brewing kit his nephews got as a Christmas present. At first, they sold to friends and family, and word of their beer spread. They opened in an industrial park near downtown San Diego in what he describes as a brewery desert. Despite being out of the way, word got out and the people came.

David Favela, Border X Brewery:

When we first started, I said, what's the minimum we need to get started? And we actually started with \$24,000 total. And if you talk to most brewers, they would laugh at you, because most equipment here costs way more than that. So starting a brewery with that little money is... what's they say, ignorance is bliss. We just didn't know how silly it was for us to even do that, but it worked. And so what happened is we gradually spent more and more and had more and more confidence to keep investing and growing our idea. Our customers kept coming, kept drinking all of our beer. At the beginning we had very little capacity, and so it was very challenging.

On the first day that we opened our grand opening, I remember it was my brother and I. It was a Friday, we didn't expect a large crowd. My brother and I got off of work early and we went there and we started setting things up. And beer was foaming, we didn't know what to do, we didn't have experience. And when I rolled up the metal door at the time, we were supposed to open and there was a line of 50 people waiting to come in... it's still incredible to me that that many people turned out. But again, I think it's because we're in a brewery desert. It's because we made a Mexican-inspired craft brewery, and we did effective use of social media that all those things combined could bring people to a very isolated area.

Ramona Schindelheim, WorkingNation editor-in-chief:

Favela was still working at Hewlett Packard at the time, and he didn't expect the brewery business to take off. He only signed a six-month lease for the space.

David Favela, Border X Brewery:

If it doesn't work, it doesn't work, we all go home, it's fine. But the six-month lease came and went, and we looked back and we said, you know what? We've been so popular on this street. We've done so well, let's open up across the street that had capacity for 200 people. So we went from a little tap room of about maybe 30 people, to a tap room where we are today in Barrio Logan where we can fit 200 people. And that's when I knew; we had signed that lease for five years, we had been operating for another six months and it had just been going so well. We did art shows, we did beer releases, all kinds of special events. And so I knew at that point that I needed to leave Hewlett Packard, because I knew I needed to grow the brewery to such a point where it could afford me. Because I went from having an executive salary at a high tech company, to working at a brewery that needed to make \$2 to \$3 million to be able to afford the staffing that it truly needed.

Ramona Schindelheim, WorkingNation editor-in-chief:

Eventually, the family got a business partner, but they didn't seek out institutional investors because they didn't think they'd get loans. Instead, they reinvested their cash flow and got creative.

David Favela, Border X Brewery:

But when we decided to go to Los Angeles, this location we're in now, I did a very innovative way of doing it, which is wefunder.com. It's a crowd-funding. But it isn't a donation or a charity, it is actually an

equity program. So people invested in Border X. I raised \$250,000, which in retrospect again, didn't know what I was getting into, was not nearly enough. I should have obtained somewhere between \$400,000 to \$500,000. But being scrappy and resourceful, we made the \$200,000 count, and we've been funding everything else through cashflow.

Ramona Schindelheim, WorkingNation editor-in-chief:

According to the Stanford Latino Entrepreneurship Initiative, the number one roadblock for Latino businesses worth more than \$1 million is access to capital. That means it's difficult for successful businesses to scale up. Expanding to a brewery the size of Border X isn't cheap, and neither is the rent in Southern California, and the cost to renovate the space to accommodate the huge fermentation tanks and brew kettles. Favela says that as far as the prospect of raising capital went, being Mexican American was at once a challenge and a blessing.

David Favela, Border X Brewery:

Being a Mexican American, and I think most underserved communities, is there are a lot of things that aren't at least natural to us. We don't grow up sons of merchants, or sons of professionals. We grow up the sons of construction worker. My father was a construction worker, my mother was a homemaker. We often don't have access to a lot of programs. And if you look at a lot of Latinos, there are some entrepreneurialism. I mean, don't get me wrong. From the gentleman selling oranges on the street corner, he's hustling for every penny he gets. But what we lack is this ability to tap into capital, ability to put together business plans that then we're able to do the famous family and friends, right? That's a famous saying in business development.

Well, my family and friends, we can barely scrap together \$10 to \$15,000 between all of us without sacrificing our 401s or our retirements or putting liens in our home. There's not a lot of floating capital. So I think family and friends is really different for a Mexican American in California and the US. You can scrape together, save, get small loans, and put enough capital together to start. And so you see this in landscaping companies. You see this in restaurants, you see this in a lot of ways. But to be truthful, especially in this industry of brewing or any capital, you do need capital, and not an insignificant amount. I mean, you can only reinvest your cash, your profits at such a scale that it would take you decades to get the kind of capital necessary to put together a brewery like this.

Ramona Schindelheim, WorkingNation editor-in-chief:

The first year, the COVID pandemic was a challenge for the business, as it was for many in the hospitality industry. But they survived and are now serving customers seven days a week with food, beer, Latin jazz and art, and have plans to grow with private event spaces.

David Favela, Border X Brewery:

We were actually inspired by the German Brew Hall. So you see these large communal tables is really the idea behind that large party-

Ramona Schindelheim, WorkingNation editor-in-chief:

We got into Border X's City of Bell location recently, and sampled some of the beer: Horchata Golden Stout, Abuelita's Chocolate Stout and Blood Saison made with hibiscus and agave. It was those flavors and others that netted Border X a nomination for the prestigious James Beard Award in 2020. Favela

says he owes a lot to the Mexican American communities in San Diego and Los Angeles for supporting Border X. He still aims for that target demographic, though everyone is welcome.

David Favela, Border X Brewery:

There was truly no real place that was specifically focused on Latinos as the core demographic. And it's a very subtle thing. It means that the look and feel and the music and the types of beer that we're making all reflect our culture in a way that celebrates our culture and puts it on a pedestal. So when Latinos come to our brewery, they feel that. They feel comfortable. They know that they were the target demographic. Others who aren't Latino love the experience because it was new, it was different, it was legitimate. They were walking into an experience that if you're open to have it, is really enjoyable. It's like, wow, great tacos, great beer. Look at all this art. It's almost like taking a trip without leaving the country.

Ramona Schindelheim, WorkingNation editor-in-chief:

You've been listening to Episode 3 of Work in Progress: Economic Mobility Through Entrepreneurship. In the final episode, Kansas City, Here I Come, I travel to KCMO, as it's affectionately known by locals, to find out what makes this city of half a million so entrepreneur-friendly.

Jackie Nguyen, Café Cà Phê:

Kansas City has a super unique small business loyalty from customer base and also from business-owning side that is almost unparalleled.

Mayor Quinton Lucas:

Development isn't just taking whatever comes to you and saying, all right, we'll find a way to expand the giant department store. It's instead saying, how can we be as diversified as possible, both in businesses and the people who are represented within them, and more than anything, how do we help them grow and survive? That's been the Kansas City, I think secret sauce.

Ramona Schindelheim, WorkingNation editor-in-chief:

Join me for more from my trip to Kansas City where I speak with small business owners, Mayor Quinton Lucas, and other local leaders helping to build the entrepreneurial community. I'm Ramona Schindelheim, Editor-in-Chief of Working Nation. This series was produced in partnership with the Ewing Marion Kauffman Foundation.