

## **Entrepreneurial Landscape Assessment in Detroit: Barriers Faced by Small Business & Underrepresented Entrepreneurs**

Patrick Nguyen Burden, Research Assistant | January 2023

### **INTRODUCTION**

Demonstrating sturdy entrepreneurial growth, Detroit has experienced a 52% increase in total capital raised by venture-backed startups over the past year and a cumulative 333% increase in total capital raised over the last seven years totaling \$806.3 million.<sup>1</sup> This growth in both new businesses launched and investments made towards those businesses is partly due to the robust network of entrepreneurial resources that have spun off to better support innovation and economic development in Detroit, including new research institutions and startup-specific funding opportunities.

However, despite the abundance in entrepreneurial resources made available and high volume of investments into Detroit ventures, many hurdles still exist for Detroiters with respect to small business creation and expansion. Barriers and core issues regarding definitional perceptions of entrepreneurship, navigating resources, regulatory inefficiencies, and unequal access to both financial and social capital are just some of the challenges faced by new business ventures, especially underrepresented entrepreneurs. This report provides a summary of key statistics and research findings descriptive of Detroit's small business and entrepreneurial landscape, including the social and institutional barriers that affect prospective and current entrepreneurs and details emerging practices and implications for addressing these challenges.

### **KEY TAKEAWAYS**

- While venture capital funding and entrepreneurial services have grown in Detroit, small business and minority entrepreneurs still observe substantial barriers to accessing these resources despite being in a Black-majority city.
- Because definitional perceptions of an "entrepreneur" differ across demographic groups and support services are fragmented, aspiring business owners have difficulty identifying what resources are available and most applicable to their context.
- Though initial business funding is typically sourced through connections, bank loans, and personal savings, low-income and Black entrepreneurs face structural barriers that make it more difficult to access capital in all these instances.
- A bias for high-growth, high-tech ventures, and a lack of diverse representation at venture capital firms results in disparate allocation of funding and mismatched educational resources for small business entrepreneurs.
- Many entrepreneurial services exist in Detroit, but the ones most helpful to small business and underrepresented entrepreneurs focus on centralizing educational resources and technical assistance, deploying non-traditional financing, and intentionally differentiating their services to best serve these segments.

### **A GROWING ENTREPRENEURIAL AND INVESTMENT LANDSCAPE**

#### **Key Points:**

- Detroit's ecosystem has grown tremendously over the past few years, holding the second highest proportion of deals in the state and accounting for 23% of venture-backed startups.
- Most of the startups receiving capital however are classified as high-growth information technology companies in the early growth or seed stage, and represent a small number of companies compared to the 150,000 new business applications that have been filed in-state.

Over the past decade, Michigan has grown its reputation as an entrepreneurial enclave in the Midwest demonstrating continued growth in both the number of new businesses launched and the amount of entrepreneurial support organizations that have spun up across the state. In 2021 alone, 150,000 new small business applications were filed, representing a 59% increase from 2019 despite the adverse impacts of the COVID-19 pandemic on small businesses.<sup>2</sup> Out of the mix of new businesses that have been launched, 165 organizations are classified as venture-based startup companies backed by venture capital funding. Michigan is also recognized as one of the fastest growing states for venture capital investment, housing 108 venture capitalists, including 34 private venture capital firms, and over 161 deals, with Ann Arbor, Detroit, and Grand Rapids holding the highest proportion of deals in the state at 25.5%, 19.2%, and 8.7% respectively.<sup>3</sup>

Being the second largest entrepreneurial hub in the state and claiming 23% of venture-based startups in Michigan, Detroit is proving to be an increasingly attractive location for entrepreneurs to launch their companies, represented by the 38 companies that were actively funded in the past year (compared to 24 companies in 2014).<sup>4</sup> Even in 2020, 24 startups in the Detroit area attracted more than \$316.5 million from venture capital firms. And accounting for most these investment dollars was StockX, an online marketplace and reseller company that raised \$275 million, representing one of the largest rounds of venture capital funding in Michigan history.<sup>5</sup>

Of those startups that received venture capital funding, 67% were information technology companies, 21% were life science and healthcare companies, and the remaining span across various sectors including mobility, consumer products, and other business services.<sup>6</sup> Over 80% of these venture-backed startups are classified to be in their early growth stage or earlier, earning revenues from operations but not yet having positive cash flows.<sup>7</sup>

To support many of these early-stage ventures in their growth, Detroit has a robust entrepreneurial ecosystem providing more than 225 available resources to help Detroiters both start and grow their business.<sup>8</sup> These resources include technical assistance and support services such as marketing, business planning, and financial advisory services. However, despite the wide availability of resources and increasing investment in high-growth startups, evidence points to significant gaps and inequities in acquiring adequate support for certain entrepreneurs, namely small businesses, and entrepreneurs of color.

## OBSERVED DIFFERENCES IN ENTREPRENEURIAL AND SMALL BUSINESS SUCCESS

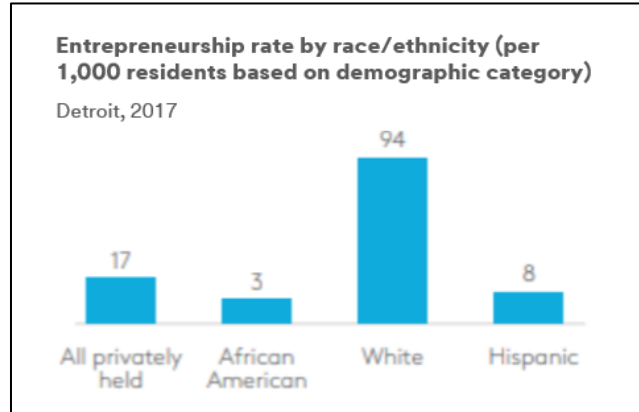
### Key Points:

- Despite being a majority Black city, the entrepreneurship rate and average value per firm by Black/African American entrepreneurs is significantly lower than that of white entrepreneurs.
- This is partly due to that fact that an estimated 90% of African American-owned businesses are classified as small or microbusinesses, and many of which are resource-constrained.
- Only 8% of venture capital investments were made to minority-led entrepreneurs.

Because Detroit remains both a majority Black city, with 77% of its population identifying as Black/African American, and one of the poorest metropolitan areas in the country, with 31% of the population living below the poverty line<sup>9</sup>, tracking the rate of business creation and value across demographic groups can highlight key strengths and weaknesses in the entrepreneurial system and indicate whether

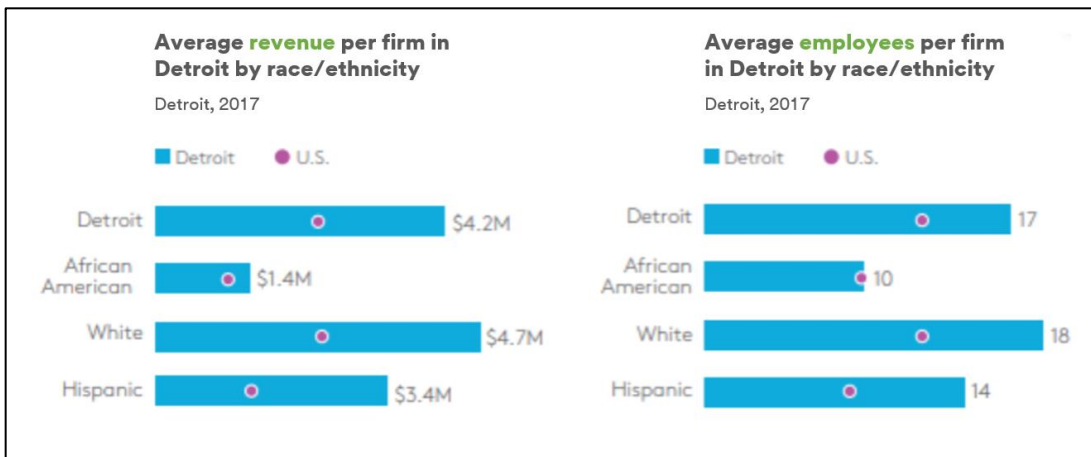
entrepreneurial opportunity is fair and equitable.

Though the entrepreneurship rate in Detroit is already relatively low when geographically compared to the rest of the region and state, it is especially much lower for minority-owned firms, with just three African American-owned firms per 1,000 working-age African American residents and eight Hispanic-owned firms per 1,000 Hispanic residents, compared to a rate of 94 white-owned business per 1,000 working-age white residents.<sup>10</sup> This highlights, that despite there being a Black majority in Detroit, a substantial racial difference exists in business ownership.



Source: U.S. Census Bureau Annual Business Survey 2017

This trend in Detroit persists also with African American-owned firms lagging in the number of employees and revenue generated per business. African American-owned firms tend to be smaller, averaging under 10 employees, and earn less revenue, at \$1.4 million per firm, compared to an average of 18 employees and \$4.7 million per firm for white-owned businesses.<sup>11</sup> While other cities have parallel trends, the differences are much wider in Detroit, a notably pressing concern considering the majority-Black population.<sup>12</sup>



Source: U.S. Census Bureau Annual Business Survey 2017

When also evaluating gender-based differences, the average value (in terms of sales, receipts, or revenue) of male-owned businesses in the city turned out to be 12 times higher than those owned by women.<sup>13</sup>

These performance outcome statistics spotlight how differences by ownership are associated with substantial differences for business type, size, and growth. Based on data on small businesses from the U.S. Census Bureau, an approximate 50,946 out of 61,868 (82%) businesses in Detroit are minority-owned, and a vast majority of them are smaller, owner-operated, often even home-based businesses that are just starting out, as indicated by the average number of employees per firm by demographic group. For instance, it is estimated that 90% of African American-owned businesses are microbusinesses with one to three employees.<sup>14</sup> Therefore, small businesses in Detroit are more likely to be owned by minority-entrepreneurs, and consequently on average observe similar business performance outcomes described above.

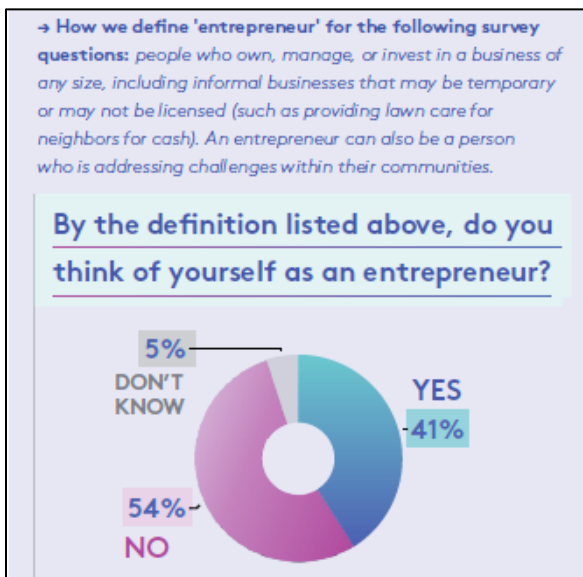
Beyond small businesses, these disparate outcomes also prevail when looking at high-growth ventures. This is demonstrated by how Detroit startup companies led by minority-owners have only raised 8% of the total venture capital investments made in Detroit in 2019.<sup>15</sup> These differences in entrepreneurial opportunity and outcomes illuminate a need to improve entrepreneurial processes, programs, and policies in ways that account for the barriers that specifically affect entrepreneurs of color. While the rest of this report discusses other social and institutional barriers to entrepreneurship and small business growth, the racial disparities summarized in this section pervasively shows up across other hurdles, particularly for Black entrepreneurs.

## ISSUE OF AWARENESS: FRAGMENTED PERCEPTIONS OF ENTREPRENEURSHIP

### Key Points:

- Definitional perceptions of what it means to be an entrepreneur differ across demographic groups, with African American residents more likely to associate it with self-employment.
- This creates a perceptual difference when navigating entrepreneurial resources, especially if African American residents are less likely to immediately connect their own motivations for entrepreneurship with resources for “launching a tech startup”.

One of the biggest issues for navigating and accessing entrepreneurial resources and potential funding opportunities is the general perception of entrepreneurial programs and the term “entrepreneur” itself. In a panel study conducted with 700 Detroiters by the New Economic Initiative in 2019, it was found that the term “entrepreneur” held different definitions to different people.



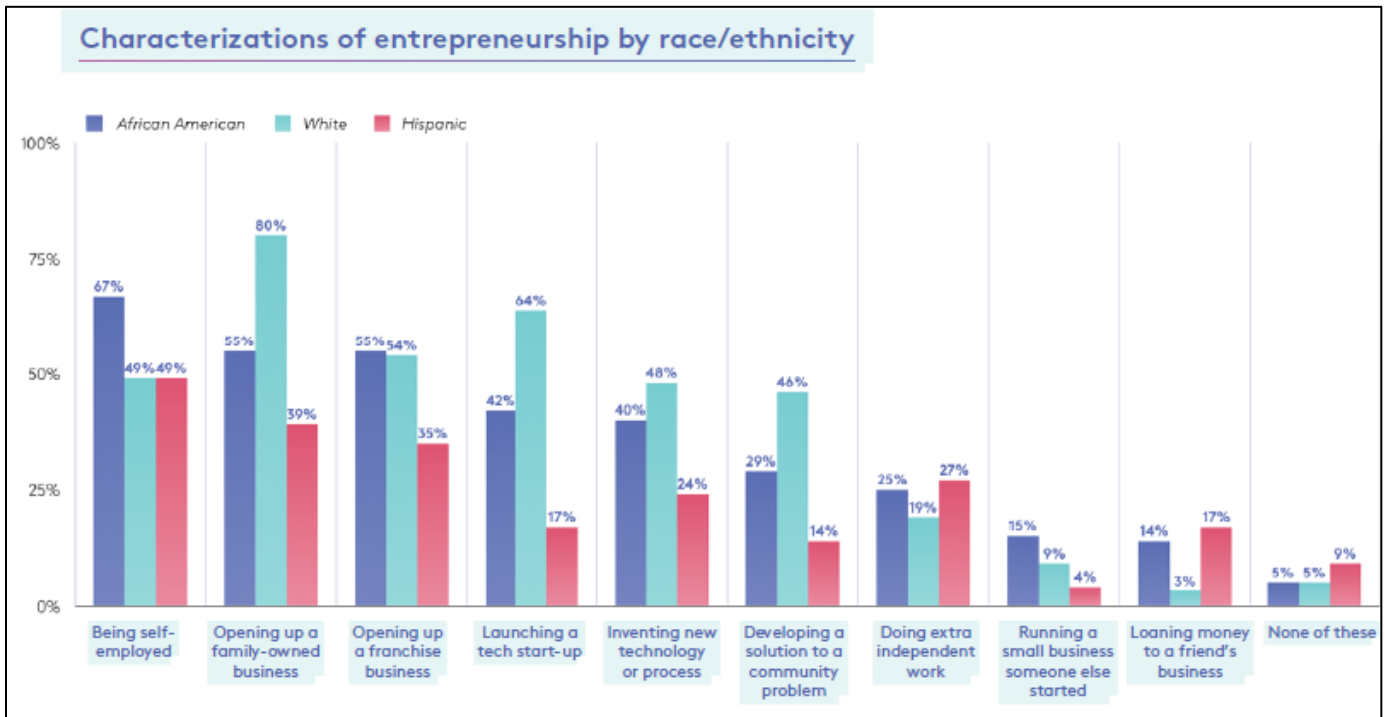
Source: 2019 Detroit Metro Area Communities Study

Before providing a definition of “entrepreneur,” only 29% of respondents considered themselves to be entrepreneurs, 63% did not, and 8% were not sure.<sup>16</sup> But once presented with a definition, more participants (up to 41%) self-identified as an entrepreneur. This contrast reveals a potential discrepancy for individuals who might be pursuing entrepreneurial activities but are unable to self-identify whether programs and opportunities in the entrepreneurial ecosystem are applicable to them when needed.

Prior to providing a definition however, a majority of the panel perceived entrepreneurs to be people who are self-employed (64%), people who have opened a family-owned (56%) or franchise business (53%). These perceptions stood out much more than definitions focused on launching a tech startup (42%) or inventing a new technology or process (39%).<sup>17</sup>

The panel was also asked to share what top qualities were important to becoming a successful entrepreneur. Detroiters identified hard work (96%) and ambition (92%) as the top qualities, followed by knowing the right people (83%) and education (74%). But while race and gender were observed to be less important factors to becoming a successful entrepreneur, definitional perceptions of what it meant to

be an entrepreneur also varied across demographic groups.<sup>18</sup>



Source: 2019 Detroit Metro Area Communities Study

African American residents were more likely than people from other racial/ethnic groups to identify an entrepreneur as being self-employed. They were also less likely than their white or Hispanic counterparts to link being an entrepreneur to launching a tech startup or inventing a new technology or process.<sup>19</sup>

Though these perceptual differences do not necessarily illuminate a causal relationship between understandings of entrepreneurship and entrepreneurial outcomes, they spotlight how different demographic groups approach entrepreneurship and related resources in varied ways and a mixed set of motivations. This opens questions around whether perceptual discrepancies across demographic groups are an issue of self-selection or derived from a broader gap in the networks and educational resources needed to see certain opportunities, like “launching a tech start-up” as possible. Regardless, the study reveals that knowing the right people and having learning support hold importance across entrepreneurs.

### NAVIGATIONAL BARRIERS: DIFFICULTIES FINDING THE RIGHT SUPPORT RESOURCES

#### Key Points:

- Over 225 resources are available to Detroiters to start and grow a small business, but survey data demonstrates that Detroiters are generally unaware of these resources.
- Yet, these resources would be most meaningful to entrepreneurs of color who do not have the same affordance as their white colleagues to seek advice from a known network of business owners or friend/family.
- While there are directories to help entrepreneurs navigate these existing resources, many of these are inconsistent, outdated, and often non-specific across different entrepreneur needs.

In response to Detroit’s historically resource-constrained environment, revitalization efforts in the city have recently fostered a high availability of new resources. Since the early 2010’s there have been overtures made in Detroit to entrepreneurs, including incubators, pitch competitions, and mentorship programs that make physical space, funding, and social support available.<sup>20</sup>

Over 225 available resources are available to help Detroiters both start and grow their business, and support services range across several entrepreneurial needs, such as sales and marketing, business planning and strategy, space, funding, financial management, workforce advisory, research and development, and legal, licensing, and permitting services.

### Illustrative Examples of Entrepreneurial Support Services<sup>21</sup>

*This snapshot of entrepreneurial direct service providers made available at BizGrid, while not exhaustive, reflects the range and diversity of resources available to Detroit business owners.*

**ACCESS Growth Center**

Provides business training, business development coaching, loans, and strategic referrals for entrepreneurs and small businesses including those with language or cultural barriers.

**Build Institute**

Business planning classes, advice, and mentorship to turn business ideas into reality for aspiring and experienced entrepreneurs.

**Detroit Development Fund**

Provides capital and technical assistance to entrepreneurs and small businesses who can’t get resources from traditional lenders.

**Endeavor Detroit**

Helps high-impact entrepreneurs scale their businesses through mentorship from a network of world-class business leaders

**Entrepreneurs Hub**

Co-working space offering an affordable, flexible, and active work environment, networking, educational resources, and meeting / event space.

**Focus: HOPE**

Hosts ProsperUs business development class, workforce training, and community support to bridge the racial divide in Southeast Michigan.

**Goldman Sachs 10,000 Small Businesses**

A program that coaches entrepreneurs in negotiation, marketing, employee management, and support to develop a strategic growth plan.

**Hatch Detroit**

A business plan contest awarding \$50K to entrepreneurs opening brick and mortar retail businesses in Detroit’s neighborhoods.

**Inforum**

A business association providing strategic connections, professional development, and entrepreneurial training for women.

**Michigan Economic Development Corporation**

The State of Michigan’s economic development organization offering support services and partner connections, talent development, access to capital, and incentive programs for statewide business growth.

**Michigan Small Business Development Center**

Provides free and confidential business counseling, secondary market research, and business training to start-ups and existing businesses.

**ProperUS Detroit**

Provides training, support, and loans for entrepreneurs, businesses, and community-based organizations in distressed Detroit neighborhoods.

**Opportunity Resource Fund**

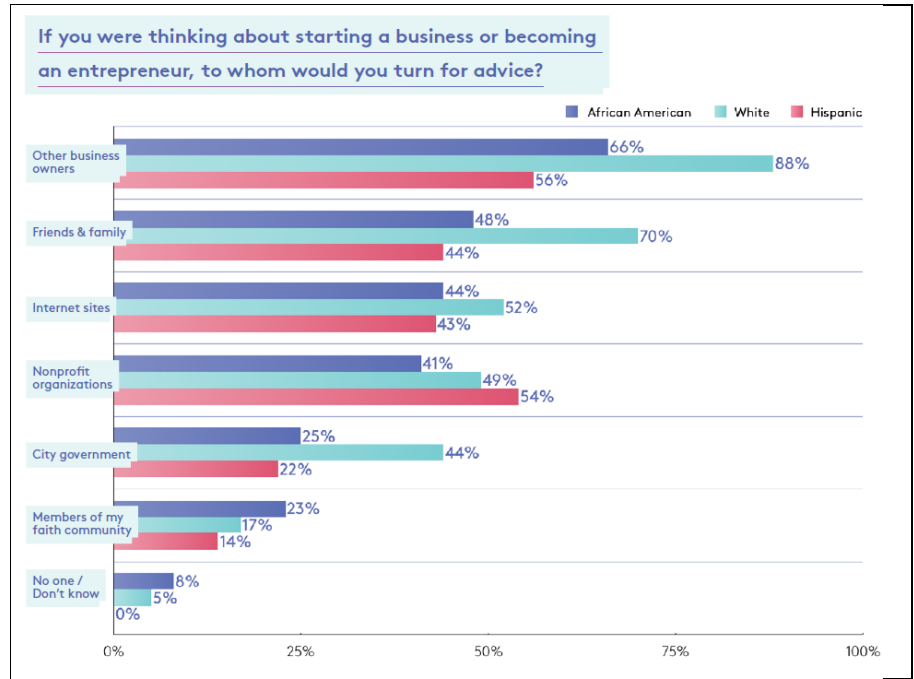
Provides loans and technical support for small businesses who have been denied credit by other sources. Applicants must meet social criteria and benefit the community.

**TechTown Detroit**

Helps both tech and neighborhood businesses develop, launch and grow through one-on-one support, workshops and events, and connections to an extensive service provider network.

Although the quantity of resources made available touch on many parts of the entrepreneurial system and appear comprehensive, prevailing issues around entrepreneurial perceptions as mentioned in the prior section, general lack of awareness, and a fragmented ecosystem makes navigating these resources difficult for entrepreneurs and small business owners.

In respect to where individuals expect to find advice, perceptual differences across demographic groups remain intact. Overall, Detroit residents report that other business owners, family and friends, and nonprofit organizations are the primary sources they would turn to, but a disproportionate number of white entrepreneurs for instance are more inclined to turn to other business owners, friends and family, and the city government. This puts into question whether further outreach, trust, and institutional connections need to be further developed for entrepreneurs of color.



Source: 2019 Detroit Metro Area Communities Study

Part of the reason falls on the general lack of awareness of entrepreneurial resources overall. The same panel study found that roughly half of Detroit residents believe that there are some (37%) or a lot of resources (11%) available from government or nonprofits to start a business. Over half of Detroiters, however, either have no idea or believe that there are few resources for entrepreneurial endeavors. This implies an essential need for making Detroiters more broadly aware of existing resources and programs through public information campaigns and directed outreach.<sup>22</sup>

Furthermore, outdated, and incongruent information sources point to different entrepreneurial resources while excluding others. Across Detroit’s BizGrid, the Michigan Venture Capital Association, and resource lists from the Michigan Economic Development Corporation, inconsistencies can be observed regarding which resources are represented and how those direct service providers are classified. While some service providers like TechTown Detroit have explicitly delineated which services are more conducive to small businesses versus high-growth tech firms, many other providers do not, which further exacerbates navigational barriers for entrepreneurs looking for the right type of resources that make the most sense for their business type and state of maturity.

## REGULATORY BARRIERS: A BIGGER HURDLE FOR SMALL AND UNDERREPRESENTED BUSINESS OWNERS

### Key Point:

- There is need for more streamlined support to businesses across regulatory processes, which can be step-intensive, costly, and restrictive towards certain demographic groups.

In Detroit, the cost, delays, and complexity imposed by the regulatory process, particularly for small businesses, make it difficult for aspiring business owners to pursue entrepreneurial opportunities. Fees for licenses and permits are comparatively high in Detroit. For example, an aspiring restaurateur must pay 15 different fees totaling \$6,545 to get started—driven in large part by the need to pay nearly \$1,500 for food plan reviews and permits.<sup>23</sup> Bureaucratic processes make the financial hurdle even more difficult for lower-income entrepreneurs, such as by preventing them from obtaining a business license if they already owe any type of debt to the city.

Additionally, regulatory processes can be step intensive. For instance, it takes 77 steps to start a restaurant in Detroit. With 69 categories on the books, Detroit forces a relatively high number of business types to obtain a city business license before starting up, which creates additional steps for entrepreneurs to complete before starting their business.<sup>24</sup> And this difficult process is further expanded upon with building permit processes, background checks, and financial audits.

Regulatory barriers can also create hurdles for microbusinesses that do not have the capital to start operations off-site away from their home and for aspiring business owners who come from non-traditional backgrounds. For example, zoning restrictions limit home-based businesses to only 25% or 500 square feet, whichever is less of the home's floor space, and prevent entrepreneurs from having client visits and non-resident employees.<sup>25</sup> Similarly, individuals who apply to certain business licenses must also certify that they have not been convicted of a crime to get their application approved. While this makes sense for some types of businesses, it creates impediments for some shops such as barbers, who are denied state licensures if they do not have "good moral character."<sup>26</sup> In some cases, fees can be applied to applicants during the application and licensing process if they are found in violation of a city provision.

Consequently, the complex and punitive nature of regulatory guidelines deters certain demographic groups from seeing small business ownership and entrepreneurship as potential avenues for economic opportunity. Those that do choose to follow the regulatory process are often stuck in back-and-forth communication with agency officials and face greater delays to making their business feasible.<sup>27</sup> Because navigating these regulatory requirements can be confusing and restrictive, there is an opportunity to streamline and provide further advisory support for licensing and permitting processes. Out of the 83 resources Detroit's BizGrid has documented, only 33 resources provide some sort of regulatory support compared to 80 that provide business strategy, sales, and marketing assistance. Out of those 33, only 6 are deemed appropriate for entrepreneurs who are just getting started at the idea stage.

## FINANCIAL BARRIERS: GAINING ACCESS TO CAPITAL

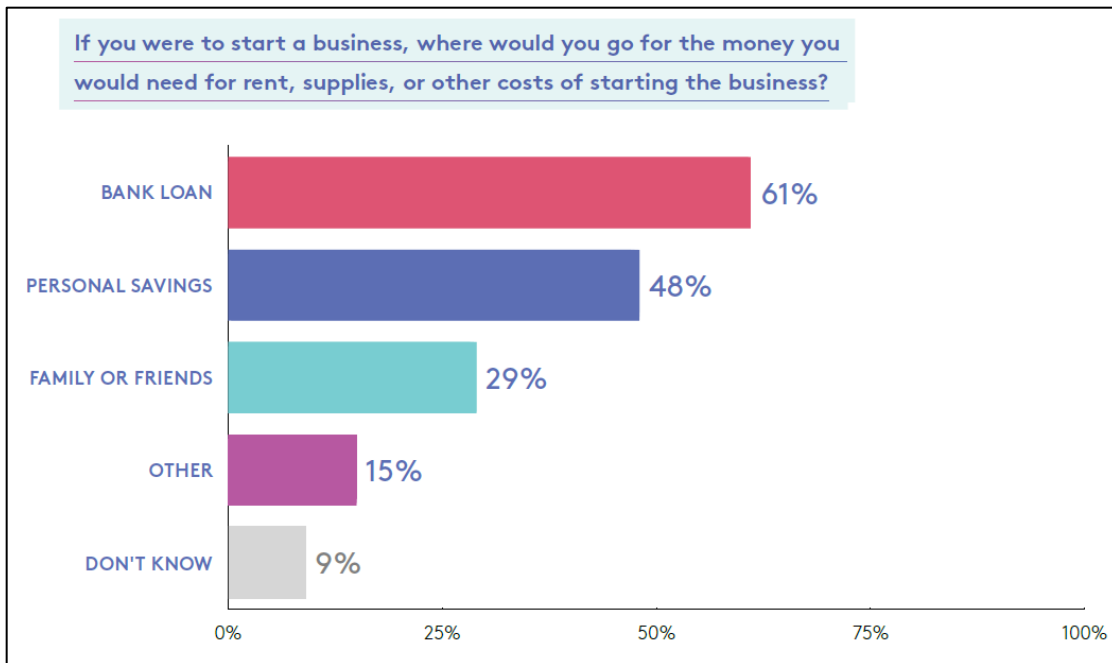
### Key Points:

- When starting a business, most entrepreneurs defer to bank loans as their first source of capital, but the availability and access to bank loans for small businesses has historically been much lower in Detroit than comparable regions.
- An emphasis on credit history puts business loan application rates for African American entrepreneurs—many who do not have close access to local banking branches—19 percentage points lower than white entrepreneurs.
- Entrepreneurs also rely on personal savings but are more likely to experience financial stress compared to non-entrepreneurs due to multiple financial obligations.



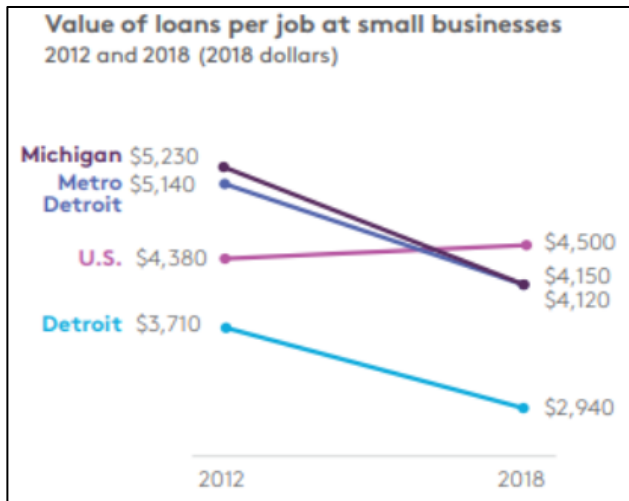
An additional factor relevant to launching a business is the ability for entrepreneurs to access capital. While there are a diverse number of funding sources available in Detroit, differences in the type of funding and the degree of accessibility to achieve that funding also varies across demographic groups whether that is sourcing funds from personal networks, traditional bank loans, or personal savings.

As an example, a profound difference between Silicon Valley and Detroit based on the residential demographic majority is that well-off, white male founders in Silicon Valley can often rely on family wealth and network connections as a source of funding. This funding route is so common that even banks will offer a step-by-step guide for asking family and friends for startup capital.<sup>28</sup> For Detroit entrepreneurs, in contrast, few see family and friends as possible sources of investment. Instead, a majority would defer to seeking out a traditional bank loan, and secondly diving into personal savings, but this is at odds with the financial reality many Detroiters face.<sup>29</sup>



Source: 2019 Detroit Metro Area Communities Study

When it comes to seeking out a bank loan, a 2016 study by the Urban Institute found that in Detroit, only a mere 19% of residents had healthy credit and two-thirds of residents had debt in collections as compared to 31% in the surrounding metropolitan area and 42% of other Rust Belt cities.<sup>30</sup> In consequence, the number of loans distributed in Detroit for small business entrepreneurs fared lower than comparable geographic areas. This is because many small business owners must first rely on their personal credit score when first starting out to guarantee themselves a business loan.



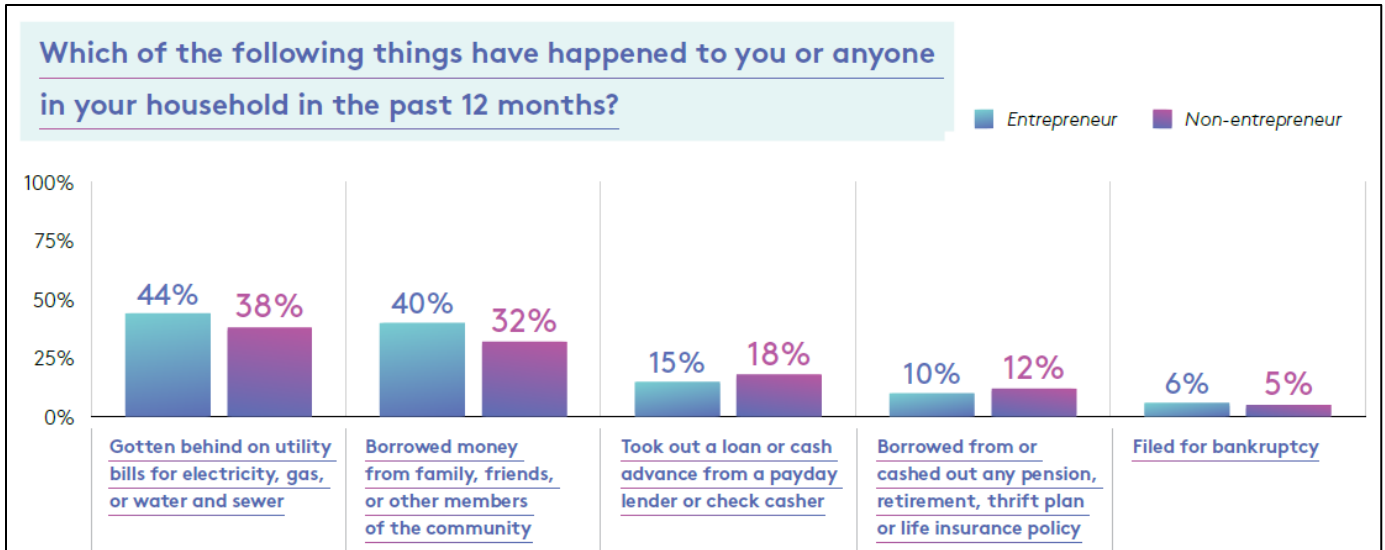
Source: 2012-2018 FFIEC-CRA Study

Between 2008 and 2015, the number of loans under \$100,00 reported under the Community Reinvestment Act by banks to businesses in Detroit plummeted by more than 44% and the dollar amount dropped by 32% according to research by the Woodstock Institute.<sup>31</sup> More recently in 2018, Detroit made up about 9% of the region’s small businesses but accounted for only 6% of the value of the region’s small business loans, with the city hitting an average \$2,950 in loan capital per job at firms, much lower than the larger metropolitan area and national levels.<sup>32</sup>

This disparity in the number and value of small business loans being distributed is also qualified by the observed difference in credit access across demographic groups. For instance, businesses in low-income census tracts in Detroit received only 5% of reported bank loans under \$100,000 despite constituting 10% of the businesses in the region between 2012 and 2015 based on the Community Reinvestment Act.<sup>33</sup> Meanwhile, businesses in predominantly minority census tracts received just 7.8% of CRA-reported bank loans of the same size over the same period despite representing 15.4 percent of businesses in the region.

This illuminates that access to credit is a problem that is especially acute among entrepreneurs of color. Minority-owned businesses are three times more likely to be denied loans than their white counterparts, and those who are approved frequently receive lower loan amounts and pay higher interesting rates, according to the Brookings Institute.<sup>34</sup> Furthermore, the disparities in a business’ ability to get credit persist even among firms with revenues topping \$1 million. Black-owned businesses apply for credit at a rate that is 10 percentage points higher than white-owned firms, but their approval rates are 19 percentage points lower.<sup>35</sup> This stark difference was also observed in the US Small Business Credit Survey during the COVID-19 economic crises, when 30% of small Black-owned firms across the US were concerned about the availability of credit compared to just 12% of small white-owned firms.<sup>36</sup> And even with the right credit history, many small business entrepreneurs do not have the education to know how to be loan ready.<sup>37</sup>

Such barriers to accessing small business loans are much more staggering in a city like Detroit where small business entrepreneurs by majority are Black / African American residents that due to structural inequities have limited credit history and traditional banking relationships needed to observe higher loan amounts and approval rates. Compared to other Rust Belt cities, Detroit residents are less likely to have credit cards, other revolving credit, an auto loan or a mortgage, and those with credit cards had lower limits and their usage rate was higher.<sup>38</sup> To explain this gap, research by the Federal Reserve Bank of Chicago shows that the number of bank branches in Detroit fell by 23 percent from 139 branches in 1994 to 107 by 2010. Small bank branches dropped off most significantly, falling by 61% between 1994 and 2021, and branches of large banks decreased by 19% over the same period.<sup>39</sup> Because the presence of banking infrastructure plays a huge role in institutional lending and credit access, the decline in banking branches in low-income communities ultimately left many of Detroit’s neighborhoods, with predominantly Black residents, underbanked.



Source: 2019 Detroit Metro Area Communities Study

Beyond family and friends, and bank loans, small business entrepreneurs are left with their personal savings, but in Detroit this is much less feasible when the median household income is \$28,099, which is about half of the statewide median of \$52,492.30.<sup>40</sup> In fact, white households in Detroit are more likely to be middle class than their African-American and Hispanic counterparts, with 35% of white households falling into the middle class, compared to 26% and 28% for African-American and Hispanic households, respectively. And while nearly 60% of Detroit residents report not feeling financially secure, self-identified entrepreneurs were more likely to report experiences specific outcomes related to financial stress, such as falling behind on utility bills, borrowing money from friends or family, or filing for bankruptcy.<sup>41</sup>

In aggregate, these barriers demonstrate a notable gap for improved infrastructure to help connect small business entrepreneurs with the right type of funding, methods for improving their credit and qualifications for borrowing, available funding that is credit agnostic and/or flexible enough to be applied to scenarios of financial distress, and further education on where and how to leverage the appropriate types of financial capital.

**ECOSYSTEM CHALLENGES: ALIGNMENT WITH VENTURE CAPITAL**

**Key Points:**

- Most deals sourced by venture capital firms come from existing network referrals from general partners, but within Michigan an estimated 70% of the venture capital community is backed by white men.
- In 2020, venture-backed firms that were led by a CEO of color only accounted for 1.5% of total venture capital raised in Detroit.
- Venture capital dollars and entrepreneurial resources are predominantly focused on high-growth and information technology companies, despite growing need for support from small businesses.

While common for high-growth, tech startups, small business entrepreneurs are less likely to see venture capital firms as an initial source of funding. Part of the reason is that many small business entrepreneurs who are underserved are unaware or do not have a strong understanding of which lenders or funders can

best support them. Banks report that much of the education that goes to fledgling entrepreneurs focuses on explaining the difference between traditional and nontraditional lenders, highlighting the importance of capital availability from community development financial institutions and investment firms.<sup>42</sup>

But education alone will not help build the necessary support small business entrepreneurs need to gain access to capital, especially when the capital ecosystem itself was never originally built to support and address smaller and underserved entrepreneurs. Across the US, less than 3% of venture capital funding on average went to Black and Latinx founders, and in 2018 women-founded startups received less than 2% of total venture funding.<sup>43</sup> The issue stems from a lack of representation, both in the media for what types of entrepreneurs get represented as well as the lack of diversity within venture capital firm ownership.<sup>44</sup> With Michigan, 70% of startup and venture capital communities are led by white men, and this creates structural biases for which organizations receive venture capital backing.<sup>45</sup> Only 10 out of 38 venture backed startups headquartered in Detroit in the last year are led by a CEO of color, but these companies only account for 1.5% of the total venture capital raised by startups in 2020.<sup>46</sup> As such, many venture capital firms are beginning to rethink how to restructure their portfolios, management teams, hiring decisions, and processes to ensure the entrepreneurial ecosystem can maintain its diversity.<sup>47</sup>

Venture capital funding is also highly industry and size biased. Information technology startups received 32% of the venture capital in Michigan in 2020 and accounted for half of the startup companies receiving funding.<sup>48</sup> Because 90% of Detroit entrepreneurs are solopreneurs, microbusinesses, and mom-and-pop shops outside of the high-growth, technology space, most of these small business entrepreneurs are not seen as targets for venture capital backing. This bias is best represented also by the share of investor money that was allocated to “high-tech” cities like Silicon Valley (\$2.7 billion), San Francisco (\$5.2 billion), and New York (\$2.9 billion) in the last quarter of 2017, compared to just \$734 million for the entire Midwest.<sup>49</sup> Therefore, much of the education, informational resourcing, and connections formulated to support traditional entrepreneurs in talking to funders and pitching their businesses are not intentionally designed for entrepreneurs.<sup>50</sup> The lack of representation and alignment of resources across the venture capital ecosystem in essence puts small business and minority entrepreneurs at a disadvantage, unless proper funding and resource channels begin focusing on these specific groups.

## PROMISING AND EMERGING PRACTICES TO ADDRESS CHALLENGES IN DETROIT

While not an exhaustive list that comprehensively addresses many of the challenges faced by entrepreneurs in Detroit, the following programs illustrate promising and emerging practices for making entrepreneurial opportunity more accessible.

### Illustrative Examples of Entrepreneurial Opportunity Advancement Programs

#### **Motor City Match**

Funded by the Detroit Economic Growth Corporation, this program helps launch new, permanent businesses in Detroit’s commercial corridors and has touched a total of 1,150 small businesses, 80 percent of which are minority owned and 69 percent of which are woman owned, and 139 businesses have received \$6 million in grant funds (averages to \$43,165.47 per business). The program has also leveraged an additional \$33 million in debt and equity financing for businesses in its program through the participation of nontraditional lenders in the selection committee.<sup>51</sup>

#### **TechTown Detroit**

In addition to supporting people of color-owned businesses in building credit history, providing business services, training, and offering micro-lending options to low- and moderate-income entrepreneurs, the organization also expanded its work to transition away from mainly serving high-growth, high-tech ventures into more neighborhood-based, broader-based programming due to the high volume of other programs for technology-based enterprises. To put small businesses back on the radar, the organization has reserved a specific track of services to small business entrepreneurs across different sectors.<sup>54</sup>

### **Activate Detroit**

Piloted in October 2021, this program brings a new credit-blind approach, providing an avenue for nontraditional financing for new ventures. To date the pilot has received nearly 190 applications and funded 13 loans, totaling \$677,500.<sup>52</sup>

### **New Economy Initiative**

Focused on empowering small business owners through the collaboration of thirteen large foundations, the initiative has contributed to the design of a regional network of capital support resulting in the launch of over 290 neighborhood enterprises and startups by providing high-touch technical support with more frequent deployments of funding in small amounts.<sup>53</sup>

### **Entrepreneurs of Color Fund**

Managed by the Detroit Development Fund, this fund has now made more than \$14 million in low interest loans to support small business owners in Detroit. Of those loans, 97% went to people of color and 55% to women.<sup>55</sup>

### **Chicago's 1871**

Created with the purpose of centralizing startup resources, the organization operates as an innovation hub and incubator that brings disparate entrepreneurial resources together to help both rookie entrepreneurs and experienced serial founders get to where they need to go. While located in Chicago, the incubator has been referenced as a robust hub for entrepreneurial resources by other Detroit startups.<sup>56</sup>

## **CONCLUSION AND KEY IMPLICATIONS**

While venture capital funding and entrepreneurial services in Detroit have grown within the past several years, many of these resources have been predominantly focused on traditional high-tech, high-growth startups. This generates an entrepreneurial ecosystem that operates in contrast with the broader business landscape in Detroit, which is predominantly comprised of small business entrepreneurs and minority owners. Because much evidence exists pointing to the gaps and disparities affecting small business and minority entrepreneurs, new programs, processes, and policies can be implemented to provide more equitable access to entrepreneurial funding and resources for these underserved entrepreneurs. The following implications represent potential opportunities for new initiatives or solutions to emerge that can target and address the specific barriers discussed in this report.

- **Embedding Underserved Perspectives in Existing Services**  
Because resource needs for small business and minority business owners have nuanced perceptions and approaches to entrepreneurship in comparison to traditional high-growth ventures, existing service providers can adapt, communicate, and potentially bifurcate their services to align with the specific needs of small business and underserved entrepreneurs.
- **Establishing Clear Pathways**  
Detroit's entrepreneurial ecosystem offers a mixture of support for existing businesses, high growth startups, and small business entrepreneurs, but the path for accessing resources and navigating regulatory requirements for each is not always clear. Rather, coordinating clearly defined channels
- **Increasing Capital Access and Education**  
While existing traditional lending and the use of personal savings may be out of reach for small business and minority entrepreneurs, the creation of alternative funding models and education to better match capital needs with the right forms of capital can better served entrepreneurs that have been overlooked by formal financial institutions and venture capital firms. This includes increasing the awareness and availability of non-traditional or demographic-specific funding sources.
- **Centralizing and Broadcasting Resources**  
A highly saturated but fragmented entrepreneurial ecosystem full of different resources creates unnecessary navigational

for entrepreneurs of different maturity levels can help bring clarity to where new entrepreneurs need to focus their time and effort.

- **Improving Representation Across the Ecosystem**

To affect positive change in an ecosystem that already favors white and affluent entrepreneurs, more diverse representation in the venture capital and startup space is needed. This involves not only re-evaluating existing institutional processes but also includes helping under-represented entrepreneurs gain greater access to mentorship, like-minded entrepreneurial communities, and minority-owned venture capital firms.

barriers for new entrepreneurs. Instead, establishing a one-stop-shop that can centralize and bring awareness to all available resources and required steps can decomplexify the entrepreneurial process.

<sup>1, 4, 6, 13, 41, 46, 47</sup> EntryPoint. 2021. *Detroit Entrepreneurial Ecosystem Report*. Retrieved from <https://entrypointmi.com/wp-content/uploads/2021/06/LoSpread-EntryPoint-2021-Detroit-Entrepreneurial-Ecosystem-Report.pdf>

<sup>2</sup> State of Michigan, Office of the Governor. 2022. *Whitmer Announces New Data Showing Record Small Business Growth*. (n.d.). Retrieved from <https://www.michigan.gov/whitmer/news/press-releases/2022/05/16/whitmer-announces-new-data-showing-record-small-business-growth>

<sup>3, 48</sup> Michigan Venture Capital Association. 2022. *MVCA 2022 Impact Report*. Retrieved from <https://mydigitalpublication.com/publication/?m=68270&i=754656&p=1&ver=html5>

<sup>5</sup> Fisher. August 2021. *Venture Capital in Detroit is Growing, Here's What that Means for the City*. Detroit Is It. <https://detroitisit.com/venture-capital-in-detroit-is-growing/>

<sup>7</sup> March 2019. *Funding for Social Enterprises in Detroit*. Max M. & Majorie S. Fisher Foundation, Avivar Capital. Retrieved from [https://mmfisher.org/wp-content/uploads/2019/07/for-dissemination-190322\\_Social-Enterprise-Capital-Landscape-Scan\\_Avivar-Capital.pdf](https://mmfisher.org/wp-content/uploads/2019/07/for-dissemination-190322_Social-Enterprise-Capital-Landscape-Scan_Avivar-Capital.pdf)

<sup>8, 15, 16, 17, 18, 21, 27, 28, 38</sup> New Economy Initiative. June 2020. *Entrepreneurship and Economic Opportunity in Detroit: Perceptions + Possibilities*. Retrieved from [https://www.dropbox.com/s/qycykxzt4ls6x05/DMACS\\_DFC\\_Entrepreneurship\\_Report\\_2020\\_DigitalDeck%20FINAL.pdf](https://www.dropbox.com/s/qycykxzt4ls6x05/DMACS_DFC_Entrepreneurship_Report_2020_DigitalDeck%20FINAL.pdf)

<sup>9, 10, 11, 29, 30, 31</sup> Detroit Future City. May 2021. *The State of Economic Equity in Detroit*. Retrieved from <https://detroitfuturecity.com/wp-content/uploads/2021/05/The-State-of-Economic-Equity-in-Detroit.pdf>

<sup>9, 13</sup> Abbey-Lambertz. June 2021. *Here's Why Detroit Needs to Get Serious about Supporting Entrepreneurs of Color*. Detour Detroit and Prosperity Now. Retrieved from <https://detourdetroit.com/grim-stats-for-detroit-business-owners-of-color>

<sup>14, 34, 35</sup> Kepner, Mattoon. August 2021. *What Would Detroit's Business Ownership Look Like with Racial Parity?* Federal Reserve Bank of Chicago. Retrieved from <https://www.chicagofed.org/publications/blogs/michigan-economy/2021/detroit-business-ownership-racial-parity>

<sup>19</sup> Hernandez, McCluney. January 2020. *The Detroit Hustle*. MIT Sloan Management Review. Retrieved from <https://sloanreview.mit.edu/article/the-detroit-hustle/>

<sup>20</sup> Detroit BizGrid. 2022. *BizGrid*. Retrieved from <https://detroitbizgrid.com/>

<sup>22, 23, 24, 25, 26</sup> *Barriers to Business: How Cities Can Pave a Cheaper, Faster, and Simpler Path to Entrepreneurship*. Institute for Justice. Retrieved from <https://ij.org/report/barriers-to-business/city-profile/detroit/>

<sup>29, 36, 37, 38, 39, 42</sup> The Eckblad Group and New Economy Initiative. August 2018. *Capital Access: Detroit, Hamtramck, Highland Park – Micro and Small Businesses*. Retrieved from <https://neweconomyinitiative.org/wp-content/uploads/2019/01/Capital-Access-final.pdf>

<sup>32, 33</sup> Berlin. *How Detroit Is Boosting Small Business Growth, One Contract at a Time*. JPMorgan Chase & Co. Retrieved from [https://www.politico.com/sponsor-content/2018/01/how-detroit-is-boosting-small-business-growth?sr\\_source=lift\\_amplify&cid=20181hp](https://www.politico.com/sponsor-content/2018/01/how-detroit-is-boosting-small-business-growth?sr_source=lift_amplify&cid=20181hp)

<sup>40, 44, 45</sup> Needham. March 2021. *Overcoming Systemic Barriers to Minority Entrepreneurship*. University of Michigan. Retrieved from <https://michiganross.umich.edu/news/overcoming-systemic-barriers-minority-entrepreneurship>

<sup>43, 49, 54</sup> StartupBlink. February 2019. *Detroit Startup Ecosystem Report*. Retrieved from <https://www.startupblink.com/blog/detroit-startup-ecosystem-startupblink-blog/>

<sup>50</sup> Rossi. November 2021. *How Michigan grew its startup ecosystem and became the state with the fastest growing venture capital*. Times Of Entrepreneurship. Retrieved from <https://timesofe.com/how-michigan-grew-its-startup-ecosystem-and-became-the-state-with-the-fastest-growing-venture-capital/>

<sup>51</sup> Charlotte\_F. October 2017. *Challenge Detroit Expanding Small-Business Opportunities*. DEGC. <https://www.degc.org/degc->

challenge-detroit-expanding-small-business-opportunities/

<sup>52</sup> April 2022. *Empowering Black-Owned Businesses: "Activate Detroit" Brings New, Credit-blind Approach*. (n.d.). CDC Small Business. Retrieved from <https://cdcloans.com/press-releases/empowering-black-owned-businesses-activate-detroit-brings-new-credit-blind-approach/>

<sup>53, 54</sup> *Case Study: TechTown Detroit*. New Economy Initiative. Retrieved from [https://neinsights.org/wp-content/uploads/2021/01/NEI\\_Case-Study\\_TechTown\\_Final-1.pdf](https://neinsights.org/wp-content/uploads/2021/01/NEI_Case-Study_TechTown_Final-1.pdf)

<sup>55</sup> Vue, L. September 2022. *Supporting Detroit's Talent and Technology for an Equitable Future*. Every Child Thrives. <https://everychildthrives.com/supporting-detroits-talent-and-technology-for-an-equitable-future/>