

DATE: March 9, 2016
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 16-11
Update on the Portland Development Commission's Inclusive Entrepreneurship Strategy

BOARD ACTION REQUESTED

No action is requested; information only.

SUMMARY

The purpose of this item is to brief the Portland Development Commission (PDC) Board of Commissioners (Board) on PDC's pioneering efforts in inclusive entrepreneurship. PDC's inclusive entrepreneurship goals, which are intended to create widely shared prosperity, are captured in Objective 3 of PDC's 2015-2020 Strategic Plan (Strategic Plan): Foster Wealth Creation within Communities of Color and Low-Income Neighborhoods. The body of this work involves four signature programs:

- **Microenterprise and Small Business Development Program.** This program aims to create, grow, and strengthen microenterprise (those with fewer than five employees) and small businesses (those with fewer than 50 employees) through technical assistance and training. Non-profit organizations deliver technical assistance and training to approximately 500 businesses each year. Businesses may also receive legal services, credit repair assistance, and access to market research.
- **Project Increase.** This PDC pilot program takes established small business owners of color through a rigorous and tailored business growth planning course. PDC, with the assistance of outside experts and mentors, is facilitating a nine-month, cohort-based experience utilizing the Streetwise MBA™ curriculum.
- **Startup PDX Challenge.** This competition awards six startup companies free space, investment, and mentorship for one year. One criterion for selecting companies for this program is that the founding team includes at least one member from an under-represented population. Startups must have ambitions to scale to a national or international market.
- **Inclusive Startup Fund.** This new effort, which is subject to a separate item on the March 9, 2016, PDC Board agenda, proposes to create a \$3,000,000 seed fund that aims to accelerate, mentor, and provide capital to under-represented entrepreneurs at an early stage of company growth. "Under-represented" for this effort includes people of color, women, disability, and other populations.

BACKGROUND AND CONTEXT

A key challenge for both Portland's and the nation's economy is the growing wealth disparity between non-Hispanic whites and people of color (which includes individuals who identify as African American, Native American, Latino, and Asian American). According to the Pew Research Center, the median net worth of United States (U.S.) white households in 2013 was 13 times greater than the median net worth of U.S. black households and 10 times greater than U.S. Latino households. At the same time, demographics are changing; it is estimated that by 2044, a majority of the U.S. population will be people of color. Locally, this demographic shift is reflected in Portland Public Schools where almost 50 percent of children identify as mixed-race or as people of color and in the David Douglas School District, which has a student body that is now almost 60 percent mixed-race or people of color.

Effective local policy to promote employment growth must include a focus on a healthy entrepreneurial ecosystem considering the importance of small business growth (in Oregon, close to 90 percent of all firms employ fewer than 20 people). A recent study by the Kauffman Foundation found that over the past 30 years, startups (defined as businesses that are less than one year old) and young firms (one- to five-year-old businesses) have been the primary source of new job creation in the U.S. Measured by new business formation, the Portland metropolitan region is ranked sixth nationally for entrepreneurial activity.

Despite a vibrant and growing local entrepreneurial community, access and participation has overwhelmingly benefited the white population and males. Ownership of scalable, growing businesses is one route to wealth creation that people of color have not historically accessed. Some data to consider:

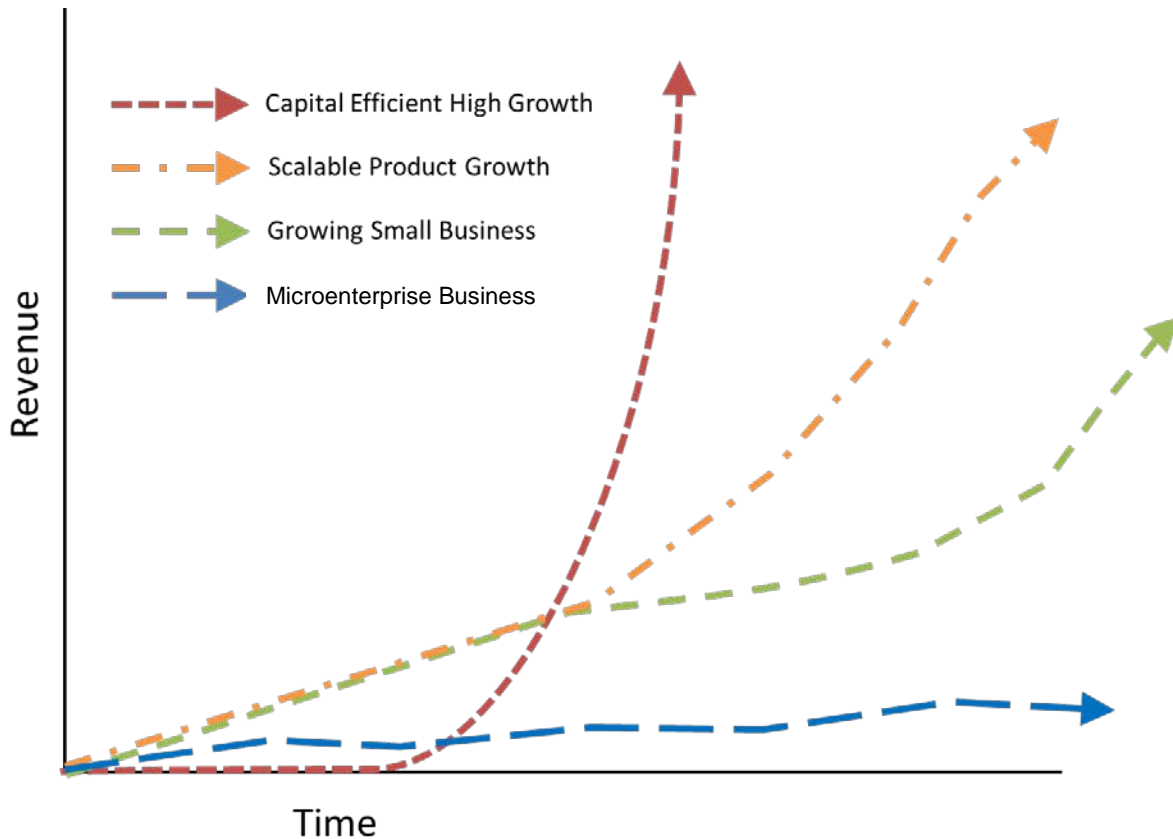
- In Portland, the white population accounts for 84 percent of small business owners compared to 13 percent Hispanic, seven percent Asian American, three percent African American, and one percent American Indian¹; 44 percent of firms in Oregon are solely owned by males, compared to 30 percent female and 36 percent owned by both male and female.
- Nationally, 87 percent of venture capital-backed founders are white, 12 percent are Asian American, and less than one percent are African American or Latino; 15 percent of startups receiving venture capital investment had a woman on the executive team.

A recent scan of the local entrepreneurship community confirmed the access gap for underrepresented populations. Of the 114 venture capital deals in Portland the last two years, beneficiary companies were founded or led by at least one² white male 96 percent of the time, compared to 19 percent female, 10 percent Asian and East Indian, two percent African American, and one percent Latino.

PDC's work to implement Objective 3 of the Strategic Plan involves a range of programs and activities that address needs and barriers for entrepreneurs and business owners in all stages of growth. The figure on page three illustrates the growth trajectory for four business types; PDC is tailoring its products and services to play a proactive role and assist entrepreneurs and businesses across the growth spectrum.

¹ Numbers are rounded and do not account for business owners who identify with multiple race and ethnicity categories.

² These percentages speak to only one member of a founding team; therefore, one team can be double-counted in these percentages.



As demonstrated in the figure above, businesses generally fit in one of four growth categories:

Entrepreneur/Business Type	PDC Support Program
1. Capital Efficient High Growth companies have a technology or other intellectually-protected product. High Growth startups are typically funded via high risk, equity capital.	<ul style="list-style-type: none"> • Startup PDX Challenge • Inclusive Startup Fund
2. Scalable Product Growth companies typically grow at a slower pace and are funded through a combination of revenue, debt, or venture capital.	<ul style="list-style-type: none"> • Startup PDX Challenge • Inclusive Startup Fund
3. A Growing Small Business is typically a service provider or retail outlet that initially serves a local market and grows slowly over time, possibly expanding into new markets or new product lines.	<ul style="list-style-type: none"> • Project Increase
4. A Microenterprise Business is started to provide a salary to an owner, but typically does not grow significantly over time and does not generate significant wealth over time.	<ul style="list-style-type: none"> • Microenterprise and Small Business Development Program • Project Increase

In designing PDC programs to address inclusion, PDC staff have considered the unique challenges minority founders face. While individuals and communities face their own particular challenges, both

scholarly research and PDC staff interaction with entrepreneurs generally reveal the following barriers for under-represented founders or business owners.

- **Access to Networks.** The unfortunate reality in Portland is that many networks for whites are different than the networks for communities of color. Organizations that traditionally serve white entrepreneurs continue to work within those networks and remain disconnected from African American and Latino professionals. Having access to a broad network is essential to find mentors, business partnerships, co-founders, and many other important points of connection to help grow a business.
- **Access to Capital.** Access to capital is often closely related to ‘who you know’. For early stage entrepreneurs, their first round of funding often comes from friends and family or from their own savings. If entrepreneurs do not have access to networks of wealth or have their own savings because they have had to support a family, then it is more difficult to get their business off the ground. As entrepreneurs grow their business, they may experience cases of “pattern matching” when seeking investors: that is, investors have a hard time investing in someone that does not look and behave like themselves or what they have seen in other successful entrepreneurs.
- **Role Models.** With very few other examples of successful entrepreneurs in their lives, minority entrepreneurs often do not see entrepreneurship as something for them. Moreover, mentors tend to invest time in those people they can relate to, and if few other successful entrepreneurs look like you or come from the same background as you, it can be more challenging to find a business mentor you can trust.

To tackle the particular needs of different types of entrepreneurs, four PDC programs use best practices that address unique barriers for different stages and types of company growth. This involves helping entrepreneurs get started, scale their business, eliminate barriers, and pivot to a different growth model.

Microenterprise and Small Business Development Program. The Micro and Small Business Development Program (Program) funds 10 local non-profit organizations to provide technical assistance and training. It is intended to spark wealth and job creation for entrepreneurs and businesses by increasing the availability of ongoing, structured, one-on-one client engagement; providing on-site business development services; and assisting in starting, strengthening, or expanding business operations. The Program serves business owners and entrepreneurs with low and moderate incomes and those in traditionally under-served communities (including people of color, those with limited English proficiency, and those located in specific geographic areas such as PDC's Neighborhood Prosperity Initiative (NPI) and Main Street areas). This Program is intended for microenterprise and small businesses at their earliest stage of growth.

In fiscal year (FY) 2014-15, the Program provided more than 350 businesses with nearly 18,000 hours of tailored one-on-one support. Of those businesses:

- 97 percent had a family income at or below 80 percent median family income
- 77 percent were people of color
- 41 percent had limited English-proficiency

PDC's NPI and Main Street business support programs served an additional 360 businesses with more than 1,500 hours of drop-in assistance.

Project Increase. A dozen small Portland businesses are participating in PDC's newly-launched Project Increase, a pilot program designed to take established small business owners of color through a rigorous, tailored growth planning course. The culturally responsive, cohort-based small business expansion program uses the Streetwise MBA™ curriculum, developed by Interise, a Boston-based

national nonprofit organization committed to accelerating economic and small business growth in lower-income communities. Businesses take part in bi-weekly gatherings with guest experts and actively participate in peer-to-peer learning sessions. Project Increase is intended for microenterprise businesses that want to grow, small businesses that want to expand, and small businesses that are interested in learning how to scale an existing product.

Following are anticipated success metrics for participants in Project Increase:

- 80 percent+ graduation rate
- Participants develop detailed three-year strategic growth action plans for their businesses
- Participants will receive:
 - A marketing grant
 - Industry-specific mentoring
 - Access to meaningful financing

Startup PDX Challenge. Now in its third year, Startup PDX Challenge is an annual competition designed to connect startups to Portland’s growing entrepreneurial ecosystem and assist the businesses for one year through their early stage growth. Early stage companies willing to locate in Portland for one year and that have an ambition to scale their product or service to a national or international market are eligible to apply. The six companies selected receive one year of free rent, free professional services, an investment, mentorship, and support in a peer-to-peer learning environment. FY 2015-16 is the second year to focus on finding the most promising diverse founding teams. Companies are evaluated by a panel of outside experts based on the following criteria: compelling company story, founder experience, growth potential, market potential, ability to fully utilize the Startup PDX Challenge prize package, and diversity of founding team.

Following are key outcomes from recent Startup PDX Challenge competitions:

- PDC received 134 applications in 2014 and 94 applications in 2015. PDC business development officers followed up with startups not selected to offer connections to technical assistance and other resources.
- The demographic profiles of the 12 startups from the 2014 and 2015 classes include a total of 18 founders: eight African American founders, three Latino/a founders, two Asian American founders, one Native American founder, one hearing-impaired founder, one veteran founder, and 11 female founders.
- Among the 2014 class members:
 - Two companies have collectively raised approximately \$500,000 in follow-on seed funding.
 - One company won a national food award, and another was nominated for a national toy award.
 - Two companies were selected to compete in a regional pitch competition, 1776 Challenge Cup, and one was chosen to compete in the national pitch competition.
 - The six companies created 17 jobs and retained nine.

Inclusive Startup Fund. PDC, in partnership with Multnomah County (County) and the State of Oregon (State), selected Elevate Capital to create and manage the Portland Inclusive Startup Fund (ISF). The goal of the ISF, which is described in greater detail in Report 16-12, is to stimulate entrepreneurial growth in under-represented populations (people of color, women, etc.) in the Portland metropolitan region. The ISF is being organized to provide a limited number of select investors with an opportunity to realize measurable long term return on investment. To complement the proposed public funding from PDC, the County, and the State, Elevate Capital will be expected to raise additional private commitments

to bring the total initial capital to \$3,000,000. ISF will serve companies that fall within the criteria for the Startup PDX Challenge with the potential to fund them later on in their business life cycle.

At the March 9, 2016, PDC Board meeting, participants from all four initiatives will address the PDC Board and describe their experiences in partnering with PDC to advance shared goals of inclusive entrepreneurship.

ATTACHMENTS

None.