



CASE STUDY:

TECHTOWN DETROIT



BACKGROUND

TECHTOWN was founded in 2000, through a collaboration with Wayne State University, Henry Ford Health System and General Motors; it incorporated as a nonprofit and established its headquarters in 2004. As its name implies, the organization originally had a singular orientation toward high-technology startups, describing its mission, at the time, to “diversify and strengthen Michigan’s economy with life sciences, advanced engineering and alternative energy.”

NEI, launched in 2007 with a mission of returning Detroit to its once economically strong state, sans the reliance on the automotive industry. It began with a focus on high-tech, high-growth startups, in alignment with the prevailing wisdom. Overtime, NEI added a more neighborhood-based approach focused on fostering a supportive environment for all types of entrepreneurs, despite their backgrounds or experiences.

PROBLEM

TechTown’s early orientation was in alignment with that of most local business-support organizations and policymakers at the time: it sought to respond to the vacuum left by the auto industry’s decline.

Prior to 2009, the year NEI began investing in TechTown’s operations, physical capacity and programs, TechTown faced a variety of internal challenges and external circumstances that constrained its capacity to serve a great variety of Detroit entrepreneurs — especially those not in tech or high-growth industries:

INTERNALLY, TechTown faced a pressing issue: the financing of its physical space.

TechTown had conducted major renovations on the second, third and fourth floors of its building, starting in 2009, which included laboratories, office suites and shared communal spaces. This work was largely conducted to attract startups in high-growth sectors like technology and health care. These renovations put a severe strain on TechTown’s finances, leaving the organization with over \$6 million in debt — with a renewal of the mortgage due in 2011.

EXTERNALLY, and of great importance, two issues were present.

1.

Of the 35 businesses being served by TechTown, mostly tech out of the university, none were extremely successful.

2.

The focus on tech and high-growth had left the business-support environment for traditional, neighborhood-based ventures unattended. This, combined with the city’s historic divide between the reemergent downtown and Midtown areas and the remaining neighborhoods, left a lot of untapped potential on the table.

SOLUTION



In the early years, NEI funded tech programming at **TECHTOWN**, because ‘New Economy’ really meant high-growth, high-tech at that time. As NEI transitioned away from high-growth, high-tech into more neighborhood-based, broader-based programming, TechTown expanded its work there too and played an important role in supporting anyone who wanted to start a business in Detroit.

That evolution took time and was a result of years of closely mapping metropolitan Detroit’s business support and acceleration ecosystem, probing for gaps and opportunities to foster regional entrepreneurship. What emerged was the realization that a complementary place to put the resources was in small business development.

At that time, nearly all of the public sector-supported infrastructure was for high growth [technology-based enterprises] — not for small business development. Philanthropy, in addition to supporting tech and startups, had to help fill that gap in order to put small businesses back on the radar, achieve some impact, and then attract public money.

As one of four accelerators in the area, TechTown became an integral part of this shift to traditional, neighborhood-based entrepreneurship efforts — and an ideal testing ground for a range of NEI’s ideas about strengthening the entrepreneurial ecosystem.

“Once NEI came on the scene, TechTown leaders pushed the envelope of what they wanted this place to be,” says Pamela Lewis, director of NEI.

MAKING THE SHIFT

Leaders of NEI met with the president of the Kauffman Foundation in 2009 to talk about how to open up entrepreneurship training and resources to a more diverse pool of entrepreneurs. When NEI leadership asked for funding, Kauffman’s president offered TechTown a program and support for a team on the ground that would provide evening classes to any individual who had an interest in starting a business.

This led to the **FAST TRACK TO THE FUTURE** program, launched in 2010 — with almost \$5 million in support from NEI and an open call to the community’s entrepreneurs. Over 500 people attended, and hundreds signed up for classes. The organization also offered classes with assistance for those who did not have functional literacy, in partnership with local community development organizations.

NEI FOLLOWED THAT INITIAL INVESTMENT WITH INVESTMENTS OF MORE THAN \$10 MILLION OVER FOUR YEARS TO SUPPORT A WIDE RANGE OF NEEDS FOR TECHTOWN AND THE REGIONAL NETWORK OF ENTREPRENEURSHIP. MOST NOTABLY, THAT INCLUDED AN INVESTMENT OF MORE THAN \$5.5 MILLION TO RETIRE THE DEBT THE ORGANIZATION INCURRED FROM ITS 2009 BUILD-OUT. THE SIGNIFICANT INVESTMENT IN THE RIGHT SIZING OF TECHTOWN’S MORTGAGE ALLOWED THE ORGANIZATION TO CONTINUE TO WORK IN THAT SPACE AND STABILIZE ITS FINANCES.

MOVING INTO THE NEIGHBORHOODS

As TechTown intentionally pivoted toward an approach rooted in inclusivity, they found they still weren't reaching everyone in the neighborhoods. Members of outlying communities weren't coming to TechTown, located in Midtown, to access entrepreneurial resources, capital or training or to find co-founders.

What followed was a fundamental reassessment of the central assumptions TechTown had held about the role its physical space and location played in strengthening Detroit's entrepreneurship. Instead of talking idealistically about "meeting people where they are," but not physically doing so, TechTown started working with local community activists and engagement folks on how to blend community development with economic development, recognizing that those two were really intrinsically tied.

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As Leslie Smith, who was president and CEO of TechTown from 2011 to 2015, recalls: "We had built this thing, and yet we were not connected to or engaged with that population of entrepreneurs that were representative of our city.

"The 'build it and they will come' philosophy just wasn't working. I'd interviewed hundreds of entrepreneurs who were making it clear that while we felt like we had built something for the entire city — from [TechTown's] position, orientation, location — we were not necessarily consistent with that belief or that message for entrepreneurs."

What followed was the creation of the SWOT City program to stimulate business development and economic growth beyond the growing areas of downtown and Midtown. The program was launched with support of NEI, and the first neighborhood targeted was Brightmoor, an underserved community in northwest Detroit. Funding came afterwards from a range of sources, including the U.S. Department of Health and Human Services for Community Economic Development, which provided an \$800,000 grant to expand the program to three more neighborhoods.

By 2017, SWOT City was in seven neighborhoods across the city. Funders included NEI, the City of Detroit, and Dan Gilbert (founder of Quicken Loans and Rock Ventures). As momentum built, many more entities became interested in the neighborhoods as an investment strategy. At that time NEI had also developed its own neighborhood programming, NEIdeas and the Neighborhood Business Initiative, in addition to funding business support organizations like TechTown that were doing the same.

RESULTS

TECHTOWN'S OUTCOMES HAVE BEEN SIGNIFICANT: AS OF OCTOBER 2020, THE ORGANIZATION BOASTS ABOUT 1,600 JOBS CREATED, 2,700 COMPANIES SERVED, \$160 MILLION OF FUNDING LEVERAGED INTO STARTUPS, AND 684 COWORKING MEMBERS AND TENANTS.

But beyond the numbers, TechTown exemplifies the inclusive entrepreneurial culture NEI set out to build with its grantmaking. Its work has resulted in equalizing the playing field for underserved small businesses and neighborhoods in Detroit.

This list highlights some of TechTown's achievements:

BUILDING A SMALL BUSINESS NETWORK

Because of NEI's investments in TechTown and other inclusive business support organizations, TechTown has directly and indirectly benefited from a more robust regional network. It frequently collaborates, on informal and formal bases, with other business support organizations in southeast Michigan supported by NEI, and these networking efforts help to push change through more quickly and efficiently.

COLLABORATING FOR CULTURE CHANGE

"Participating as a strategic thought partner, an accountability partner, an ongoing learning partner with other organizations across the community made us [TechTown] stronger," says Smith. Working collaboratively eliminated some of the competition that can be inherent in ecosystems where a scarcity of resources is felt. "TechTown's success story is less about the number of successful businesses, the level of capital they received, the employees they hired, or their attribution to the regional GRP, and more about culture change," says Lewis. TechTown was able to shift the ecosystem to a culture where anyone could believe entrepreneurship was a potential path.

RESPONDING TO CRISIS EFFECTIVELY

As the COVID-19 pandemic revealed the fragility of the systems which undergird our society, the centrality of small businesses to the health of our economy has never been so clear. As policymakers and investors try to make sense of rapidly shifting economic outlooks, one factor that is sure to make a difference in future recoveries is the health and connectivity of ecosystems prior to a pandemic's arrival.

Consistent with that idea, and with support from NEI, TechTown has been able to transition its SWOT City program to a pandemic-response program called 313 Strong, which provides customized support to small businesses in Detroit who have remained open, are in the process of reopening, or are determining how to best move their businesses forward.

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BALANCING INEQUITIES

With a pandemic that has exposed so many inequities and inefficiencies in our country, with wildly disparate health and financial outcomes across race and class, it matters who is connected to those ecosystems. In a manner that departs from many organizations receiving heavy investment in Detroit, TechTown's clientele and network is close to representative of the southeast Michigan region: more than half are people of color, and about 46 percent are women.

BUILDING LEADERS AND CONNECTIONS

"I think [Detroit has] the most robust entrepreneurial ecosystem and support network in the country. A massive part of that is because of NEI," says Ned Staebler, president and CEO of TechTown since 2015. "A lot of NEI's early work was around bringing all the stakeholders to the table. For us it means that, A, we feel much more connected; B, we feel much more efficient; and C, we've been able to carve out a leadership role because of how we're positioned, a foot in both worlds."

NEI'S INVESTMENTS IN TECHTOWN

TECHTOWN WAS NEI'S SINGLE-LARGEST INVESTMENT OVER TIME, DEMONSTRATING WHAT A PROLONGED AND FLEXIBLE PHILANTHROPIC COMMITMENT CAN DO WHEN INVESTING IN AN EVOLVING ECOSYSTEM.

FROM 2009 TO 2020 NEI MADE THE FOLLOWING INVESTMENTS IN TECHTOWN.

Grants to support:

- Space and building = \$5.9 million
- Technology-only programming = \$1.982 million
- Small business programming = \$5.157 million
- Both technology and small business = \$6.098 million

Total = \$19.137 million