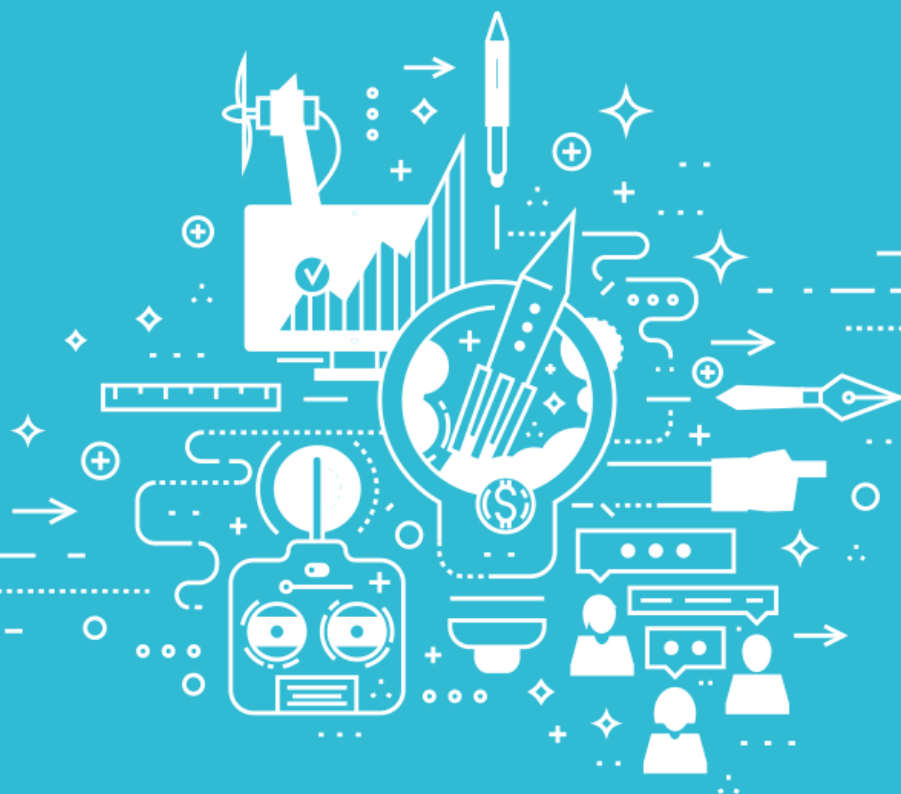




# Startup Newark: GROWING NEWARK'S HIGH GROWTH STARTUP ECOSYSTEM



digitalundivided

With support from  Prudential

# EXECUTIVE SUMMARY

Startup Newark is a research project conducted by digitalundivided (DID) with support from The Prudential Foundation. The objective was twofold:

1. Identify and map Newark's high-growth startup entrepreneurs and the Entrepreneurial Support Organizations (ESOs) who support them.
2. Explore the opportunities and challenges of building startup companies in Newark, New Jersey.

Entrepreneurship can help drive economic development, and Newark's infrastructure, workforce, and location provide a solid foundation for a thriving entrepreneurship ecosystem. There are also some concrete steps Newark can take to further enhance the ecosystem and boost startup entrepreneurs who can, in turn, help propel Newark into a new phase of economic growth.

The Startup Newark research project identified 19 organizations, including universities, incubators, accelerators, capacity-building/training programs, coworking spaces, and funding sources. Ten representatives from those organizations participated in interviews for this research project. Startup Newark features a total of 17 high-growth potential startups based in Newark, eight of which participated in either a focus group discussion or individual interview. A synopsis of the findings is as follows:

## 1. NEWARK'S STARTUP ECOSYSTEM IS ANCHORED BY HIGHER EDUCATION

- + Map of Startup Newark Ecosystem

## 2. STRONG FOUNDATION FOR NEWARK'S STARTUP ECOSYSTEM

- + Strong Startup Spirit
- + Many Startup Activities
- + Proximity to New York City Without the Expense of New York City

## 3. DRIVING OPPORTUNITIES FOR THE CITY'S STARTUP ECOSYSTEM ARE KEY TO POSITIONING NEWARK AS AN ENTREPRENEURIAL HUB

- + Strengthen Resources Available to Startup Founders
- + Develop Early Stage, Startup-specific Programming
- + Prioritize and Source Access to Early Stage Capital

## RECOMMENDATIONS

- + Build a coalition of those doing work in high-growth entrepreneurship that will provide cohesion and lead Newark's startup ecosystem into the next phase of growth.
- + Create a pathway into high-growth entrepreneurship for Newark Residents. These programs should ensure specific and continuous skill-building from ideation, preparing for accelerators, or pre-seed investment.
- + Cultivate opportunities for Newark startups to access early capital, from grants to accelerators.

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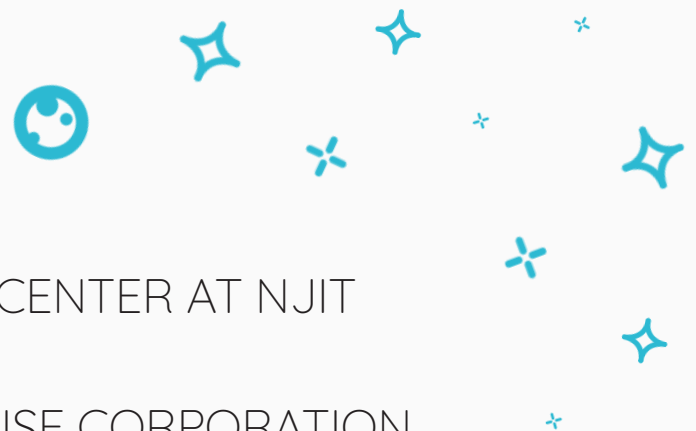
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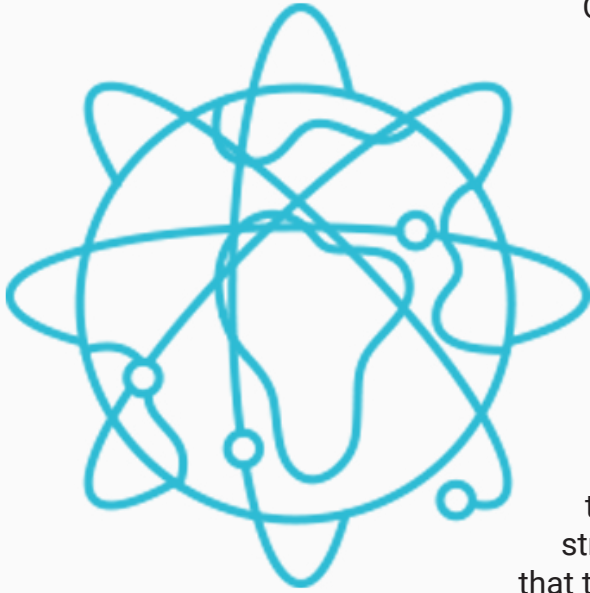
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# INTRODUCTION



Over the past few years, Newark has increased its focus on entrepreneurship and startup culture. From Audible's move to the city in 2007, to Mayor Ras Baraka's Newark 3.0 Initiative launched in 2015, to numerous startup programs introduced at NJIT and Rutgers-Newark, the city has been on a trajectory of modernizing and supporting high-growth potential entrepreneurs.<sup>1</sup>

Newark has a diverse population of over 280,000 people, with 50% identifying as Black or African American and approximately 36% identifying as Hispanic or Latino.<sup>2</sup> The city has recently submitted a bid for the Amazon HQ2, called "Yes, Newark", which highlights Newark's data infrastructure, transportation options, and talent pool as a few of its strengths.<sup>3</sup> In terms of infrastructure, "Yes, Newark" identified that the fast, low-cost internet available throughout the city has helped create a burgeoning tech ecosystem. Newark's location as

a regional destination and transportation hub is also an asset; its options include Newark Liberty International Airport, Port Newark (the nation's second largest seaport), Amtrak's northeast corridor rail line, and mass transit systems such as New Jersey Transit and PATH. As a bonus, New York City is a quick train ride away.

Yes, Newark also points to the city's and region's diverse and highly educated populations, calling it one of the most educated in the country, with more people employed in tech and business jobs than Boston, San Francisco, and Austin combined.<sup>4</sup> There are sixty-five Fortune 500 companies within 30 miles of the city, and colleges and universities represent strong anchors for the area. Rutgers-Newark is cited as the most diverse university in the US, while both Rutgers and New Jersey Institute of Technology (NJIT) are praised for their partnerships with industry and the public sector. As a nod to the up-and-coming startup ecosystem, the bid states, "Home to the state's largest incubator—the Enterprise Development Center—Newark has seen a surge in accelerators, incubators, and coworking spaces over the past five years, creating fertile ground for innovation."<sup>5</sup>

<sup>1</sup> <https://www.fastcompany.com/40440554/how-audibles-ceo-is-working-to-lift-up-the-city-around-it>  
<https://www.freeenterprise.com/revitalizing-newark-with-technology/>  
<http://njtechweekly.com/art/2737-newark-becoming-a-smart-city-tech-destination-mayor-baraka-tells-packed-tech-town-hall/>

<sup>2</sup> United States Census Bureau, 2017. Accessed September 19, 2018 from <https://www.census.gov/quickfacts/newarkcitynewjersey>

<sup>3</sup> Yes, Newark: <https://njopra.com/2018/04/25/newark-releases-its-amazon-hq2/>

<sup>4</sup> Yes, Newark 3.

<sup>5</sup> Yes, Newark 5.

In addition, Newark is a more affordable city in which to operate while still having access to New York City. Yes, *Newark* indicates that development costs are at least 30% less expensive than New York, with a Global Price Index of 181, while Boston's is 201, San Francisco's is 239, and New York's is 246.<sup>6</sup> Many of the strengths Newark has marketed to Amazon—from inexpensive and fast internet, to an able talent pool, to an inexpensive headquarters with access to New York City—can also help boost budding startup entrepreneurs.

Newark's economy consists of important anchor institutions with significant purchasing power, real estate, employment, and a long-term interest in seeing their local communities thrive. A report written by the Initiative for a Competitive Inner City in 2014, used data from NJIT, New Jersey Performing Arts Center (NJPAC), Panasonic Corporation of North America, Prudential Financial, Rutgers School of Biomedical and Health Sciences, and Rutgers University-Newark to demonstrate how shifting procurement to local businesses could bring millions of dollars to Newark annually. The report points out the high number of small businesses in Newark: at the time, of the city's 13,515 businesses, 70% reported less than \$1 million in annual revenues and 62% employed fewer than 5 employees.<sup>7</sup> Several anchor institutions featured in the study are the same institutions frequently cited as those championing startups, namely Prudential, NJIT, and Rutgers-Newark.

Newark's high-growth startup ecosystem is relatively small but has been growing over the past several years. A startup ecosystem is the network of interactions among people, startups in their various stages, and various types of organizations in a physical or virtual location that work as a system to develop new startup companies. Different organizations such as universities, incubators and accelerators, training and capacity-building programs, and funding sources often focus on specific parts of the ecosystem or serving startups at specific development stages.<sup>8</sup>

Some of the linchpin organizations have existed for many years, such as the Enterprise Development Center, which was established by New Jersey Institute of Technology in 1988 and is now the state's oldest and largest incubator.<sup>9</sup> Also, Rutgers' Center for Urban Entrepreneurship and Economic Development (CUEED) was established in 2008 and focused on the revitalization of Newark, such as developing small businesses on Halsey Street.

<sup>6</sup> Yes, Newark, 12.

<sup>7</sup> Zueli, Ferguson, Nijhuis, 2014. "Creating an Anchored Local Economy: Recommendations for Implementing a Comprehensive Local Procurement Strategy."

<sup>8</sup> Startup Commons. "What is a Startup Ecosystem?" <http://www.startupcommons.org/what-is-startup-ecosystem.html>

<sup>9</sup> <http://centers.njit.edu/uri/competitions/edc.php>

# INTRODUCTION

## CASE STUDY:

## CUEED CONNECTING MINORITY FOUNDERS TO CAPITAL

# RUTGERS

The Center for Urban Entrepreneurship  
and Economic Development

The Center for Urban Entrepreneurship and Economic Development (CUEED) has a mission to build a world-class research-driven, teaching, and practitioner-oriented urban entrepreneurship and economic development program that transforms

the city of Newark, New Jersey, and other urban centers in the state and around the world. It supports a new generation of entrepreneurs who actively seek to start and grow businesses, fostering an urban renaissance. Although CUEED hosts several different types of programs aligned with their mission, the Black and Latino Tech Initiative (BLT) and CUEED Pipeline to Inclusive Innovation (CUEEF PII) were both formed explicitly for high-growth, tech-oriented founders. Each program takes 10-30 founders per year. Lyneir Richardson, Executive Director of CUEED, said that the premise behind both programs is connecting minority founders to capital.

BLT started after two accelerators were introduced into the Newark Startup Ecosystem - IDT Ventures and Newark Venture Partners. Several founders of color applied to those programs, did not get accepted, and turned to CUEED for help. CUEED approached the accelerators to ask for a list of rejected applicants, thinking that they could benefit from an incubator like CUEED that would help prepare them for the accelerator application process. The hypothesis behind BLT was that if these Black and Latino founders had additional mentorship and capacity building, they could get a second interview with the accelerators. After the first cohort, three founders got a second interview at NVP. For the second cohort, BLT will focus both on preparing founders through the incubator program, and also establishing an angel investor network and a \$1 million fund. BLT will bring the founders and angel network together at the end of four months to create a more direct connection between founders of color to capital. CUEED PII was established under a similar premise. According to Richardson, research shows that 1 out of 20 organizations who apply for Small Business Innovation Research (SBIR) grants receive funding, but less than 1% of the applicants are people of color. The goal of CUEED PII, therefore, is to educate scientists and engineers from around the country about SBIR and help them apply.

Rutgers CUEED programming is not exclusively for Rutgers students and faculty. Richardson reported that approximately 90% of entrepreneurs that engage with CUEED have no prior connection to Rutgers, 40% of the participants are Newark-based, and the Center has also expanded their work to other cities with the aim of opening its doors to try to build entrepreneurship in the community.

While these and other programs, discussed later in this report, have been around for several years, most practitioners we spoke with acknowledged that most of the work done in the city has not been focused on companies that match the definition of a startup; that is, a temporary organization that can exist outside of an individual, has a scalable and repeatable business model, and has the intention of pursuing a positive, liquefiable exit event.

While this definition does not explicitly state that a startup must be a tech business, by virtue of the pace and scale required of startups, they are often tech-enabled companies. The sentiment presented by study participants was that Newark has focused on building local small businesses to drive the economy, and is only recently starting to consider how to develop the city as an enabling environment for startups.

digitalundivided (DID) is uniquely positioned to conduct this research on Newark's startup ecosystem. DID has had documented measurable success in researching, building, and growing the diverse innovation pipeline. ProjectDiane, [DID's proprietary data initiative](#), launched in February 2015, fills the vast research gap on Black and Latinx women entrepreneurs in the innovation economy through public white papers and reports. In addition to providing essential data enabling greater support of Black and Latinx women entrepreneurs, ProjectDiane also brings awareness, notoriety, support, and capital to these deserving but often overlooked entrepreneurs.

Startup Newark maps the city's current entrepreneurial ecosystem and identifies some areas it could improve to support startup companies that can grow and develop in the city.





# METHODOLOGY

## DEFINITIONS

The Startup Newark research project assessed the high-growth startup community within the geographical limits of the city of Newark.

Startup Newark focused on high-growth entrepreneurship and startups. The following criteria were used to define a startup:

- + A temporary organization that can exist outside a single individual.
- + The company has a business model intended and designed to be repeatable and scalable (able to cope and perform under an increased/expanding workload) and taps a huge market.
- + The business has an exit strategy (a positive, liquefiable event where investors receive a return on their investment).

The following criteria were used for ESOs:

- + **Accelerator:** cohort-based, average 3 months long, narrower technical focus, seed and pre-seed stage, generally seed funding and equity stake are integral to the business model;
- + **Incubator:** generally engage with clients longer than accelerators, have broader technical focus and business stage, usually includes space, mentoring, technical assistance, typically not investment;
- + **Capacity-building/training:** provide regular instructional opportunities to entrepreneurs such as workshops, boot camps, etc. but does not necessarily meet the other criteria of incubators and accelerators;
- + **Coworking:** shared workspace that gathers people working independently, but are interested in the synergy resulting from working with alongside other people - for this study, the workspace must be advertised as a coworking space;
- + **University program:** accredited college or university located in Newark that has a dedicated department (major/minor), center, or courses dedicated to entrepreneurship;
- + **Funding Source:** institution providing financial assistance to startup entrepreneurs (who may be pre-sale) including grants, sponsorships, and investment.

## DATA COLLECTION

To map these startups, digitalundivided compiled a list of businesses from AngelList, Crunchbase, Pitchbook, and Mattermark, and from key stakeholders in the Newark ecosystem. Once a startup was entered into the database, its location and business details were verified using Crunchbase, Pitchbook, and other publicly available sites in order to ensure that it was still operating in Newark and fit the criteria as a startup. digitalundivided also reached out to the startups via email and through key stakeholders to verify that they were still operating in Newark and to invite them to a focus group discussion or interview. digitalundivided gathered data from a total of eight startup founders.



TABLE 1: NEWARK STARTUPS

These startups met this study's criteria. After confirming they were a Newark-based startup, they were invited to participate in a focus group discussion. Of these 17 startups, 8 participated in either a focus group discussion or interview. For the sake of confidentiality, those who participated have not been identified.

1HUDDLE	<a href="http://www.1huddle.co">www.1huddle.co</a>
3ducators	<a href="http://3ducators.org">http://3ducators.org</a>
Aerofarms	<a href="https://aerofarms.com">https://aerofarms.com</a>
Authorized Luxury Group	<a href="https://authorizedluxurygroup.com/">https://authorizedluxurygroup.com/</a>
BlastChat	<a href="https://www.blastchat.com">https://www.blastchat.com</a>
BOTique.ai	<a href="https://botique.ai/">https://botique.ai/</a>
Fownders	<a href="https://fownders.com/">https://fownders.com/</a>
Gamefully	<a href="https://gamefully.com/">https://gamefully.com/</a>
Modelshop	<a href="https://www.modelshop.com/">https://www.modelshop.com/</a>
Navinata Health, Inc	<a href="http://www.navinatahealth.com/">http://www.navinatahealth.com/</a>
Oneder	<a href="http://www.oneder.com/">http://www.oneder.com/</a>
PeduL	<a href="https://www.pedul.com/">https://www.pedul.com/</a>
SAM AI Inc.	<a href="https://www.sam.ai/">https://www.sam.ai/</a>
Tagee	<a href="http://www.tagee.co/tags">http://www.tagee.co/tags</a>
UpChannel	<a href="http://upchannel.com/">http://upchannel.com/</a>
Vydia	<a href="https://vydia.com/">https://vydia.com/</a>
Wellsheet	<a href="https://www.wellsheet.com/">https://www.wellsheet.com/</a>

The startup founders were asked the following:

1. Please introduce yourself and your company.
2. Are you from Newark or how did you come to be in Newark?
3. How would you describe your experience as an entrepreneur in the Newark startup ecosystem?
  - a. What organizations have you engaged with?
  - b. Where and how do you exchange ideas with other entrepreneurs?
  - c. What are some of the types of support you've received?
4. What are the strengths of the startup ecosystem in Newark?
5. What are the weakness of the startup ecosystem in Newark?
6. What is the one thing the startup ecosystem in Newark could do for you to help thrive in Newark?

# METHODOLOGY

digitalundivided also conducted one-on-one interviews with local entrepreneurial support organizations (ESOs).<sup>10</sup> These organizations were sourced through secondary online research and from key stakeholders, such as our partners at the Prudential Foundation, and then contacted for interviews. A full list of the ESOs that participated in the study can be found below.

**TABLE 2: NEWARK HIGH-GROWTH ENTREPRENEURSHIP ENTREPRENEURIAL SUPPORT ORGANIZATIONS AND KEY STAKEHOLDERS**

Representatives from the following organizations participated in an 30-45 minute interview.

= SPACE Sharespace & Incubator	<a href="http://equalspace.co/">http://equalspace.co/</a>
Newark Venture Partners	<a href="http://newarkventurepartners.com">http://newarkventurepartners.com</a>
Ed Young	EZ Waiting Room LLC, F2F 6Sixty Digital
Greater Newark Enterprises Corporation	<a href="http://www.gnecorp.org">www.gnecorp.org</a>
Institute For Entrepreneurial Leadership	<a href="https://www.ifelnj.org/">https://www.ifelnj.org/</a>
Usable Tech Co	<a href="https://www.usabletech.co">https://www.usabletech.co</a>
New Jersey Innovation Institute	<a href="http://njii.com/edc/">http://njii.com/edc/</a>
Newark Economic Development Corporation	<a href="http://www.newarkcedc.org">http://www.newarkcedc.org</a>
Rutgers University Center for Urban Entrepreneurship and Economic Development	<a href="http://www.business.rutgers.edu/cueed">http://www.business.rutgers.edu/cueed</a>
Phone.com	<a href="http://www.phone.com">www.phone.com</a>
Get Mind Right	<a href="http://www.getmindright.org">www.getmindright.org</a>
Other members of the Newark community	

ESOs and other key stakeholders were asked the following questions during the interview:

1. Please tell me about your organization / Please tell me what role you play in the Newark entrepreneurship ecosystem.
2. Are you from Newark? If not, how did you come to be in Newark?
3. How would you define the Newark startup ecosystem?
4. What are the strengths of the startup ecosystem in Newark?
5. What are the weakness of the startup ecosystem in Newark?
6. Beside Audible, what are the top five startups in Newark?
7. What are the top five entrepreneurship events in Newark?
8. What is the one thing the startup ecosystem in Newark needs to kick off its growth?
9. Are there any startups or entrepreneurs in Newark that you think we should try to talk to? (Could you introduce us?)

<sup>10</sup> Definition of an ESO: an organization that focuses on supporting entrepreneurs while they create their businesses; they build a support system that nurtures entrepreneurs during the idea phase, provide the resources and tools needed to create new enterprises, and/or guide the entrepreneur through the process of growing a business. They may also contribute to the creation of entrepreneurial environments where entrepreneurship is supported in both the public and private sectors. Definition adapted from Markley, D. and Barkley, D. *Development of an Entrepreneurial Support Organization: The Case of Kentucky Highlands Investment Corporation*, 2003.

## ANALYSIS

The qualitative information, recorded as notes from the focus group discussions and interviews, was first grouped by participant type (founders or ESOs/key stakeholders). From there, we used the research questions listed above to group insights and perspectives and to identify themes and patterns. Then, after analyzing the individual information separately, we compared the patterns that emerged from founders with those that emerged from ESOs/key stakeholders to highlight what participants identified as key strengths, weaknesses, and opportunities for growth in Newark's startup ecosystem. These findings were then compared to documented best practices from other ecosystems such as St. Louis, Pittsburgh, and Atlanta, in addition to literature on building startup ecosystems.

## LIMITATIONS

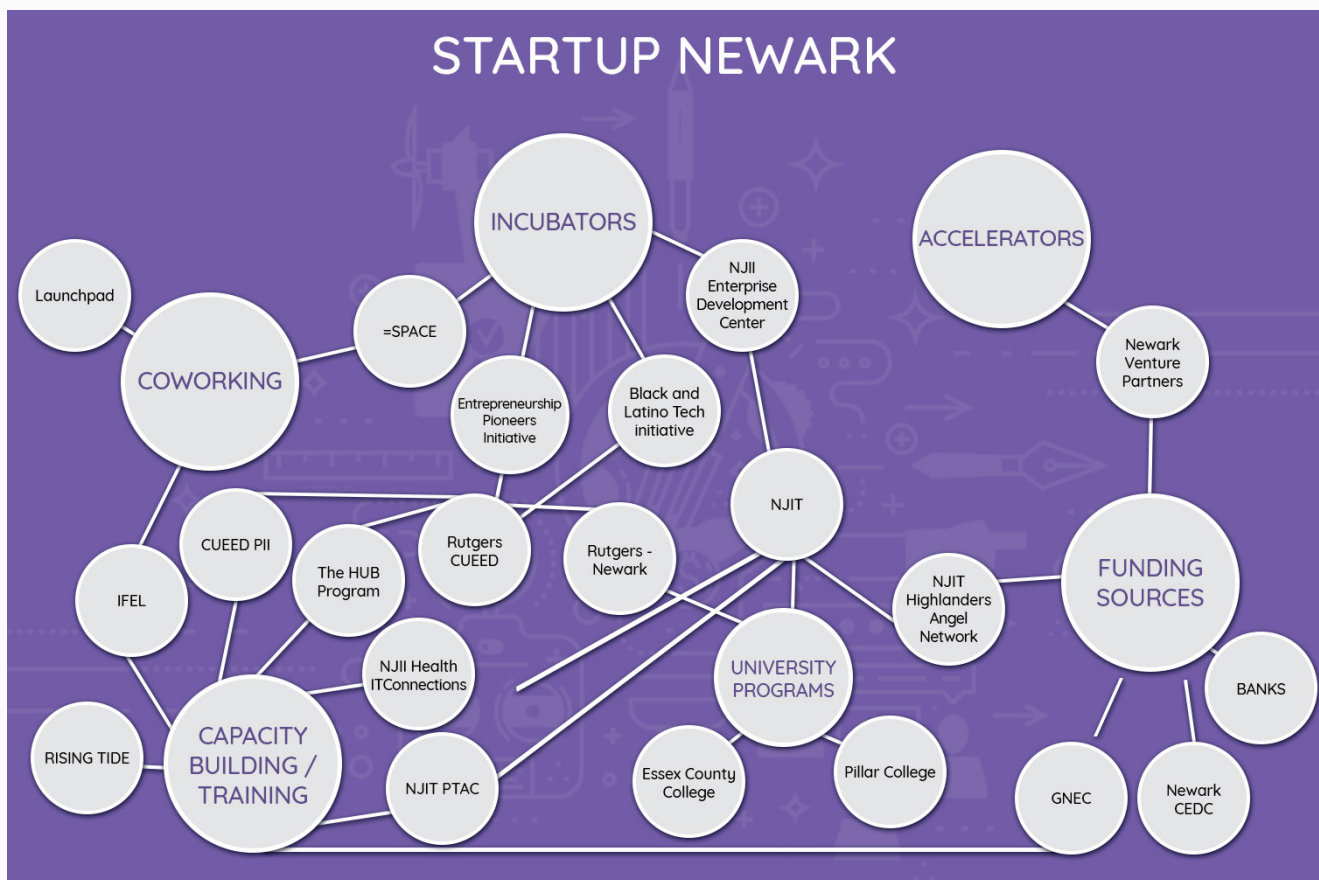
This study has a few limitations.

1. The startup sample size is small. The research identified only 17 companies that fit the criteria of being a startup in Newark; however, of those, nearly 50% participated in the study. Over half of the founders that participated were founders of color and the majority had participated in multiple types of programming in Newark. This study's findings were gathered from their perspectives, data collected from ESOs, key stakeholders, and research of other startup ecosystems. Several attempts were also made to organize focus group discussions with students at Rutgers Business School and NJIT, but those did not come to fruition in part because the research was conducted during the first two weeks of the school year, so staff and faculty were too busy to organize and the team was not yet able to identify student leaders who could have assisted. This is tied to the second limitation:
2. Research Fatigue. Some respondents also indicated that they had participated in or observed other, similar research about entrepreneurship being conducted, which may have led to study fatigue and less engaged participation.
3. This study is not an evaluation of the identified startups' and ESOs' quality of work. The startups were verified as being operational in Newark and the ESOs were verified as being operational in Newark and serving entrepreneurs. More research would need to be done to assess the effectiveness of any of these organizations.

# FINDINGS

## 1. NEWARK'S STARTUP ECOSYSTEM IS ANCHORED BY HIGHER EDUCATION

The first objective of the research was to identify startups and the organizations that support them. First, the ESOs and their interactions are depicted below. There are incubators and capacity building/training programs that provide technical assistance, mentorship, coaching, and other services for startup founders. Many of these are connected to Rutgers University and NJIT, both of which were mentioned in nearly every discussion and interview as organizations that are leading the conversation on entrepreneurship in Newark. There are fewer accelerators and funding sources available to startups in Newark, which will be discussed later in the report.



Almost all of the study's participants pointed to Newark's universities as a source of skilled and enthusiastic potential entrepreneurs. Yes, *Newark* also points to the dense, diverse, and highly educated workforce in the Newark-New York Metro area, with over 1 million people working in business and tech-related occupations across all industries.<sup>11</sup> Newark graduates approximately 4,800 students with Bachelor's degrees each year, but, while there has been some positive correlation drawn between universities and startup ecosystems,<sup>12</sup> more research is needed to demonstrate how many of those students go on to build or work in Newark-based startups.

<sup>11</sup> Yes, Newark, 2018.

<sup>12</sup> Fu, Ernestine and Hsia, Tim. *Universities and Entrepreneurial Ecosystems: Elements of the Stanford-Silicon Valley Success*, 2017. Accessed on September 19, 2018 from [https://www.kauffmanfellows.org/journal\\_posts/universities-and-entrepreneurial-ecosystems-stanford-silicon-valley-success#footnotes](https://www.kauffmanfellows.org/journal_posts/universities-and-entrepreneurial-ecosystems-stanford-silicon-valley-success#footnotes)  
<https://www.kauffman.org/what-we-do/research/a-research-compendium-entrepreneurship-ecosystems/examining-the-connections-within-the-startup-ecosystem-a-case-study-of-st-louis>

## CASE STUDY: ENTERPRISE DEVELOPMENT CENTER AT NJIT



The Enterprise Development Center – EDC – is a high-tech and life science business development center on the campus of New Jersey Institute of Technology (NJIT). Its mission is to help startups and growth companies become profitable businesses and dynamic participants in the economic life of New Jersey and the nation. The EDC looks to support companies whose

intellectual property is the basis of their business. They find and recruit these businesses through Newark and NYC-based events and meetups, the NJ Tech Council, spin outs from faculty research, and partners with organizations such as Rutgers CUEED and Newark CEDC.

When eligible companies apply to the EDC, they are invited to talk to the EDC staff, take a tour, and engage with residents at the facility. Their applications are reviewed and accepted on a rolling basis and participating companies sign their first year-long lease. As long as the company is making progress and in good standing with the EDC, they can stay as long as they need to stay; some have stayed for several years.

While the program provides some workshops, events, and business-specific training and coaching opportunities, it does not have a set curriculum. In fact, founders are encouraged to take advantage of other organizations' services like the Small Business Development Center's workshops or classes at GNEC. Some benefits the EDC highlights include access to students who can work part-time with the company, facilitated collaboration with faculty, and access to wet labs and specialized equipment which can dramatically cut costs for startups. EDC companies also have opportunities to interface with corporations through events such as the New Jersey Association for Corporate Growth Open Innovation forum.

# FINDINGS

## 2. STRONG FOUNDATION FOR NEWARK'S STARTUP ECOSYSTEM

### *STRONG STARTUP SPIRIT*

ESOs and founders alike agreed that there is interest in startups and there is a sense that Newark wants to help startups. Multiple participants noted the ongoing work of anchor institutions such as Rutgers University, NJIT, and the Prudential Foundation in leading conversations and deploying resources to support startups in Newark. When describing Newark's entrepreneurial ecosystem, one ESO representative confirmed, "There is a nurturing environment. People want more startups."

Besides the environment, several participants noted that Newark founders themselves are innovative, diverse, and resilient. One founder pointed out that startup founders everywhere are expected to be resilient and clever, but he said —especially when it comes to accessing capital— "compared to peers in other cities like New York City, we are even more cunning because we have to be."

### *MANY STARTUP ACTIVITIES*

The vast majority of participants indicated that there were many startup and entrepreneurial events in Newark. For some, this was seen as positive because these events provide networking and pitching opportunities, but many people expressed fatigue with the multiple events, especially noting the opportunity for new, fresh, value-add events that would appeal to startup founders.

### *PROXIMITY TO NEW YORK, WITHOUT THE EXPENSE OF NEW YORK*

As stated in Yes, Newark, the city has an opportunity to attract and retain startup founders who understand the benefits of operating in a less expensive city while still having access to New York City. Indeed, Newark's proximity to the startup scene in New York is promising as a marketing strategy to build the pipeline of startup founders. More research is needed to understand the actual access to New York investors and how much angel or venture capital flows into Newark.

## 3. DRIVING OPPORTUNITIES FOR THE CITY'S STARTUP ECOSYSTEM ARE KEY TO POSITIONING NEWARK AS AN ENTREPRENEURIAL HUB

### *STRENGTHEN RESOURCES AVAILABLE TO STARTUP FOUNDERS*

While the participating founders were aware of and had participated in multiple programs—some featured on the map and some that have since ceased activities—they highlighted that they often felt programs promised more than they delivered, specifically in funding that was supposed to come through the program and connections to resources like investors. Founders emphasized that they specifically felt the need for more space from which to work, dedicated and ongoing mentorship, capacity building, and a supportive community.



### *DEVELOP EARLY STAGE, STARTUP-SPECIFIC PROGRAMMING*

There are four capacity-building/training programs, four incubators, and one accelerator on Newark's ecosystem map, which at first glance seems like a good amount of support for early-stage startups. However, upon closer inspection, it is clear that some critical instruction and dedicated support and advocacy are missing for many potential startup founders in Newark.

Some programs provide broad services such as networking and pitch events, business planning templates or classes, and some mentoring or coaching. One example is =SPACE, which currently provides mentoring, coaching, coworking space, events and pitch competitions, but has a fuller vision of developing a 3-month incubator with the backing of investors ready to invest in minority-led startups.<sup>13</sup>

Other programs serve later stage small businesses and startups. For example, CUEED's Entrepreneurship Pioneers Initiative serves first generation entrepreneurs at growth stage; these companies must be formally registered and in business/operational for at least two years.<sup>14</sup> NJII Health IT Connections requires a minimum annual revenue of \$100,000, and the company must be focused on developing healthcare-specific solutions or industry-agnostic IT solutions applicable to the healthcare space.<sup>15</sup> NJIT Procurement Technical Assistance Center (PTAC) provides contractual and technical assistance to small, established New Jersey businesses, who are interested in marketing their products and services to federal, state, and local government agencies.<sup>16</sup>

There are two incubators that have dedicated programs for early stage startup companies. CUEED reports that its Black and Latino Tech Initiative provides access to education resources, incubated business environments, mentorship, and facilitation of active bridges to the investment community, while NJII's Enterprise Development Center provides workshops, events, office space and labs, and a community of seed, startup and expansion companies; helps businesses work towards commercialization through specific training and coaching opportunities; connects founders to NJIT faculty and students, and attracts investment through investor networks, including the NJIT Highlanders Angel Network.

These two incubators also have some eligibility parameters, as the Black and Latino Tech Initiative is restricted to founders of color, and companies applying to the EDC must be high-tech or life science businesses. For founders starting with an idea or early concept, this ecosystem does not provide a very clear place where they can go to learn about customer discovery, developing their product, or growing a startup company.

<sup>13</sup> Key stakeholder interview.

<sup>14</sup> <http://www.business.rutgers.edu/cueed/epi>

<sup>15</sup> <http://njii.com/healthit/>

<sup>16</sup> <https://njitptac.ecenterdirect.com/>



# FINDINGS

## PRIORITIZE AND SOURCE ACCESS TO EARLY STAGE CAPITAL

All participants mentioned that access to capital is a barrier for Newark startups. There are capital gaps at each stage, from pre-seed to angel and venture capital. Startup founders can fund their pre-seed enterprises through bootstrapping,<sup>17</sup> gathering resources from friends or family, or perhaps receiving grants or loans; however, participants indicated there are significant barriers to all of these solutions in Newark.

Gathering resources from friends and family (a friends and family round), could be a significant challenge for Newark entrepreneurs due to the lack of access to capital and generational wealth many people of color face in the U.S.<sup>18</sup> Traditional small business loans require sales history, cash flow, and collateral that startups often don't have. Startups often present new concepts that disrupt established markets and may require technology innovations. This means that founders need funding sources willing to take more risk with their capital. When the topic of funding sources was discussed in interviews, Greater Newark Enterprise Corporation (GNEC) was the only financial service provider mentioned. GNEC provides technical assistance and loans from \$1,000 to \$50,000 loans for fixed terms of up to five years.



<sup>17</sup> An individual is said to be bootstrapping when he or she attempts to found and build a company from personal finances or from the operating revenues of the new company.

<sup>18</sup> Applewhite, Daniel. *Founders and Venture Capital: Racism is Costing Us Billions*, 2018. Accessed on September 19, 2018 from <https://www.forbes.com/sites/forbesnonprofitcouncil/2018/02/15/founders-and-venture-capital-racism-is-costing-us-billions/#134ba5682e4a>

## CASE STUDY: GREATER NEWARK ENTERPRISE CORPORATION



The Greater Newark Enterprises Corporation (GNEC) is a boutique economic development organization that works with businesses to provide financing, consulting and business coaching. Throughout the Startup Newark data gathering process, GNEC was consistently mentioned as an active Entrepreneurial Support Organization, specifically as a viable funding source

for high-growth entrepreneurs. Out of approximately 500-600 small businesses that GNEC supports per year, the organization reported that about 10 to 12 are startups. This is primarily due to the fact that most of the businesses in Newark and the surrounding area are small businesses focused on providing sustainable income for households, which do not necessarily align with the vision of scaling fast and exiting.

Steven Gomez, Executive Director, of GNEC explained that what they see most in the Newark startup ecosystem is that other organizations are focused on the marketing and sales side of business, but founders struggle with finances, financial planning, and the language necessary to communicate with potential investors about their business. GNEC has found that startups are often focused on product development, so they may go to another organization thinking they can get money to develop a product and that organization refers them to GNEC instead. Gomez said, “A lot of startups aren’t recognizing that they need help in financial planning, valuation, understanding scale, talking about financials.” Some startups do come directly to GNEC seeking interim capital to cover expenses.

GNEC can provide startups with financing up to \$50,000 and can connect startups to larger amounts of money through debt financing as the company positions itself for pursuing equity investment. This type of financing is critical for startups. Gomez explained that, even as business ideas get validated and the startup is on a pathway that a tech company would want to take in order to get in front of equity funders, there is still a need to cover the short-term costs of running the business. For example, when startups gain a customer contract, that helps validate what they are doing, but they may not have the working capital to provide the customer service necessary to deal with the customer and continue to improve their business.

For larger amounts of money, such as \$50,000 loans or connecting to debt options, GNEC uses traditional underwriting requirements such as collateral. They are able to be more flexible than the smaller loans, though they still require collateral, a guarantor, or a cosigner.

# FINDINGS

This research identified no grant mechanisms specifically for startups or enterprises, though if the startup meets certain industry-specific or social issues-related criteria, it could potentially receive grant money through opportunities found on portals such as The Center for Non-Profits.<sup>19</sup>

There were three past pitch competitions with cash prizes identified:

- + **NEWARK INNOVATION ACCELERATION CHALLENGE** (annual): \$3,000<sup>20</sup>
- + **FUELING THE GROWTH PITCH COMPETITION** (annual): 1st Prize - \$10,000 and \$1,500 in legal services; 2nd Prize - \$5,000 in legal services; 3rd Prize - \$2,500 in IP legal services.<sup>21</sup>
- + **NEXT LEVEL CONFERENCE BUSINESS PLAN AND PITCH COMPETITION** (annual): \$10,000<sup>22</sup>

In terms of bootstrapping, founders pointed to the challenge of finding a customer base in the city to provide the revenues that could help them grow their business. A couple of participants indicated that, while they've found traction in other cities, potential customers struggled to "get it" in Newark; for example, a participant said, "One challenge we have is being beyond cutting edge. Most of these small businesses won't let us do the cutting-edge work we want to because they're worried people won't get it."

Founders and several ESO representatives alike reported that the large corporations around Newark could help startups in several ways from investment to mentorship, but could also help a bootstrapping startup by engaging them to conduct R&D or utilizing their products or services. These participants reported limited engagement between startups and corporations such as Panasonic, PSE&G, and Verizon. It is important to note that Audible, TD Bank, Horizon Blue Cross Blue Shield, RWJBarnabas Health, Prudential Financial, Panasonic, and Dun & Bradstreet are all investors in Newark Venture Partners, and founders involved in that program reported having more interactions with those corporations. Besides that contribution, there have been some examples of these corporations' involvement in the startup ecosystem, but they appear to have been mostly through one-off events such as a Tech Talks program sponsored by Panasonic and Code for Newark in 2016<sup>24</sup> and a \$10,000 grant to the Women's Center for Entrepreneurship Corporation in 2013.

<sup>19</sup> The Center for Non-Profits: <http://www.njnonprofits.org/FundingOps.html>

<sup>20</sup> <http://centers.njit.edu/njiac/students/challenge/index.php>

<sup>21</sup> <http://therefineryct.com/fueling-the-growth-newark/>

<sup>22</sup> <https://www.eimpactconsulting.com/newark-10000-pitch-competition/>

<sup>22</sup> <http://njii.com/2016/09/19/military-park-tech-talks-panasonic-and-code-for-newark-present-skills-for-tomorrows-tech-professional/>

<sup>24</sup> NJIT Highlanders Angel Network, Inc. invested in one Oakland, New Jersey-based startup in August 2017

In terms of later-stage capital, there is only one currently operating accelerator, one angel investing group, and no evidence of active venture capital investors in Newark startups. While it may seem obvious that Newark would benefit from New York's booming investment environment, this does not appear to be the case, especially for local Newark startups.

One explanation for this may be a scarcity mindset in Newark, stemming from decades of economic struggles that predated even the 1967 Newark riots, which have themselves propagated a long-standing bad reputation for the city. The suburbanization and shift away from industrial-based economies contributed to the underdevelopment of Newark. This legacy likely drives people in the city, including founders and ESOs, to compete over a perceived lack of resources. Indeed, several ESO representatives mentioned competing over resources explicitly:

*"The lack of ecosystem is exacerbated by the limited resources in Newark which increases competition among these organizations."*

*"There have been multiple ecosystem studies and the solution is always to start something new, but that takes away from someone else because the pool keeps getting smaller."*

*"It's a siloed environment and that's probably not going to change. When someone is introduced to another player in the ecosystem, they are skeptical, not sure if they should work with that person and are more likely to compete than cooperate."*

Founders in the focus group discussion also touched on the scarcity mindset, saying they felt the entrepreneurship community in Newark is conservative and risk averse. One specifically said, "after decades of a bad reputation it makes sense people here wouldn't want to take risks." Founders mostly concentrated on the negative effect this has on getting investment, but also on the general support they feel while taking their own risks starting their company.

The problem is not necessarily a lack of available money in Newark or the surrounding region, but rather a lack of access to it. Several ESO representatives and founders alluded to the fact that sociocultural barriers hinder Newark founders from breaking into the world of New York City investment and engaging with Newark-based corporations. One key stakeholder said, "We need a group of tech founders that are going to be comfortable in Newark. Most of the investors also aren't comfortable in Newark and don't usually invest in the founders they'd find here: women and minorities." This issue of pattern matching and funding bias has been well documented through other research.<sup>25</sup> A founder of color emphasized the point, "I thought I could be myself, keep my culture, inspire kids here in Newark, but here I am in khakis and an Oxford shirt because I've learned I have to show people that I'm okay to work with, that they shouldn't be scared of me and can trust me."

<sup>25</sup> digitalundivided. *ProjectDiane* 2018.  
<https://www.forbes.com/sites/forbesnonprofitcouncil/2018/02/15/founders-and-venture-capital-racism-is-costing-us-billions/#5f71f3c92e4a>

# FINDINGS

## CASE STUDY: PEDUL, HOMEGROWN STARTUP SUCCESS



Chisa Egbelu and Kayla Jackson started PeduL as students at Rutgers University. PeduL is an online crowdfunding tool that connects students with the resources and support they need to pursue higher education. Chisa and Kayla have connections to Newark through Rutgers and family ties, but ended up coming to Newark in 2016 when they joined an accelerator program called IDT Ventures.

Through IDT Ventures, they received \$10,000 in startup capital, \$5,000 in in-kind services, and workspace at IDT in downtown Newark. Shortly after finishing the accelerator program, the PeduL co-founders joined the inaugural Black and Latino Tech Initiative at Rutgers' Center for Urban Entrepreneurship and Economic Development (CUEED). Chisa explained that the greatest value they received from being a part of BLT was an expanded network, from the staff and faculty at Rutgers CUEED to the staunch supporters they met at and after Demo Day. For example, Chisa and Kayla met the Hillman Accelerator at BLT's Demo Day and through that organization met Natasia Malaihollo, Founder and CEO of Wyzerr who went on to not only mentor and coach Chisa and Kayla, but introduced them to a pitch opportunity at Black Tech Week Miami and hosted them at SXSW. They then met a key connection from Harvard at Black Tech Week Miami who is currently helping them raise their seed round.

While PeduL has received support from several organizations in Newark's startup ecosystem, they have also faced significant challenges. First, during the IDT Ventures program, they were connected to developers who didn't take them seriously, delayed their project, and eventually refused to release PeduL's code until the company paid an unexpected \$15,000. According to Chisa, he eventually had to use some of his family's hard-earned savings to get their code back. At the same time, several companies approached PeduL with investment offers, but on closer inspection the terms took far greater equity than value of the investment. Chisa said, "People were just trying to grab equity for no reason." The company turned down all of these offers, and was running entirely on money won from pitch competitions and credit cards. They did approach the Greater Newark Enterprises Corporation (GNEC) for a loan, but didn't have any assets to use as collateral; however, they did receive technical assistance from GNEC, especially in tracking their finances and completing financial statements.



# RECOMMENDATIONS

Based on these findings and best practices from other startup ecosystems, below are three key recommendations to further develop Newark's ecosystem.

## 1. BUILD A COALITION OF THOSE DOING WORK IN HIGH-GROWTH ENTREPRENEURSHIP

A coalition of key stakeholders, including ESOs, but also Newark-based founders, would help inform and unify Newark's startup ecosystem. Some recommendations to form and sustain this coalition are:

- + Local funders provide resources to participating organizations to support the effort and provide logistical support.
- + Build connections with the New York and New Jersey financial communities. For example, JPMorgan Chase, Goldman Sachs, etc. have major offices near Newark and provide financial/investment support to organizations in the city.
- + Lead and manage Startup Newark data. Startups could benefit much more from the programs and support that Newark already has to offer if there were one central place where the information was presented. Currently, this information is going to be housed on [www.startupnewark.com](http://www.startupnewark.com), but it will need to be reviewed and updated regularly as the ecosystem evolves.

Other startup ecosystems that provide examples of a cohesive and intuitive road map for founders are: <sup>26</sup>

- + **START IN CLEVELAND** (<https://startincle.com/>): Founder-led, but describes itself as a collection of founders, executives, investors, and freelancers. Features many important aspects of an ecosystem from actual startup companies to descriptions of startup spaces, lawyers, accountants, recruiters, funding opportunities, and events.
- + **ORLANDO ENTREPRENEURS** (<https://www.orlandoentrepreneurs.org/>): Provides a virtual resource center where users can find coworking space, accelerators, investment groups, and other startup resources, in addition to an updated events calendar, mastermind groups, and a podcast.
- + **ST. LOUIS EQ** (<http://eqstl.com/>): This media outlet was designed to raise the visibility of the St. Louis startup scene. It provides guides for finding coworking, accelerators, funding, and other resources, plus partners contribute content from how-to guides to startup news stories. They have mapped the entire ecosystem here: <http://eqstl.com/ecosystem-map/>

<sup>26</sup> These ecosystems were selected because their cities' populations are similar to Newark.



# RECOMMENDATIONS

## 2. CREATE A PATHWAY INTO HIGH-GROWTH ENTREPRENEURSHIP FOR COMMUNITIES IN NEWARK

Potential startups need guidance on how to develop their business idea. The information they need at that stage is different from a small business which might be looking for advice on business plan development, manufacturing assistance, procurement and contracting, etc. Startups have a lot of work to do before they get to that level of advice.

Newark's startup ecosystem can be improved by creating training and capacity-building programs and developing at least one incubator to help founders get from ideation and conception to committing.<sup>27</sup> Specific skills could begin with customer discovery, market research, designing a minimum viable product (MVP), validating and iterating on that MVP, and establishing the company's team and business processes. These programs should guide founders through a high-quality curriculum while also providing mentorship, coaching, and a coworking space or some intentional opportunity where startup founders can engage with other founders and mentors, preferably those who have previous entrepreneurial experience.<sup>28</sup>

These programs should demonstrate the necessary commitment and resources for multiple years or cohorts so that founders are confident in consistent service provision and the programs can create a significant pipeline of early stage startups. Finally, the programs should be designed for and committed to minority entrepreneurs, reflecting Newark's demographics.

## 3. CULTIVATE OPPORTUNITIES FOR NEWARK STARTUPS TO ACCESS TO EARLY STAGE CAPITAL

Newark needs more options for local startups to access capital before they are ready for any type of investment. A grant program could give startup founders the necessary funding to move from ideation to conception to committing. This could be run through the city, universities, or even corporations, but resources need to be firmly committed and offered at regular intervals.

After developing capacity-building/training programs and incubators, Newark should consider adding at least one more accelerator to absorb the pipeline coming from those earlier stage programs. The accelerator program(s) would provide the next level of capital and add instructional value to companies as they validate their business model and scale the company. Accelerator programs in Newark could consider priority placement of Newark startups that graduate from local incubators or training programs.

<sup>27</sup> Startup Commons. *Startup Development Phases - from idea to business and talent to organization*. Accessed September 19, 2018 from [www.startupcommons.org](http://www.startupcommons.org).

<sup>28</sup> Motoyama, Y. and Watkins, K. *Examining the Connections within the Startup Ecosystem*, 2014.



# RECOMMENDATIONS

Of the three ecosystems referenced above (Cleveland, Orlando, and St. Louis), St. Louis appears to have the most diverse funding options. In the STL Startup Capital Guide,<sup>29</sup> there are 27 funding sources listed; 4 are grants that offer between \$1,000 and \$75,000 and another 6 funding sources are accelerators that offer between \$25,000 and \$100,000. This is just an example of the many options that could be available to startups in their very early stages.

Corporations were identified as an untapped opportunity to support startups through mentorship, as early customers, and for investment. Corporations such as Panasonic, PSE&G, Verizon, Prudential Financial, and other large companies could facilitate direct engagement with startups through fellowships or Entrepreneur-in-Residence opportunities, by hosting events at the corporation, or by encouraging employees to be mentors or coaches in university, incubator, capacity-building, and accelerator programs.



**29** <http://eqstl.com/stl-startup-funding-guide/>

# HOW TO USE THIS REPORT

***If you are currently a startup founder or aspiring founder...***

use the ecosystem map and [www.startupnewark.com](http://www.startupnewark.com) to find out more information about the ESOs that can support you at your stage.

***If you lead an Entrepreneurial Support Organization in Newark...***

gather feedback from startups in your program or potential startups you'd like to work with, and then review how your programming currently fits the needs of the ecosystem. Consider adjusting programming to meet the needs of idea-stage founders.

***If you are interested in supporting and/or funding Newark's startups...***

become an investor, underwrite incubators, accelerators, research, and other programs. Ask your company to support grant or pitch competitions. Volunteer as a mentor or coach a founder. Attend startup events in your area. Work for a startup.

