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New Report Shows Michigan Lagging Neighboring States on Crucial Funding Support for Entrepreneurs and Startups

- **Coalition of venture development organizations call for creation of Michigan Startup Evergreen Fund**
- **Seed money from State government critical to keeping pace, increasing the number of startups in Michigan, stopping exodus of business from the state**

Detroit - A new report commissioned by Detroit-based ID Ventures found that Michigan is significantly behind other states when it comes to providing early-stage, pre-seed capital to resident entrepreneurs and recommends the State of Michigan provide more funding support to the state's existing nonprofit early-stage venture funds. A coalition of four impactful Michigan-based non-profit early-stage funds ([ID Ventures](#); [Ann Arbor Spark](#); [Accelerate Blue Fund](#); and, [Biosciences Research Commercialization Center](#)) and the [Michigan Venture Capital Association](#), are asking for the creation of the Michigan Startup Evergreen Fund, designed to provide long-term investments in Michigan's startup companies, grow and diversify the economy, create jobs, and build a strong, competitive, and sustainable financial network to support startup companies across Michigan. The Coalition is asking the state to provide a one-time investment of \$126M to enhance capitalization of four early-stage, pre-seed evergreen funds. This funding will support and build a strong ecosystem for Michigan's startup community.

"We applaud the ongoing efforts the state is making to invest in job creators and grow Michigan's economy" said Dave Blaszkiewicz, president and CEO of Invest Detroit. "That said, we can't continue to overlook the importance of helping grow all areas of our economy, especially Michigan entrepreneurs and the impact they can have on future jobs and economic growth. Michigan has an opportunity right now to ensure organizations like ours can expand our work investing and growing new startup companies and prevent these same companies from being forced to go elsewhere for the capital they need."

According to the study done by Public Policy Associates, Michigan is losing significant jobs, talent, and investment opportunities due to the lack of early-stage investment capital available to would-be entrepreneurs. Overall, new early-stage, pre-seed investment capital in Michigan has decreased more than 40% in the last five years alone, creating a major challenge to high-growth businesses looking for early-stage funding. In addition, most investment institutions in the state do not have the capacity to develop high-growth potential companies from pre-seed through Series A – the most challenging stage of growth.

“We have been an early-stage investor in Michigan since 2007, investing in over 200 Michigan-based startups, and know the economic impact these companies can have” said Paul Krutko, president and CEO of Ann Arbor SPARK. “Early-stage capital is critical for getting startups to the next stage and becoming future growth engines for the state. But we’ve reached a 10-year low in the availability of startup funding in Michigan. And as a result, we’ve been losing some of our best companies to other states.”

The ongoing lack of investment in Michigan startups also creates barriers for Michigan’s research universities, especially University of Michigan. Michigan suffers one of the largest disparities between academic research expenditures and invested venture capital. For example, for every \$149 of academic research expenditures in Michigan, there is \$1 of venture capital funding. In California, the ratio is \$7 of academic research expenditures for \$1 of VC funding. This lack of funding means fewer venture-ready ideas generated at the university level, fewer start-ups, fewer jobs, and less economic growth in Michigan.

“At the University of Michigan, we know all too well what it’s like to watch high potential startups leave Michigan for other states who can provide the essential early-stage capital needed to grow their companies,” said Kelly Sexton, Ph.D., Associate Vice President for Research and Innovation Partnerships at the University of Michigan. “Other states are looking ahead and recognizing the return that investments like this bring. By acting now, we might ensure that the next ‘unicorn’ is founded, grows, and stays in Michigan.”

Neighboring states investing more

The entire Midwest lags the coasts when it comes to venture funding. Currently, California, New York, and Massachusetts account for more than 73% of all venture funding in the country, while the Great Lakes and Midwest regions only account for 7% of all venture capital deals.

Recognizing this discrepancy, other states in the region, including Ohio, Indiana, Illinois, and Missouri, have taken major steps to address the early-stage funding gap. Ohio, for example, has set the standard for investing in and nurturing pre-seed and early-stage business activity. Ohio’s regional venture development organizations, in partnership with the Ohio Third Frontier, a state-based program, have developed a model that Michigan should emulate.

Since 2016, the Ohio Third Frontier has invested \$221 million through its six regional venture development organizations, and plans to do even more by designating a portion of its \$182-million State Small Business Credit Initiative (SSBCI) allocation to go toward its pre-seed fund partners. The success of the Ohio strategy rests on state funding that has been significant, patient, and flexible, allowing its

entrepreneurs and businesses to grow and build over time. The report finds strong returns on investments for these funds, that then recycle dollars back into the community to support new startups.

“We believe Michigan has as much or more potential than other states to be a leader in creating and growing innovative technology startups.” said Steve Haakenson, Executive Director of Biosciences Research and Commercialization Center at Western Michigan University, “but to do so the state needs to be creative at generating more opportunities for entrepreneurs, leverage the state’s research universities, and invest more public funding in its startup ecosystem.”

What the Michigan Startup Evergreen Fund Would Look Like

Michigan should follow Ohio’s targeted approach and provide more direct state support to Michigan’s nonprofit early-stage funds —creating an evergreen approach that promotes self-sustaining funds, recycles capital in the ecosystem, and provides long-term support.

Under the proposed plan, funding would be awarded to nonprofit and university-backed funds with proven track records and all investment returns will be recycled back into the respective funds for future investment in Michigan companies, ensuring long-term and sustained impact. An initial investment of \$126 million would create a stable of early-stage evergreen funds that Michigan needs to remain competitive.

“We realize \$126M is a large funding ask but if we want to create and support evergreen funds that have tremendous economic impact, the state needs to make a significant investment soon, said Patti Glaza, Managing Partner at ID Ventures, “But most importantly, we are asking the state and legislature to create a program in the annual budget that provides specific programming and funding that’s flexible and supports our evergreen fund goals. Having the state reinstate investing in our state’s entrepreneur ecosystem would be a big step forward.”

Members of the Michigan Legislature are also recognizing the importance of supporting Michigan entrepreneurs. “Startups are a critical component to Michigan and our state’s economy,” said State Senator Mary Cavanagh (D-Redford Twp.) “The investments we make in budding entrepreneurs, innovative technologies, and new industries today will power Michigan’s economic future.”

[The entire report is available here.](#)

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About ID Ventures

ID Ventures was created by the nonprofit Invest Detroit in 2009 to enhance its overall mission to support inclusive growth of entrepreneurial ventures. ID Ventures scales promising early-stage ventures into thriving companies that help support the state’s economy, provide jobs to local talent, and bolster Michigan’s growing startup community. As one of few venture funds located in Detroit, ID Ventures is one of the most active early-stage investors in the state and have invested in almost 200 Michigan-based companies across multiple sectors including life sciences and healthcare, information technology, fintech, mobility, advanced manufacturing, and materials, among others. ID Ventures only invests in Michigan-based companies and oversees additional programs designed to grow and support the state’s startup ecosystem. Visit idventures.com for more information.

About the Accelerate Blue Fund

The Accelerate Blue Fund (ABF) is an early-stage venture fund that exclusively invests in University of Michigan (U-M) licensed startups. The goal of Accelerate Blue is to bridge the funding gap between initial launch and angel/VC funding for startups based on University of Michigan intellectual property (IP). The Fund is an opportunity to further enhance U-M's leadership position in research, technology innovation and commercialization by creating a critical new resource to support U-M startups. In addition to risk tolerant early-stage capital, ABF provides extensive business mentoring and IP support through [U-M Innovation Partnerships](#). Learn more at <https://www.acceleratebluefund.com/>.

About Biosciences Research and Commercialization Center

Established in 2003 by the Michigan Legislature, the Biosciences Research and Commercialization Center is located at Western Michigan University and is perfectly positioned to access the wealth of scientific talent and pharmaceutical commercialization expertise that is part of Kalamazoo's heritage. Long-time home to such industry giants as the Upjohn Co., Richard-Allan Scientific, Stryker Corp. and Pfizer Inc., Kalamazoo offers a forward-looking, entrepreneurial business climate and a growing reputation among venture capitalists seeking to invest in life sciences discoveries and promising business ventures. The BRCC provides startup and gap funding to promising Michigan-based life sciences and medical device ventures entering the commercialization phase of development. Our customers are entrepreneurs, scientists, University Technology Transfer offices and corporations.

About Ann Arbor SPARK

SPARK is a leading economic development organization formed in 2006, with extensive experience administering statewide programs since inception. Its programs and services are focused on companies that increase GDP no matter the stage of the business. Many of its programs are specifically designed to help technology-based start-ups and entrepreneurs. Since launching its first investment fund in 2007, SPARK has invested in more than 250 early-stage Michigan-based technology companies throughout the state. SPARK also manages two startup incubators which have nurtured over 500 incubator tenants since 2006, including through its Entrepreneur Boot Camp that coaches and accelerates two cohorts of companies per year. In 2013, SPARK started the Michigan Angel Fund, now the largest angel investor group in Michigan with 160 members, which has invested in 40 Michigan-based startups. It is currently investing out of its fifth fund.

About Michigan Venture Capital Association

The Michigan Venture Capital Association (MVCA) is a nonprofit trade organization founded in 2002 to increase the amount of capital and talent available to venture and angel investors for the funding of Michigan's most innovative entrepreneurs. The organization works closely with entrepreneurs to transform breakthrough ideas into new companies and industries that drive Michigan job creation and economic growth. MVCA membership includes private and corporate venture capital funds, angel investors, universities and economic development organizations, and service providers. More than 400 individuals are members of MVCA, representing over 100 organizations across the nation. For more information, visit www.MichiganVCA.org.