



DECEMBER 2024

UNREALIZED POTENTIAL: AMERICA'S MISSING MANUFACTURING ENTREPRENEURS

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New manufacturing businesses play a crucial role in the economy. They innovate, make new products and introduce new technologies, which in turn creates jobs and strengthens communities. Entrepreneurship in manufacturing is important for resilient supply chains, industry expansion, and economic prosperity. An important question for policy, then, is: what holds back the “birth” of new manufacturing businesses?

Withdrawn manufacturing entrepreneurs are people who considered starting a business, had a specific idea, and took active steps towards the endeavor, but did not ultimately start.¹ They represent an important opportunity gap and cost to the economy: their unrealized businesses are unrealized jobs, innovations, and market expansion.

Insight into missed opportunities for entrepreneurship in manufacturing is useful to four groups and the intersections of their priorities:

- Manufacturing industry programs and policy focus on improving conditions for manufacturers, and may not always consider unique needs of new manufacturers;
- Small business support programs and policy seek to improve conditions for small businesses, often by alleviating resource constraints;
- Entrepreneurship programs and support tend to focus on market entry and unique challenges of “newness.” The nexus of *new* and *small* business is important: new businesses tend to start small but also account for most net new jobs in the country;²
- Place-based economic development activities often prioritize competitiveness and jobs, which are directly tied to entrepreneurship.

Reducing barriers to entry in manufacturing is an important policy matter. Policy should be concerned with missed opportunities: potential entrepreneurs who could have, but ultimately did not, start a new manufacturing business. These *withdrawn manufacturing entrepreneurs* represent lost potential in the manufacturing industry.

Small and *new* are important distinctions. Many small manufacturers are not new: they may be well-established and even span generations. Small manufacturers often face challenges of size, such as the ability to expand production quickly, upskill workers with new technologies, and costs and time of policy compliance. Most new businesses are also small and can thus face challenges of both size and age. Challenges related to age may include finding a first customer when the business does not have a reputation yet, securing financing, and accessing prototyping resources. Policy needs insight about needs that (a) are unique to small manufacturers, (b) are unique to new manufacturers, (c) reflect the intersection of *new* and *small* manufacturers.

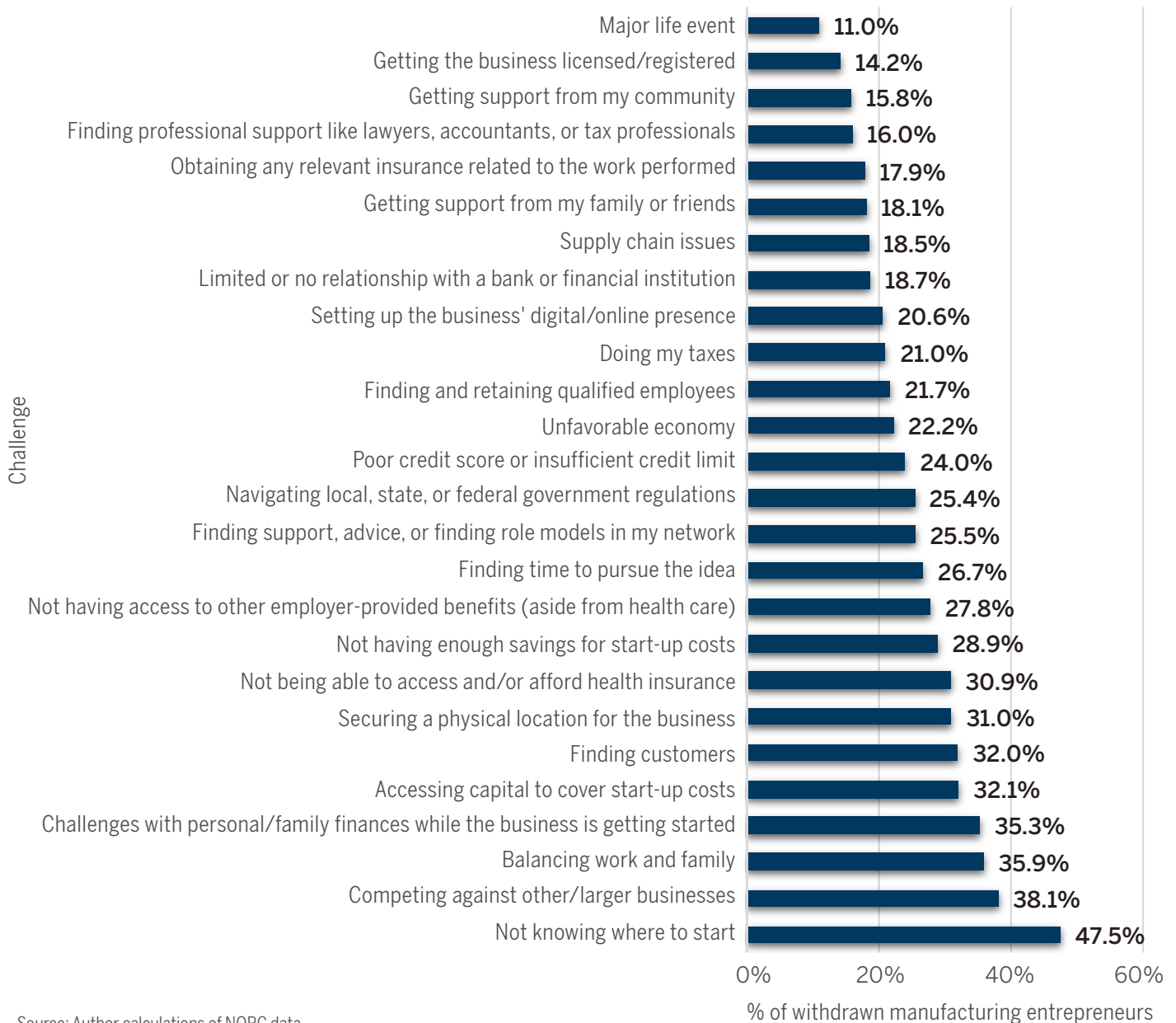
¹ Refer to NORC Methodology: <https://epop.norc.org/us/en/epop/about-the-study/methodology.html>

² See Decker et al. (2014)

This brief points out some key challenges facing withdrawn manufacturing entrepreneurs in the United States and discusses how these challenges can relate to supportive programs and the broader policy ecosystem. The analysis is based on 62 respondents who reported on challenges out of 287 withdrawn manufacturing entrepreneurs across the United States in 2023. Data comes from NORC’s Entrepreneurship in the Population Survey. Given the small number of withdrawn manufacturing entrepreneurs available for analysis, the discussion here raises questions to serve as starting points for policy and program support, rather than to point to specific or definitive actions.

WITHDRAWN MANUFACTURING ENTREPRENEURS: CHALLENGES

FIGURE 1. Challenges faced by withdrawn manufacturing entrepreneurs who did not start the intended business



Source: Author calculations of NORC data.

Withdrawn manufacturing entrepreneurs can encounter a wide range of challenges, as shown in Figure 1. The most frequently reported challenge—reported by almost half of withdrawn manufacturing entrepreneurs—is not knowing where to start (47.5%). The second most commonly reported challenge is taking on competition against other/larger businesses, reported by almost four in ten withdrawn manufacturing entrepreneurs (38.1%).

More than one-third of withdrawn manufacturing entrepreneurs reported challenges balancing work and family (35.9%) and with personal/family finances while the business is getting started (35.3%), and a little less than one-third reported challenges accessing capital to cover startup costs (32.1%) and finding customers (32%). Challenges related to securing a physical location for the business (31%) and not being able to afford/access health insurance (30.9%) were reported by more than three in ten withdrawn manufacturing entrepreneurs.

More than one-fourth of withdrawn manufacturing entrepreneurs reported challenges related to not having enough savings for start-up costs (28.9%), not having access to other employer-provided benefits (aside from health care) (27.8%), finding time to pursue the idea (26.7%), finding support, advice or finding role models in their network (25.5%), and navigating local, state, or federal government regulations (25.4%). More than one in five withdrawn manufacturing entrepreneurs cited challenges related to having a poor credit score or insufficient credit limit (24%), an unfavorable economy (22.2%), finding or retaining qualified employees (21.7%), doing taxes (21%), and setting up the business' digital/online presence (20.6%).

Around one in six withdrawn manufacturing entrepreneurs cited the following challenges: no relationship with a bank or financial institution (18.7%), supply chain issues (18.5%), getting support from family and friends (18.1%), obtaining any relevant insurance for the work performed (17.9%), and finding professional support like lawyers, accountants, or tax professionals (16%). Close to one in seven withdrawn manufacturers faced challenges of getting community support (15.8%) and getting the business licensed/registered (14.2%). The least cited challenge—a major life event—was cited by more than one in ten withdrawn manufacturing entrepreneurs (11%).

OBSERVATIONS AND DISCUSSIONS

Programs aimed at supporting entrepreneurs in the manufacturing industry could consider how the timing of their support aligns with the stage in which it is needed by potential entrepreneurs.

Close to half of withdrawn manufacturing entrepreneurs said that they did not know where to start with business operations (47.5%). This points to the potential for entrepreneurship support and business support programs to consider the timing of their programs. For example, many such programs respond to entrepreneurs seeking help—but this assumes that entrepreneurs will know where, when, and how to seek help. This large share of withdrawn manufacturing entrepreneurs who simply do not know where to start raises the question about how many are withdrawing before they even have a chance to seek help and interact with support programs.

The challenge of navigating regulations does not necessarily mean burdensome overregulation: it can point to the time and costs of accessing reliable information about regulations. It can be difficult for a new manufacturer to obtain information about regulations and policy changes. Established and larger manufacturers may have government affairs offices and legal or other advisors, but an emerging manufacturer may be less likely to have these resources.

Other challenges also reflect the theme of not knowing where to start. Entrepreneurship is a process with many steps³—and some can be more involved than others. About one in four withdrawn manufacturing entrepreneurs report the challenge of finding support, advice, and role models in their networks (25.5%) as well as difficulty navigating local, state, or federal government regulations (25.4%).

One in seven withdrawn entrepreneurs reported that getting the business licensed/registered was a challenge (14.2%). In addition, about one in six said that getting professional support like lawyers, accountants, and tax professionals (16%) and obtaining any relevant insurance (17.9%) were challenges. Legal, financial, and insurance requirements may be important during the start-

³ See Bennett and Chatterji (2019)

up process, especially if the new business is going to introduce new products or undertake research and development, hire employees, run payroll, and start production. These are specialized needs that can add to the complexity of the start-up process and add to early (financial, information, and time) business costs. These are also identifiable problems which can be addressed by support programs and policy action.

Finding customers is a challenge that exists beyond the manufacturing industry and continues even after the new business is established. This can include marketing and advertising, managing competition and breaking into the market, and engaging with customers to build up customer satisfaction.⁴ Finding customers can require resources and specialized expertise, which can be costly for a new business.

Establishing early points of contact with customers is an important—and actionable—challenge.

New manufacturers have to overcome the barriers of not having an established market presence—such as not having a reputation and not having existing relationships with suppliers and customers—as well as cost barriers. More than three in ten withdrawn manufacturing entrepreneurs reported challenges related to finding customers (32%) and securing a location for the business (31%).

A smaller but still meaningful share reported difficulty with setting up the business digital/online presence (20.6%). This points to assistance with the very first connections with customers as a consideration for entrepreneurship and small business support programs.

Reducing barriers for new manufacturing businesses is not only about targeting business needs and business decisions.

Three themes emerged among the ten most commonly reported challenges, clustered around difficulties related to the *business/industry, financing, and trade-offs*. Challenges related to the business/industry include specific difficulties, like finding customers, and the broader question of not knowing where to start. Financing challenges relate to the immediate financing needs of the business, as well as the strain that this can cause on the personal financial situation of the intended manufacturing entrepreneur. Trade-off challenges represent the intersection of personal and familial circumstances with the desire to start a new business—and these challenges are not limited to the manufacturing industry.

FIGURE 2. Three themes in the 10 most commonly cited challenges among withdrawn manufacturing entrepreneurs

Business/industry challenges	Financing challenges	"Trade-off" challenges
<ul style="list-style-type: none"> • Not knowing where to start • Competing against other/larger businesses • Finding customers • Securing a physical location for the business 	<ul style="list-style-type: none"> • Challenges with personal/family finances while the business is getting started • Accessing capital to cover startup costs • Not having enough savings for startup costs 	<ul style="list-style-type: none"> • Balancing work and family • Not being able to access and/or afford health insurance • Not having access to other employer-provided benefits

Trade-off challenges may not appear to be directly related to the promise or potential of the business, but they can hold the potential entrepreneur back. The personal nature of trade-off challenges means they can be unseen and not easily alleviated by entrepreneurship support efforts, which tend to focus on the business entity. Two tradeoffs are related to benefits often tied to employment: not being able to afford/access health insurance (30.9%) and not having access to other employer-provided

⁴ See Looze and Desai (2020) for more on finding customers as a challenge for a majority—62%—of existing entrepreneurs

benefits (aside from health care) (27.8%). This raises the question about entrepreneurship lock or job lock⁵ as potential hindrance to the entry of new manufacturing businesses by keeping people tied to employment because they need benefits.

Starting a new manufacturing business is a process that can begin before the actual “birth” of the new business.

Personal tradeoffs (especially related to employment-related benefits) can play a role in determining if potential entrepreneurs will be able to move forward in the process. Many entrepreneurship support programs and policies focus on needs and processes directly related to the business. For example, technical assistance is often related to a specific business need. Support for new manufacturing businesses through tax incentives or providing access to prototyping and product testing resources are examples

The significance of personal tradeoffs raises the question of where and how far policy and supportive action can or should reach when supporting manufacturing entrepreneurs.

Moving from employment into business ownership can mean giving up health insurance and other employment-related benefits, which may be needed by the potential manufacturing entrepreneur as well as dependents.

of business level activities. Mentoring and networking programs can help the potential entrepreneur broaden access to knowledge and networks. The very real constraints of losing employer-provided benefits which the potential entrepreneur and family might depend on do not neatly match up against a clear policy or programmatic response.

Challenges for potential new manufacturers should not be assumed to be mutually exclusive.

Some challenges may overlap and pick up on similar circumstances. For example, balancing work and family was reported by more than one-third (35.9%) of withdrawn manufacturing entrepreneurs and challenges related to a major life event was reported by more than one-tenth (11%). Some major life events, like having a child, could also increase pressures related to balancing work and family. Similarly, a major life event could make it more difficult to find time to support the business idea (26.7%).

Reliance on personal and family finances raises concern about limited opportunities for potential entrepreneurs without personal means or existing wealth.

Financing the business is an important concern for withdrawn manufacturing entrepreneurs. More than three in ten withdrawn entrepreneurs reported the broad challenge of accessing capital to cover startup costs (32.1%). Even the least frequently cited financing challenge—not having a relationship with a bank or financial institution—affected almost one in five withdrawn entrepreneurs (18.7%). Several common challenges reflect a focus on personal sources for financing.⁶ More than one-third of withdrawn manufacturing entrepreneurs reported difficulty with personal/family finances while the business is getting started (35.3%) and almost three in ten reported not having enough savings for start-up costs (28.9%). This reliance on personal and family finances is concerning because it points to social and economic missed opportunities for potential entrepreneurs who do not have personal means or existing wealth. Even for those with personal means, the burden of self-financing a new manufacturing business can be significant.

The manufacturing ecosystem requires appropriate financing opportunities for start-ups. Existing efforts to expand institutional sources of financing, including patient capital, could expand entrepreneurship in manufacturing by reducing reliance on personal funds to invest in the business.

The costs associated with starting a new manufacturing business can include significant investments in equipment, materials, and technology. Programs that offset these costs could improve the financing landscape, such as for emerging manufacturers that need to finance product development, research and development, and prototyping.

⁵ Fairlie et al. (2011) and Blume-Kuhout (2023)

⁶ See Hwang et al. (2020) for an overview of reliance on personal financing in industry-agnostic studies.

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Data and Sources.

Data was drawn from NORC's Entrepreneurship in the Population Survey in January 2024. Estimates are calculated using population weights based on NORC methodology. The estimates reported are based on withdrawn entrepreneurs providing a response to a specific challenge, and missing data was not included, yielding an N=62 for some challenges.

Acknowledgements.

The authors thank Quentin Brummet at NORC for discussion about the data, Tom Guevara and Gil Kaplan for feedback, and the Public Policy Institute for financial support.

Please cite as: Attiq, H. and Desai, S. (2024) America's Missing Manufacturing Entrepreneurs, *Manufacturing Policy Insights*.