

A TALE OF TWO VALLEYS

By Samuel Hernandez

How Small Businesses serve the world's most powerful innovation ecosystem

Picture this: a neighborhood café, buzzing with early-morning energy, serves its first customers—tech workers with laptops in tow. Down the street, a daycare opens its doors, caring for children whose parents are building the next big innovation. Around the corner, landscapers, electricians, delivery drivers, and hairstylists get ready for another busy day of providing services that keep Silicon Valley humming.

These small businesses and service providers quietly supporting the tech sector that dominates global headlines are the lifeblood of the region. They embellish our streets, anchor the community, and foster social connections while creating roughly 390 thousand jobs.¹ But behind the warm smiles and bustling storefronts lies a stark reality: small businesses are fighting an uphill battle against skyrocketing costs, limited resources, and growing inequality.

Access to Capital

For many small business owners in Silicon Valley, securing capital remains one of the most significant barriers to growth. New businesses, in particular, face systemic challenges in accessing traditional financing. A lack of credit history, combined with high interest rates and complex legal frameworks, only exacerbates these difficulties.

Programs like Kiva, which provide interest-free microloans, offer hope, but the gap remains far from closed. Without equitable access to capital, neighborhood businesses are often forced to rely on personal savings, limiting their ability to invest in inventory, expand operations, or hire additional staff.

In 2022, loans to businesses with gross annual revenues of \$1 million or less in Santa Clara County totaled just \$512 million—a staggering 62% drop from 2020 and the lowest figure in the past eight years.² This sharp decline highlights the growing financial barriers faced by small businesses, threatening their ability to survive and thrive in one of the most competitive markets in the country. With household income inequality in Silicon Valley growing at twice the pace of state and national averages—

and reaching an all-time high in 2022—addressing financial disparity has never been more urgent.³

Attracting and retaining the right talent

Recruiting and keeping employees poses a significant challenge for small neighborhood businesses in Silicon Valley. Housing costs are a major factor. The median home price in Santa Clara County is now over \$1.7 million, pricing out 74% of first-time homebuyers. Renters don't fare much better; average rents are among the highest in the nation. Many workers, disproportionately Hispanic and African American, are pushed into megacommuting, spending more than three hours each day traveling to and from work, which not only diminishes their quality of life but also increases turnover for employers struggling to maintain reliable staff.³

The disparities are even more pronounced for families. In Silicon Valley, 65% of single mothers and 58% of single fathers earn below the Self-Sufficiency Standard, while over a third of children live in households at risk of food insecurity—a stark reminder of the far-reaching impacts of inequality. Exorbitant childcare costs further exacerbate these challenges, with infant and preschool care now costing more than three times what they did two decades ago. These rising expenses leave many workers struggling to balance employment with the high cost of providing for their children.³

These struggles affect more than the workers—they disrupt the ecosystem of small businesses that depend on a stable, local workforce to thrive. When families struggle to make ends meet, they have less to spend in their communities, perpetuating a cycle of hardship.

E-Commerce and Remote Work: The New Reality

The rise of e-commerce and remote work has transformed consumer behavior, presenting both opportunities and challenges for neighborhood businesses. In the first year of the pandemic alone, online shopping surged by 43%, and even as restrictions eased, many consumers continued to favor digital platforms for convenience.⁴ San Francisco County and Santa Clara County have the highest shares of remote work eligible

¹ 2021 Statistics of U.S. Businesses

² Community Reinvestment Act, MSA Aggregate Report

³ 2024 Silicon Valley Index

⁴ Census Bureau, E-Commerce Sales Surged During the Pandemic



jobs in the region, accounting for more than half of all jobs in each county.⁵ As of the third quarter of 2024, Downtown San Jose's office vacancy rate rose to 32.7%, up from 31.5% in the same period in 2023.⁶ This shift has been particularly hard on brick-and-mortar businesses that rely on foot traffic.

Remote work has also reshaped the local economy. With fewer workers commuting to offices, nearby small businesses—cafés, dry cleaners, and restaurants—have seen a significant drop in customers. The economic ripple effect is profound: local service providers face shrinking revenues, while the region's tech hubs continue to concentrate wealth and resources.

While some small businesses have embraced e-commerce to reach new customers, not all have the resources or expertise to make the transition successfully. Programs like those offered by the Enterprise Foundation play a crucial role in helping entrepreneurs adapt to these new realities, but broader support is needed.

A Path Forward: Supporting the Backbone of Silicon Valley

In Silicon Valley, nine residents collectively hold more liquid wealth than 50% of the region's households combined.³ This stark concentration of wealth has created a distorted local economy, where demand for goods and services often reflects the extremes of affluence while leaving traditional small businesses to navigate a challenging and uneven playing field. Despite these difficulties, neighborhood businesses remain indispensable, providing the backbone of daily life and supporting the tech sector's workforce. Their survival is essential—not just for economic equity but for the region's cultural and social vitality.

Building a thriving small business ecosystem requires collaborative efforts from public institutions, nonprofits, and the business community. During the pandemic, local

governments trusted Enterprise Foundation to distribute over \$12 million in grants and assistance to nearly 2,000 struggling small businesses. This support was vital to keeping many businesses afloat during the crisis, providing not just financial aid but also access to tools and training for recovery. Since 2022, Enterprise Foundation's efforts have shifted toward fostering new business creation, conducting counseling for over 3,380 entrepreneurs and supporting the launch of 241 new businesses across Santa Clara County.⁷

Equally important are initiatives addressing systemic barriers to success. Programs like the County's MEHKO pilot, which allows residents to sell prepared food directly from their home kitchens, open doors for self-employment. The \$15 million grant program to expand childcare capacity tackles one of the region's most pressing challenges, ensuring parents can work while their children are cared for.⁸ Access to capital has also been a focus, with programs like the Capital Infusion Program and SBA loans bridging funding gaps for small businesses.

To ensure lasting impact, regional policies are evolving to make procurement opportunities more accessible to small businesses. For example, the upcoming Contractor's Academy, launching in 2025, will prepare entrepreneurs to compete for major regional projects, including the Super Bowl LX, VTA's BART Silicon Valley Phase II, and the Anderson Dam Seismic Retrofit—just a few of the opportunities that will allow small businesses to play a vital role in shaping the region's future.

Amid these efforts, the emphasis remains on need and resiliency. Programs supporting digital and financial literacy are ensuring small businesses can adapt to modern challenges, while strategic partnerships continue to provide a framework for sustainable growth. These collaborative actions reflect a shared vision: to create a Silicon Valley where opportunity isn't limited to the tech sector, and every entrepreneur has the chance to thrive.

⁵ Bay Area Council Economic Institute, Remote Work in the Bay Area

⁶ CBRE, Silicon Valley Office Figures Q3 2024

⁷ Enterprise Foundation's Access SBDC third party-reviewed reports

⁸ County of Santa Clara, Office of Communications and Public Affairs