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SOUTHEAST MICHIGAN'S COMPETITIVE ADVANTAGES IN ENTREPRENEURSHIP

REGIONAL SOLUTIONS FOR CREATING A MORE DIVERSIFIED AND STRONGER ECONOMY

ENDEAVOR INSIGHT

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ABOUT ENDEAVOR INSIGHT

Endeavor Insight is the research division of Endeavor, a nonprofit organization that supports high-impact entrepreneurs across the world.

Its work seeks to answer three questions:

1. How do entrepreneurs reach scale at their companies?
2. How do entrepreneurs reach scale in local networks or ecosystems?
3. What can policymakers, philanthropic leaders, investors, support organizations, and other stakeholders do to empower more entrepreneurs to reach scale in their communities?

The methodology utilized in this study builds on previous Endeavor Insight research supported by the Omidyar Network, the Kauffman Foundation, and the Heron Foundation.

SPECIAL THANKS

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The William Davidson Foundation is a private, family foundation established to honor its founder and continue his lifelong commitment to charitable giving, advancing for future generations the economic, cultural and civic vitality of Southeast Michigan, the State of Israel, and the Jewish community.

EXECUTIVE SUMMARY

Endeavor Insight recently set out to identify Southeast Michigan's competitive advantages in entrepreneurship, with support from the William Davidson Foundation. Rather than focusing on individual communities, this research takes a broad, regional approach. For the purposes of this research, Southeast Michigan is defined as the following seven counties: Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne.* These counties include the cities of Detroit and Ann Arbor. The results presented in this report are based on analyses of more than 10,000 local companies and are divided into four conclusions.

1 Southeast Michigan needs new strategies to diversify its economy and create higher-paying jobs in growing industries.

Southeast Michigan faces a number of persistent economic challenges. A significant percentage of local jobs are in industries that are projected to shrink in the near future. The region also remains overly dependent on a single sector, automotive manufacturing, which exposes residents to greater economic volatility than would exist in a more diversified economy.

On the whole, salary levels and productivity in Southeast Michigan have fallen behind other U.S. metropolitan areas. New solutions are needed to address these issues.

2 Regional leaders should dedicate more resources to "growing their own" larger, high-value, entrepreneurial companies.

The U.S. metropolitan areas with the greatest income and productivity growth share a common trait. They all generate more of a specific type of local business: *larger, high-value, entrepreneurial companies*. These businesses are defined by characteristics that provide important benefits to communities.

- **Larger:** Companies that have grown to 50 or more employees are responsible for creating the vast majority of jobs in U.S. metropolitan areas. They also pay higher wages, on average.
- **High-Value:** Businesses in industries that generate greater productivity per employee are of high value to local communities. These companies also tend to draw in more revenues from outside their cities and regions.
- **Entrepreneurial:** Businesses created by local entrepreneurs reinvest a greater share of their sales within their communities compared to branches of companies that are headquartered elsewhere.

During the last 15 years, Southeast Michigan has generated fewer of these valuable businesses than the most productive metropolitan areas. Its performance is now approaching that of the least productive U.S. metropolitan areas.

3 Southeast Michigan has a set of competitive advantages in entrepreneurship that can be found in six types of larger, high-value, entrepreneurial companies.

Leaders in Southeast Michigan should implement economic development strategies that achieve two objectives: (1) increase the number of new larger, high-value, entrepreneurial companies in the region, and (2) support existing larger, high-value, entrepreneurial companies as they continue to grow.

The best way to begin pursuing these objectives is to focus on the types of companies in which Southeast Michigan has competitive advantages in entrepreneurship. They are:

- Consulting Firms;
- Software Companies;
- Lending-Based Businesses and Financial Services Firms;
- Shipping and Logistics Businesses;
- Marketing and Branding Agencies; and
- Specialty Food and Beverage Manufacturers.

Relative to its size, Southeast Michigan has 1.2 to 1.6 times more of these larger, high-value, entrepreneurial companies than the rest of the country. The industries in which these types of businesses operate are also projected to increase employment in the next few years.

4 Decision makers should use "Entrepreneur-Led Economic Development" to support the growth of larger, high-value, entrepreneurial companies.

Endeavor Insight has developed an approach for "Entrepreneur-Led Economic Development" that local decision makers can use to help larger, high-value, entrepreneurial companies grow. The main principles of this approach are: (1) avoid being overly focused on increasing the quantity of programs with limited potential for additional impact, such as relocation incentives; (2) dedicate more resources to support the founders of growing companies; (3) work to better understand the needs of entrepreneurs leading larger, high-value companies; and (4) build stronger networks to help successful founders share knowledge, social connections, and financial capital with upcoming entrepreneurs in the region.

The following sections of this report offer more information on these findings, as well as in-depth analyses of the region.

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* The combined estimated population of the region is 4,759,816. When compared to other metropolitan areas, this region would be one of the top 15 most populous in the United States.[1]

CONTEXT:

SOUTHEAST MICHIGAN NEEDS NEW STRATEGIES TO DIVERSIFY ITS ECONOMY AND CREATE HIGHER-PAYING JOBS IN GROWING INDUSTRIES.

SOUTHEAST MICHIGAN'S ECONOMY SLOWED SIGNIFICANTLY BETWEEN 1978 AND 2008.

Before planning for Southeast Michigan's future, it is important to understand the region's past. During the 1960s and 1970s, Southeast Michigan was one of the wealthiest metropolitan areas in the country. Even as late as 1978, personal income per capita in the area would have placed it in the top ten of all major U.S. metropolitan areas.[2]

The performance of the local economy began to slip in the 1980s and 1990s. Income growth did not keep pace with that seen in other large metropolitan areas. Growth rates within the region fell even further behind during the years leading up to the 2008 Financial Crisis, as the graph below illustrates.[3]

As income growth slowed, local population growth came to a halt. Between the late 1970s and 2017, the number of people living in the counties of Southeast Michigan grew by less than 2 percent, while major metropolitan areas in the rest of the United States increased in population by over 75 percent.[4]

THE REGION SUFFERED DUE TO ITS DEPENDENCE ON DECLINING INDUSTRIES.

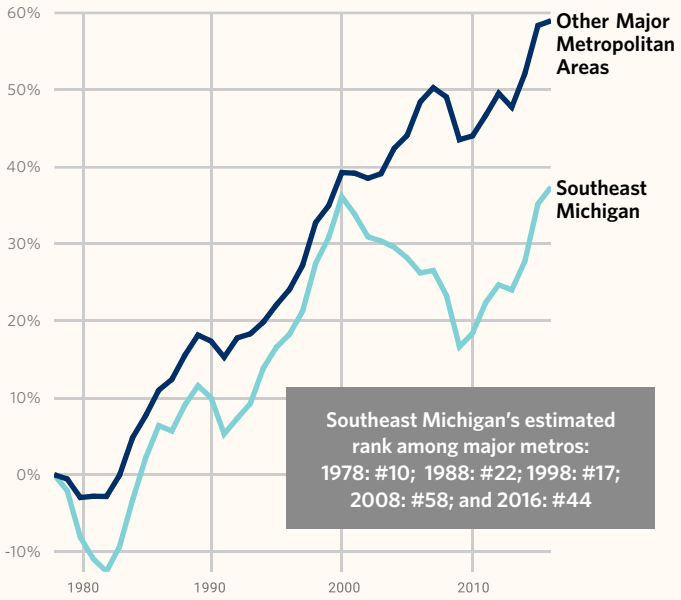
The most obvious reason for this slowdown is that a large share of the region's employment was in industries that shrank from the 1980s through the 2000s. These declining industries were primarily in manufacturing sectors, though others such as retail commerce also shrank significantly.[5]

Employment at manufacturing companies provided 35 percent of local jobs in 1978, but only 20 percent by 1998.[6] While manufacturing industries still made up a large portion of the economy, workers who were laid off in these sectors often had to take a substantial pay cut to secure a new job, and those fortunate enough to keep their jobs usually did not receive substantial salary increases.

Automotive manufacturing was the most prominent local industry affected by this decline. The state of Michigan lost more than 180,000 jobs in motor vehicle manufacturing between 1978 and 2005, with the majority of those losses occurring in the region covered by this report, as well as neighboring counties such as Genesee and Ingham.[7]

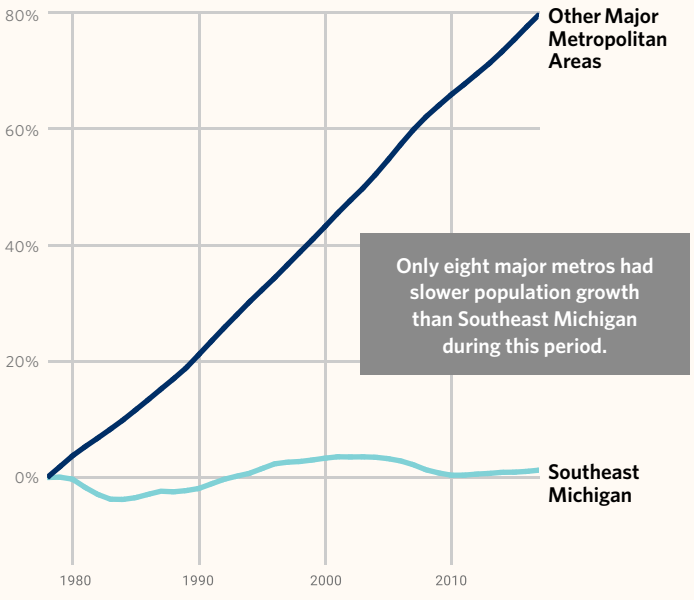
CHANGE IN PERSONAL INCOME PER CAPITA

Indexed to 1978 and Adjusted for Inflation



CHANGE IN POPULATION

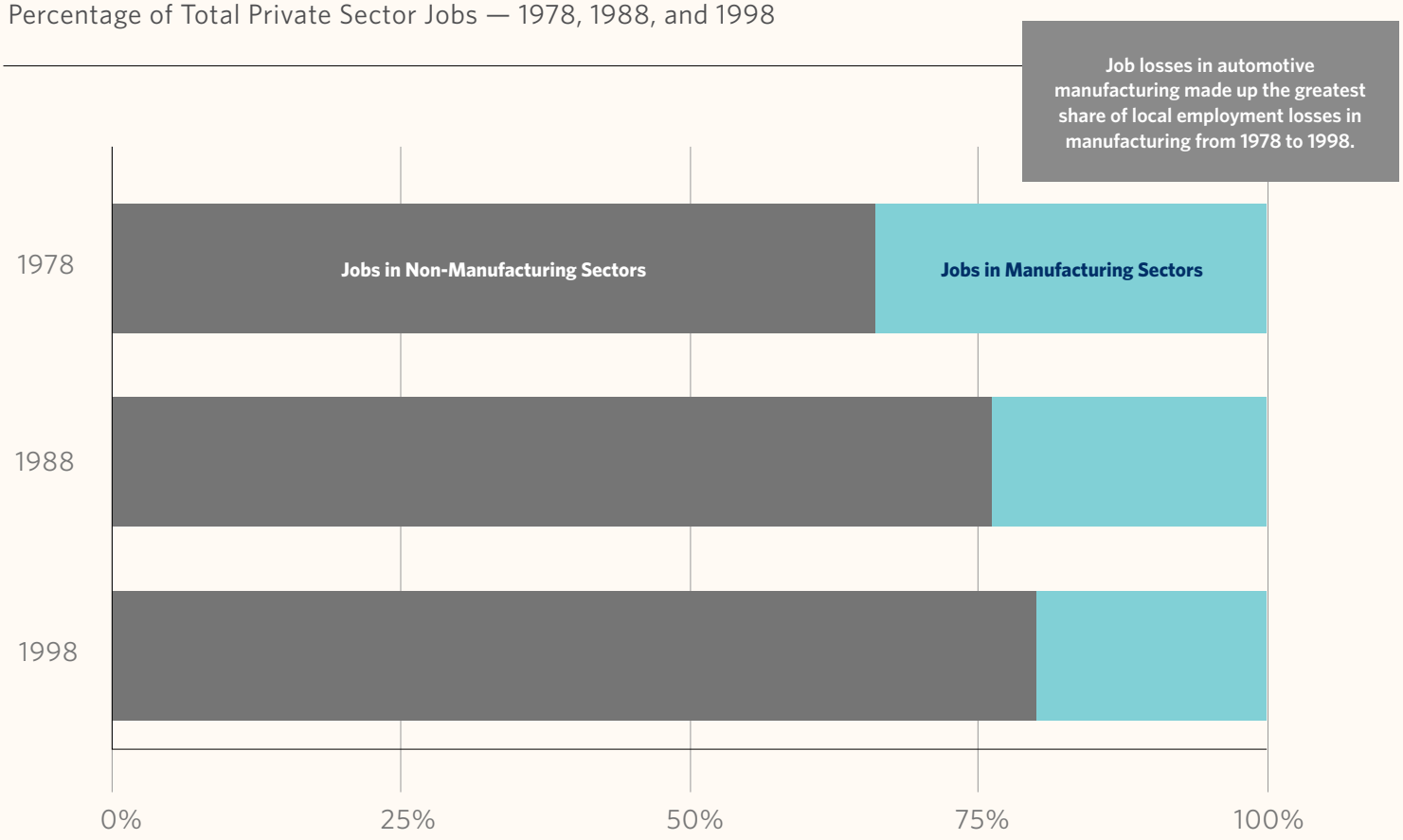
Indexed to 1978



Note: Personal income data for Southeast Michigan comes from the Detroit-Warren-Dearborn and Ann Arbor metropolitan statistical areas. Population data for Southeast Michigan comes from the seven counties included in this study. "Other Major Metropolitan Areas" consists of the 107 U.S. metropolitan areas with populations of 500,000 or more in 2017, excluding Detroit-Warren-Dearborn. The eight metropolitan areas with population growth that was slower than that of Southeast Michigan were Buffalo, NY; Cleveland, OH; New Orleans, LA; Pittsburgh, PA; Scranton, PA; Syracuse, NY; Toledo, OH; and Youngstown, OH. Source: U.S. Census Bureau and U.S. Bureau of Economic Analysis.

SOUTHEAST MICHIGAN: EMPLOYMENT IN SHRINKING MANUFACTURING INDUSTRIES

Percentage of Total Private Sector Jobs — 1978, 1988, and 1998



Note: Data for Southeast Michigan comes from the Detroit-Warren-Dearborn and Ann Arbor metropolitan statistical areas.
Source: U.S. Bureau of Economic Analysis.

Rapid job losses like these illustrate the risks of having an economy that is heavily dependent on a small group of industries. **Southeast Michigan did not replace the income and productivity lost when employment in its largest sectors shrank and the region's performance suffered as a result.**

THE LOCAL ECONOMY HAS IMPROVED SINCE 2008, BUT PROBLEMS FROM THE PAST REMAIN.

Southeast Michigan's economy made an impressive recovery in the aftermath of the 2008 Financial Crisis. Per capita income in the region grew faster than it did among major cities in the United States as a whole.* Gross Domestic Product (GDP) per capita increased by over 9 percent in inflation-adjusted dollars between 2008 and 2017.[8]

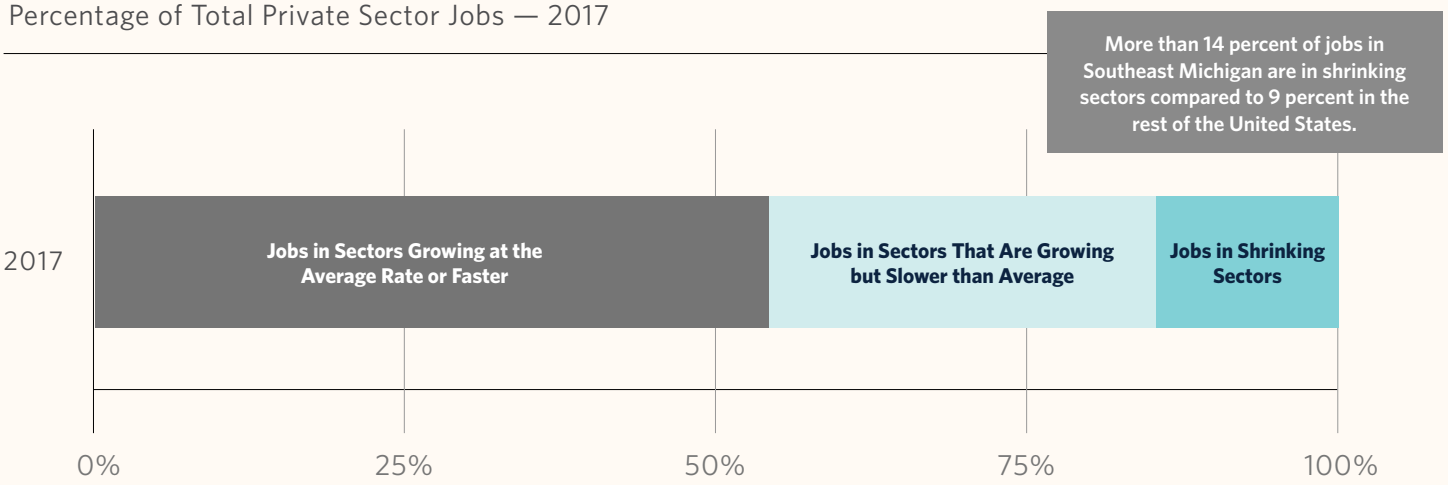
In recent years, residents in Southeast Michigan have also demonstrated the ability to solve big problems. The city of Detroit has emerged from a bankruptcy that some had predicted would be a "death knell" for the community. Private investment in the region has continued to increase and state programs to mobilize venture capital have helped many companies raise funding. In addition, many new programs supporting entrepreneurship have launched in the community, most notably through the New Economy Initiative.

Southeast Michigan is also home to a number of companies that have achieved significant success in the last decade. Duo Security, a cyber security company in Ann Arbor specializing in two-factor authentication, was acquired by Cisco in 2018 for $2.35 billion. Troy-based Altair, an engineering consulting firm specializing in simulations, went public in 2017 and was valued at $785 million. Quicken Loans, headquartered in Detroit, has grown to employ more than 10,000 people and made two acquisitions in 2017.[9]

* Major cities are defined here as metropolitan statistical areas with populations of 500,000 or more in 2017.

SOUTHEAST MICHIGAN: EMPLOYMENT IN INDUSTRIES PROJECTED TO SHRINK

Percentage of Total Private Sector Jobs — 2017



Note: Data for Southeast Michigan comes from the Detroit-Warren-Dearborn and Ann Arbor metropolitan statistical areas. Average rate is based on projected employment growth of 5 percent. Proportion of employment based on industries for which data was available.
Source: U.S. Bureau of Labor Statistics Employment Projections, Employment and Output by Industry, 2017 to 2026.

Despite these positive changes, Southeast Michigan is still threatened by some of the same challenges that slowed its economy in the past. This can be seen across several different indicators.

- **Jobs in declining sectors.** More than 14 percent of Southeast Michigan's jobs are in industries that are projected to shrink in the coming years. An additional 32 percent of local employment is in sectors that are expected to grow more slowly than the labor force as a whole.*[10]

- **Overreliance on a single industry.** Automotive companies and related manufacturing businesses still employ one out of every eleven private sector workers in the region.[11] The automotive industry is undergoing rapid technical changes that threaten these jobs, exposing residents to greater economic volatility than would exist in a more diversified economy.

- **Underperformance in economic productivity.** Income and GDP per capita in Southeast Michigan are still far below those of the best-performing U.S. cities. When adjusted for inflation, local personal income per capita is only slightly above the level it was at in 2000.[12]

SOUTHEAST MICHIGAN NEEDS NEW ECONOMIC STRATEGIES THAT OFFER MORE THAN TRADITIONAL ECONOMIC DEVELOPMENT.

The Southeast Michigan region needs to create higher-paying jobs and become less reliant on declining industries. Despite the region's impressive economic recovery, decision makers should recognize that many of the current economic development strategies — including relocation incentives, support for new business creation, and small business programs — may not fully address the community's needs.

Relocation incentives can be part of a comprehensive strategy, but their impact is too small to be a primary pillar of local economic development. During the last five years, the State of Michigan's business attraction efforts resulted in 8,631 projected jobs at a cost of $75.9 million in relocation incentives.[13] This amounts to fewer than 2,000 new jobs per year in a state of almost 10 million people. Critics have also pointed out that the projected jobs promised by companies receiving these types of incentives do not always materialize and the jobs that are created tend to have low pay.[14]

* In the rest of the U.S., only 9 percent of jobs are in industries that are projected to shrink in the same time period.

New business creation is another potential source of economic growth that is more limited than many might assume. Some new businesses go on to become important to the economy, but most new companies are short-lived. About half of new businesses created in Southeast Michigan fail before reaching three years in operation. Most of those that do survive never go on to employ more than a handful of people, limiting the economic benefits they provide to the community.*

Small businesses are also believed to be important for expanding economies, but they do not significantly impact local economies unless they grow. More than 70 percent of companies in Southeast Michigan are very small businesses with one to nine employees, but these companies are only responsible for creating 10 percent of the region's jobs.† National data also indicates that most of these very small businesses pay significantly lower wages than larger companies.[15]

Decision makers in Southeast Michigan should develop new strategies that can help to create more jobs in growing sectors. The next section of this report will use new data to illustrate the ways that the best-performing U.S. cities use a specific type of entrepreneurship to accomplish this. These analyses will also highlight lessons that leaders in Southeast Michigan can take from these examples.

* The local rates of new business failure are similar to those seen the rest of the United States. See the Supporting Analyses on page 34 for more information.
† The percentage is based on the total number of local establishments that have created at least one job.

ANALYSIS:

REGIONAL LEADERS SHOULD DEDICATE MORE RESOURCES TO "GROWING THEIR OWN" LARGER, HIGH-VALUE, ENTREPRENEURIAL COMPANIES.

THE TOP U.S. CITIES GENERATE MORE LARGER, HIGH-VALUE, ENTREPRENEURIAL COMPANIES.

One way to identify strategies for strengthening Southeast Michigan's economy is to examine the most productive cities in the United States. These cities can offer important examples, especially if one looks closely at how they differ from other metropolitan areas.

The U.S. cities with the greatest income and productivity growth share a common trait. They all generate more of a specific type of local business: larger, high-value, entrepreneurial companies. These locally owned businesses have 50 or more employees, making them larger than the vast majority of all U.S. companies.[16] Moreover, the high-value industries in which they operate create higher-paying jobs and generate greater-than-average productivity.

Metropolitan areas with the highest GDP per capita, such as San Jose, California or Bridgeport, Connecticut, are very effective at "growing their own" larger, high-value entrepreneurial companies. Poorer communities generate a much smaller number of these companies, even when adjusting for differences in the sizes of local populations.

LARGER, HIGH-VALUE, ENTREPRENEURIAL COMPANIES OFFER MANY BENEFITS.

Larger, high-value, entrepreneurial companies are powerful engines of economic growth. The characteristics that define them bring distinctive benefits to local communities.

LARGER: Larger companies — defined here as those with 50 or more employees — pay employees 20 percent more in wages than smaller businesses.[17] Larger companies are also responsible for the majority of local job creation. About 10 percent of the enterprises operating in Southeast Michigan have 50 or more employees, but they have created more than 74 percent of the jobs in the community.*

HIGH-VALUE: These larger businesses also operate in a varied set of industries that are much more productive than average, such as those that develop innovative products, including specialty manufacturing or knowledge-intensive services like banking and information technology.† Companies in these sectors tend to sell to customers from outside of their immediate geographies. The revenue they bring in from other areas increases the size of the local economy.[18]

ENTREPRENEURIAL: Businesses with local founders reinvest a greater share of their sales within the region compared to branches of companies that are headquartered elsewhere. The investors and senior executives of entrepreneurial companies are often members of the local community as well, which can create even more prosperity in a region if a company is sold or goes public.

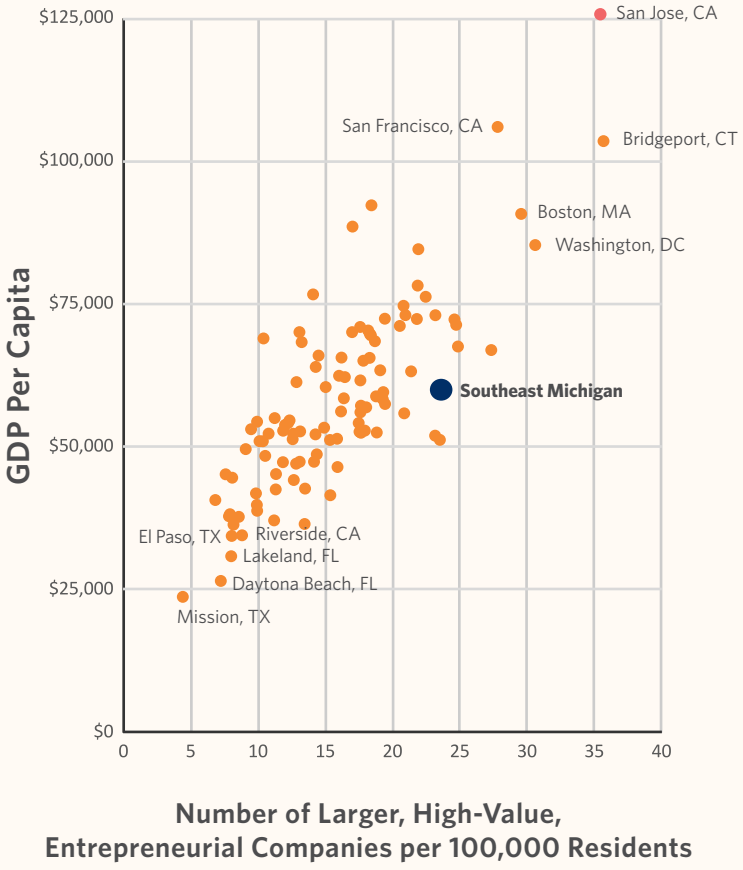
* When companies grow to reach 50 employees they often continue to expand. The typical U.S. company with 50 or more employees has more than 200 people working within it, which enables the company to take advantage of economies of scale. These businesses are sometimes referred to as "second-stage" companies in terms of size. Many would be considered small- or mid-cap companies by investment firms. See the Supporting Analyses on page 35 for more information.

† Other high-value sectors include logistics, publishing, professional services, and natural resource-based industries such as mining and logging. A full list of these high-value industries is available in Appendix 2 of this report.

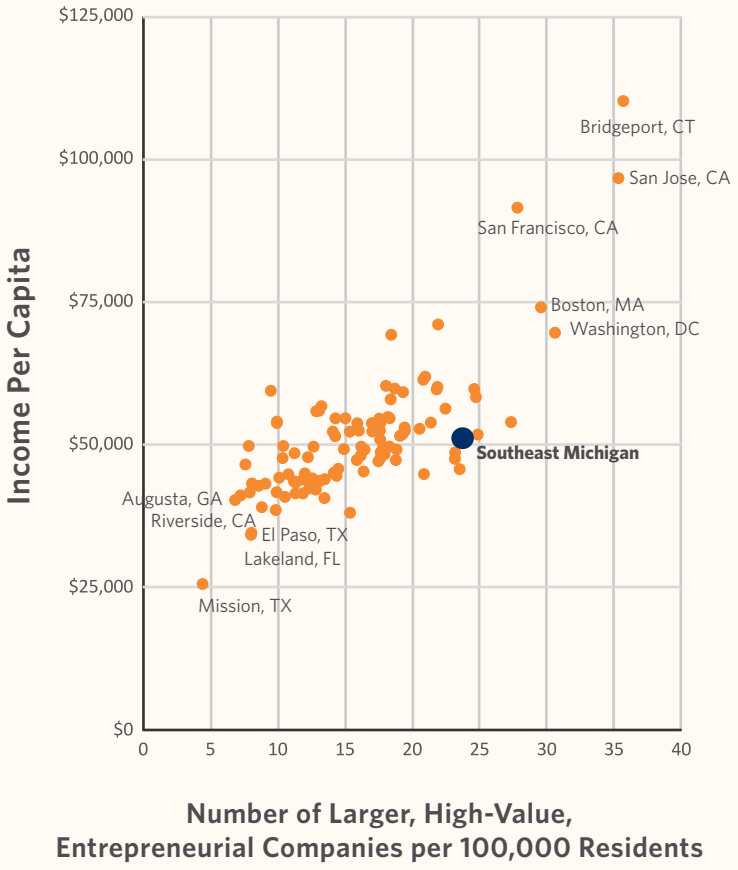
LARGER, HIGH-VALUE, ENTREPRENEURIAL COMPANIES AND ECONOMIC OUTCOMES

Comparative Performance of Major Metropolitan Areas in the United States

GDP PER CAPITA IN MAJOR METROPOLITAN AREAS



INCOME PER CAPITA IN MAJOR METROPOLITAN AREAS



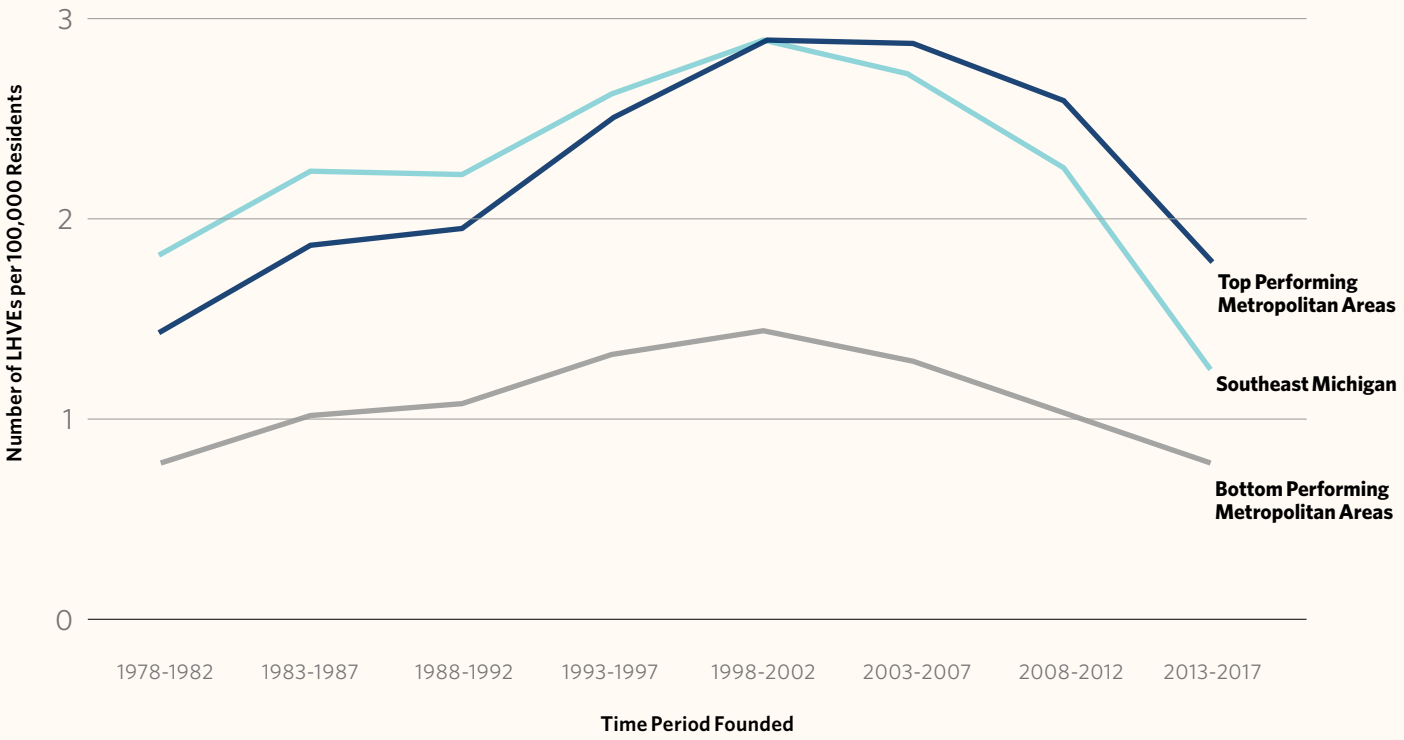
Note: The R^2 for the model on the left is 0.64, while the R^2 for the model on the right is 0.58. Major metropolitan areas are those with populations of 500,000 or more. GDP, income, and population data are based on 2017 figures. Data on the larger, high-value, entrepreneurial companies was collected in 2018.
Source: Endeavor Insight forthcoming paper, U.S. Census Bureau, U.S. Bureau of Economic Analysis, and Dun & Bradstreet.

The relationship between developing a greater proportion of these local companies and increasing productivity is quite strong, as the charts above illustrate. Analyses indicate that the number of larger, high-value, entrepreneurial companies per 100,000 residents accounts for 64 percent of the variation in GDP per capita and 58 percent of the variation in average income among major cities.[19]

The explanatory power of larger, high-value, entrepreneurial companies is especially impressive when compared to other potential drivers of local economic growth. Even well-known factors — such as research and development spending, patent filings, and venture capital investment — can each explain a much smaller percentage of the variation in GDP per capita and average income levels among major metropolitan areas.[20]

PROPORTION OF LARGER, HIGH-VALUE, ENTREPRENEURIAL COMPANIES (LHVEs) BY TIME PERIOD FOUNDED

Performance of Southeast Michigan and Major Metropolitan Areas in the United States



Note: The "top performing" metropolitan areas are those in the top third of metropolitan areas with 500,000 or more in population as of 2017, according to GDP per capita. The "bottom performing" metropolitan areas are in the lowest third according to GDP per capita. Data on larger, high-value, entrepreneurial companies was collected in 2018.
Source: Dun & Bradstreet and U.S. Census Bureau.

SOUTHEAST MICHIGAN IS PRODUCING FEWER OF THESE VALUABLE COMPANIES IN RECENT YEARS.

The proportion of larger, high-value, entrepreneurial companies generated in Southeast Michigan has declined significantly compared to better-performing metropolitan areas during the last 15 years, as the chart above illustrates.[21] The region is now approaching the performance of the bottom tier of cities. Past results in Southeast Michigan may even be overstated given the lack of local population growth.*

The typical age of a larger, high-value, entrepreneurial company in Southeast Michigan is now over 15 percent older than a comparable company in the most productive cities. Unless leaders can reverse this downturn, the region is at risk of falling further behind its better-performing peers and missing out on the benefits that larger, high-value, entrepreneurial companies can provide.

* The local population of Southeast Michigan as a whole has remained essentially static since the late 1970s compared to the steady increases experienced in almost every other major metropolitan area. The ratio based on the number of new larger, higher, entrepreneurial companies per 100,000 residents is therefore impacted, making Southeast Michigan's proportion higher than it would have been if it had experienced comparable population growth.

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OPPORTUNITY:

SOUTHEAST MICHIGAN HAS A SET OF COMPETITIVE ADVANTAGES IN ENTREPRENEURSHIP THAT CAN BE FOUND IN SIX TYPES OF LARGER, HIGH-VALUE, ENTREPRENEURIAL COMPANIES.

THERE IS VALUE IN DEVELOPING A STRATEGY FOR LARGER, HIGH-VALUE, ENTREPRENEURIAL COMPANIES.

National data suggests that if Southeast Michigan could create 60 new larger, high-value, entrepreneurial companies, it would increase local GDP by over $5 billion annually. This growth would also increase average incomes of local residents by more than $1,200 per person.[22] In order for communities like Southeast Michigan to capture these types of benefits, decision makers must create strategies that achieve two objectives.

Objective 1: Increase the number of new larger, high-value, entrepreneurial companies in the region. Southeast Michigan already has thousands of young, entrepreneurial businesses working in high-value industries. If leaders can empower a few dozen more of these companies to grow larger, it would not only increase local GDP and income levels, but could help to benefit a broad group of residents.

Studies have shown that younger entrepreneurial businesses are more likely to hire underrepresented workers such as those without a college degree or unemployed individuals.[23] This would improve economic outcomes for people in Southeast Michigan that have not yet benefited from other economic development initiatives.

Objective 2: Support existing larger, high-value, entrepreneurial companies as they continue to grow. The average number of employees at a larger, high-value, entrepreneurial company is more than 200, which indicates that the majority of the job growth at these companies comes after they reach 50 employees.[24] Helping larger, high-value companies continue to grow to 100, 200, or even 1,000 employees would create large numbers of high-paying jobs.

DECISION MAKERS SHOULD BUILD ON LOCAL COMPETITIVE ADVANTAGES IN ENTREPRENEURSHIP.

If decision makers wish to pursue these objectives, the best place to start is by targeting regional strengths. Larger, high-value, entrepreneurial companies can be found in a variety of sectors, but they tend to be concentrated in ways that reflect the economic assets and entrepreneurs in their communities.

For example, in the San Jose, California metropolitan area, many of the larger, high-value, entrepreneurial companies are software businesses, while the Bridgeport, Connecticut metropolitan area includes many larger, entrepreneurial companies working in investment banking. These groups of companies represent competitive advantages in entrepreneurship for the communities where they operate.

Competitive advantages in entrepreneurship can be found in regions by identifying groups of companies that meet two criteria: the **local concentration** of larger, entrepreneurial businesses in their specific high-value industry is greater than the proportion found in the rest of the United States, and the **local dynamism** of those businesses can be confirmed by identifying one or more examples of larger, high-value, entrepreneurial businesses founded in the last decade.

There are six types of companies that make up Southeast Michigan's competitive advantages in entrepreneurship. They are:

- Consulting Firms;
- Software Companies;
- Lending-Based Businesses and Financial Services Firms;
- Shipping and Logistics Businesses;
- Marketing and Branding Agencies; and
- Specialty Food and Beverage Manufacturers.

SOUTHEAST MICHIGAN'S COMPETITIVE ADVANTAGES IN ENTREPRENEURSHIP

Concentrated and Dynamic Groups of Larger, High-Value, Entrepreneurial Companies

Types of Companies and Prominent Subsectors	Number of Local, Larger, Entrepreneurial Companies	Local Concentration vs. Rest of U.S.	Local Dynamism vs. Rest of U.S.	Projected National Industry Growth	Roles Requiring Less Than a Bachelor's Degree
Consulting Firms *IT Services, Staffing and Human Capital, and Engineering*	50+	1.5x	Average	High	33%
Software Companies *Cybersecurity, IoT, and SaaS*	50+	1.6x	Below Average	High	27%
Lending-Based Businesses and Financial Services Firms *Mortgage Lenders, Banks, and Wealth Advisors*	50+	1.2x	Average	Slow but Positive	54%
Shipping and Logistics Businesses *Ground Shipping, Supply Chain, and Warehousing*	20+	1.2x	Greater Than Average	Moderate	84%
Marketing and Branding Agencies *Branded Events, Full-Service Agencies, and Digital Marketing*	15+	1.4x	Average	Slow but Positive	49%
Specialty Food and Beverage Manufacturers *Beverages and Snack Foods*	10+	1.5x	Below Average	Slow but Positive	90%

Note: Concentration is the ratio of larger, high-value, entrepreneurial companies in the area compared to those in the rest of the United States, adjusted for differences in population. Local dynamism is a measure of the proportion of larger, high-value, entrepreneurial companies founded locally within the last decade compared to the proportion of similar companies founded nationally within the same time period. Projected national growth is the expected employment growth for industries between the years 2018 and 2026. See the Industry Profile Notes and Sources on page 33 for more information.
Source: Endeavor Insight forthcoming paper, U.S. Bureau of Economic Analysis, and Dun & Bradstreet.

These groups of companies were identified by analyzing new data on more than 10,000 local businesses. As the table above illustrates, the local concentration of these companies in Southeast Michigan is 1.2 to 1.6 times greater than what is found in the rest of the United States. In all but two cases, local dynamism — as measured by the proportion of larger, local companies founded in the last decade — is on par or greater than that found in the rest of the country.

The prominent subsectors noted in the table offer indications of where entrepreneurs in Southeast Michigan stand out the most compared to other communities that might have similar advantages. Together, the entrepreneurs in these subsectors represent some of the most important economic assets in the region.

These groups of companies also operate in industries that are expected to increase employment in communities where they operate. As they grow, they will help provide much needed diversification to Southeast Michigan's economy by reducing the region's reliance on shrinking industries.

Perhaps the greatest benefit of these larger, high-value, entrepreneurial companies is the higher-paying jobs that they create. On average, these companies offer wages in excess of $76,500, which is much greater than the typical personal income of Southeast Michigan residents.[25] These companies are also creating jobs for local residents with varying levels of educational attainment.

The following pages share examples of local founders who have built these types of companies. This section also offers analyses on the number of large, local companies in each of these six groups, detail on the types of subindustries where local businesses specialize, and information on the employment opportunities they provide.

CONSULTING FIRMS

Businesses that provide teams of consultants in areas such as business management, information technology, human resources (including recruiting and staffing), engineering, and research

PROMINENT LOCAL SUBSECTORS

- IT Services
- Staffing and Human Capital
- Engineering

DRIVING CONTINUOUS GROWTH AND ADVOCATING FOR THE COMMUNITY

Cynthia "Cindy" Pasky has been at the helm of S^3 for more than 25 years of consecutive growth. Offering staffing and IT consulting services, S^3 has achieved $3.3 billion in sales since its founding in 1990, with $1.2 billion of those sales occurring in recent years. The company has expanded to 25 U.S. branches and seven European locations, including offices in Lithuania, Latvia, and Great Britain.

Pasky grew S^3 from a five-person, $2.3 million company to the international, $350 million corporation it is today. Along the way, the company expanded its portfolio to include recruiting and temporary staffing, among other consulting services. With a composite annual average growth rate of 19 percent and more than 3,600 direct consultants, the company has plans to keep growing. S^3 is expected to add more than 100 employees to its Detroit headquarters location and is planning to add additional staff in the future.

The types of jobs that consulting firms add are typically high-paying, as the industry has average wages of $95,000 (significantly higher than the local average wage of $54,000). The most prominent roles, such as business analysts and consulting managers, typically require a bachelor's degree or post-graduate degree. At the same time, about one-third of positions in the industry typically require lower levels of education for roles such as administrative assistants and staffing specialists.

Pasky has made strides in creating quality jobs within her own company, having earned several recognitions for workplace culture, and is a champion of Detroit's broader workforce development efforts. This includes her board service as Chair of Endeavor Detroit. According to a profile by the *Detroit News*, she always placed the need for good-paying jobs at the center of the city's economic competitiveness and overall well-being.

Note: See Appendix 3 for notes and sources.

LOCAL SIZE	CONCENTRATION VS. REST OF U.S.	CONCENTRATION VS. NEARBY METROS	LOCAL DYNAMISM	PROJECTED INDUSTRY GROWTH
50+	1.5x	1.7x	AVERAGE	HIGH
Local companies with 50 or more employees	More companies with 50 or more employees than expected compared to the rest of the U.S.	More companies with 50 or more employees than expected compared to other metros in the surrounding area	Proportion of local companies with 50 or more employees launched in last decade	Projected growth for national industry in coming years

TYPICAL EMPLOYMENT

- **Proportion of Roles Requiring Less Than a Bachelor's Degree: Below Average (33 percent)**
  Most common occupations: Customer Service Representatives, Sales Representatives, Administrative Assistants, Bookkeepers, Computer Support Specialists
- **Proportion of Roles Requiring a Bachelor's Degree or Higher: Above Average (67 percent)**
  Most common occupations: Management Analysts, Market Research Analysts, Software Developers, Business Operations Specialists, Accountants, Computer and Information Analysts, Scientists

Recognizing that the focus tends to lean heavily on attracting and incentivizing outside investors, Pasky's efforts demonstrate how long-standing business owners who have been a part of the city for decades can continue to grow the region's economy. She explains, "As the city continues its revitalization, it is important that local investors be a part of the mix."

Other notable entrepreneurial, high-value consulting firms in Southeast Michigan include the engineering firms Atwell and Altair, which went public in 2017. Other larger, entrepreneurial consulting companies include IT-based firms such as the Covansys, that was acquired by CSC in 2007, and HTC Global Services. Altimetrik and Yochana are exmaples of IT consulting companies founded more recently.

It is expected that consulting companies will continue to benefit Southeast Michigan and other areas that have a competitive advantage in producing these types of businesses. The consulting industry has the second highest projected national growth rate among the high-value companies examined here, just below software companies. As long as newer firms thrive and older ones continue to grow, consulting firms are well positioned to contribute to the local economy into the future.

SOFTWARE COMPANIES

Companies that develop and sell software, and provide custom digital products for business clients

PROMINENT LOCAL SUBSECTORS

- Cybersecurity
- IoT
- SaaS

RAPID GROWTH AND REINVESTING IN THE LOCAL ENTREPRENEURSHIP COMMUNITY

Dug Song was already an experienced internet security expert when he founded Duo Security, an Ann Arbor company that creates cloud-based security solutions for a range of devices and caters to workplaces. He met Duo's co-founder while working at Arbor Networks. Song had set up a "honeypot," or fake company to lure hackers, and 17-year-old Jon Oberheide took the bait while working at the Starbucks below Arbor's office. The teenager soon had a job at Arbor.

When Arbor Networks was about to be acquired, Song moved on to gain a broader perspective on cybersecurity challenges at other firms and realized that security issues were more frequently targeting end users, rather than workplace systems. In 2009, he launched Duo Security to fill this gap.

The company specializes in two-factor authentication and develops features that diagnose the health of devices. Duo's customers include Etsy, Facebook, K-Swiss, Random House, Yelp, Zillow, and Paramount Pictures.

Duo provides an example of how high-value, entrepreneurial software companies benefit areas like Southeast Michigan that have a competitive advantage in generating them. The company grew at a rapid pace with more than 20 employees by August 2012, following Series A funding led by Google Ventures. In 2014, Duo raised $12 million in Series B financing and moved into larger offices with the expectation they would grow to nearly 100 employees by the end of that year.

Duo reached 200 employees in 2016 and its annual recurring revenue exceeded $100 million by the end of 2017. In 2018, Duo had more than 600 employees worldwide and was sold to Cisco for $2.35 billion.

This rapid growth trajectory would be considered a success story in any international tech hub, including Silicon Valley, but Song chose to remain in the region. Song described the company's home in Michigan as a "proving ground for innovations that improve people's daily lives... I drew on what exists here in Michigan that others don't have." A believer in Michigan's economic potential, Song founded a2geeks, a nonprofit supporting Ann Arbor's startup

Note: See Appendix 3 for notes and sources.

LOCAL SIZE	CONCENTRATION VS. REST OF U.S.	CONCENTRATION VS. NEARBY METROS	LOCAL DYNAMISM	PROJECTED INDUSTRY GROWTH
50+	1.6x	3.3x	BELOW AVERAGE	HIGH
Local companies with 50 or more employees	More companies with 50 or more employees than expected compared to the rest of the U.S.	More companies with 50 or more employees than expected compared to other metros in the surrounding area	Proportion of local companies with 50 or more employees launched in last decade	Projected growth for national industry in coming years

TYPICAL EMPLOYMENT

- **Proportion of Roles Requiring Less Than a Bachelor's Degree: Below Average (27 percent)**
  Most common occupations: Computer Support Specialists, Sales Representatives, Customer Service Representatives
- **Proportion of Roles Requiring a Bachelor's Degree or Higher: Above Average (73 percent)**
  Most common occupations: Software Developers, Programmers, Computer and Information Analysts, Database and Systems Administrators, Network Architects

community, and then created Tech Brewery, a startup co-op, all before founding Duo. While growing Duo, he continued his work as a local supporter and instigator. In the past decade, Duo's success and the broad mentorship of Song and his team has made an impact on other companies in Michigan's software industry.

Duo is just one example of the more than 50 larger, high-value entrepreneurial software companies in Southeast Michigan. Stemming in part from the strength of the University of Michigan in Ann Arbor and a strong community among software entrepreneurs and support organizations, innovations in this sector are continuing to benefit Southeast Michigan. The longer-standing entrepreneurial firms, such as Compuware and Troy-based New World Systems, arose from technological advancements of the 1970s and 1980s. Both have since been sold to owners outside of the state.

Companies founded more recently represent a new wave of activity taking place in Southeast Michigan. This includes the software-as-a-service (SaaS) company, Xeeva, that was founded in 2014, as well as several companies that specialize in the Internet of Things (IoT). One example comes from Vectorform, a company led by an Endeavor entrepreneur, which developed a home energy management platform called Powerley.

There are more software companies that have reached the scale of 50 or more employees in Southeast Michigan compared to the rest of the country (1.6 times as many). When compared to other neighboring metropolitan areas, the representation of software companies is even more pronounced — there are 3.3 times as many.

National projections suggest that this strong momentum will continue into the future. The labor force for software companies is projected to grow at a rate of 15.7 percent between 2018 and 2026, nationally. This is the highest among all of the groups of high-value companies highlighted in this report.

LENDING-BASED BUSINESSES AND FINANCIAL SERVICES FIRMS

Companies providing financial services focused on lending, banking, and financial advisory offerings

PROMINENT LOCAL SUBSECTORS

- Mortgage Lenders
- Banks
- Wealth Advisors

LOCAL REINVESTMENT AT SIGNIFICANT SCALE

The success of Quicken Loans, the area's most prominent lending-based company, can be seen throughout downtown Detroit. As the largest mortgage lender in the country, Quicken Loans is a significant economic driver in the community. The company's founder, Dan Gilbert, owns a family of related companies employing more than 17,000 people, making him the largest employer and taxpayer in Detroit.

In 1985, Gilbert founded what was then Rock Financial with his brother and a friend. It was later renamed Quicken Loans and started growing in the early 1990s during the start of the refinancing boom. As one of the first online mortgage lenders, it grew to more than 700 employees by the time the company went public in 1998 and was acquired by Intuit for $532 million. Gilbert eventually bought back the company after the dot-com crash. It is now known for its keen focus on customer service and efficiency. Between 2013 and 2018, Quicken Loans closed nearly half a trillion dollars in home loan volume, operating in all 50 states.

Gilbert has strong ties to the area, having grown up in a suburb of Southfield in the 1960s. He earned his bachelor's degree from Michigan State University and attended law school at Wayne State University. It was there, while working part- time at a real estate office, that he realized that selling mortgages was the bigger business, not selling homes.

Gilbert has stewarded place-based efforts for more than a decade. As a part of the revitalization following the 2008 Financial Crisis, he moved the Quicken Loans headquarters from the suburbs to Detroit's downtown business district. In 2011, he co-founded Bedrock, a real estate firm that has invested $5.6 billion to acquire and develop more than 100 properties, including new construction in downtown Detroit. Gilbert was also involved in the nonprofit M-1 Rail initiative that developed the downtown light rail system.

Note: See Appendix 3 for notes and sources.

LOCAL SIZE	CONCENTRATION VS. REST OF U.S.	CONCENTRATION VS. NEARBY METROS	LOCAL DYNAMISM	PROJECTED INDUSTRY GROWTH
50+	1.2x	1.3x	AVERAGE	SLOW BUT POSITIVE
Local companies with 50 or more employees	More companies with 50 or more employees than expected compared to the rest of the U.S.	More companies with 50 or more employees than expected compared to other metros in the surrounding area	Proportion of local companies with 50 or more employees launched in last decade	Projected growth for national industry in coming years

TYPICAL EMPLOYMENT

- **Proportion of Roles Requiring Less Than a Bachelor's Degree: Below Average (54 percent)**
  Most common occupations: Tellers, Customer Service Representatives, Loan Interviewers, Bookkeepers, Bill and Account Collectors, Administrative Assistants, Sales Representatives
- **Proportion of Roles Requiring a Bachelor's Degree or Higher: Above Average (46 percent)**
  Most common occupations: Loan Officers, Sales Agents, Financial Analysts and Advisors, Programmers, Credit Analysts, Accountants, Auditors

Gilbert is also an active investor in financial technology and sports-related companies. He founded Detroit Venture Partners (DVP), a venture capital firm that funds startup and early stage technology companies, and was a founding partner of the private equity group Rockbridge Growth Equity.

While the company's singular influence is apparent, it is part of a larger concentration of lending and financial services firms in the greater Southeast Michigan area. There are 1.2 times as many scaled firms in Southeast Michigan than in the rest of the country and 1.3 times as many compared to nearby metropolitan areas.

Other prominent companies include wealth advisors Rehmann and Hantz Group. In addition, Credibly, a fintech platform has raised $70 million in capital and Level One Bank went public in 2018.

Local economies that have a competitive advantage in producing these types of companies benefit from the industry's average wage of more than $95,000.The expected national growth of the labor force for lending-based companies and financial services firms is low, but still positive at 3.3 percent. Recent company launches and new capital may support the local industry in outperforming the expected national rate.

SHIPPING AND LOGISTICS BUSINESSES

Firms that offer transportation of passengers and cargo, as well as warehousing and logistics management

PROMINENT LOCAL SUBSECTORS

- Ground Shipping
- Supply Chain
- Warehousing

CONTINUOUS EVOLUTION AND BREAKING DOWN BARRIERS

Andra Rush, founder of Rush Trucking started her company knowing full well that she was entering a male-dominated industry. At the outset, she took the toughest delivery routes and outperformed her competitors to get ahead. In an interview Rush explained, "I knew I could do it as well or better than the competition. So I was just knocking on doors and saying, 'If you have an emergency shipment, I will get it there fast.'" The company is now a multimillion-dollar enterprise with more than 900 drivers transporting cargo across the continental United States and Canada, with interlines into Mexico. It has received several recognitions as one of the largest minority-owned trucking companies.

Rush got the idea for her company while attending business school and interning with a freight company. Around that time, new federal diversity regulations meant that the automotive manufacturing industries needed to work with minority-owned companies to be compliant. Rush, a Native American descended from the Mohawk tribe, started with one van and two pickup trucks. She balanced running her startup and making deliveries, with her full-time job as a nurse.

Important turning points for growing her ground shipping business came within the first five years. As demand grew, she hired any friends who had pickup trucks. Rush eventually secured financing to purchase trucks for her growing fleet and add contract drivers. She was active with the Michigan Minority Business Development Council, as well as minority development programs at Detroit automakers. She soon landed her first major contract transporting auto parts for Ford. In 2003, the company grew to 390 employees, 1,700 trucks, and 3,400 trailers. Rush Trucking expanded beyond the automotive manufacturing industry and its services also evolved. It was one of the first trucking companies in the region to use satellite technology for tracking freight, and it added short-haul and long-haul cross-country routes.

Rush is a serial entrepreneur who went on to launch related businesses. These include a supply chain management arm and Detroit Manufacturing Systems (DMS), which manufactures and assembles injection-molded components. DMS grew from 25 employees in 2012 to

Note: See Appendix 3 for notes and sources.

LOCAL SIZE	CONCENTRATION VS. REST OF U.S.	CONCENTRATION VS. NEARBY METROS	LOCAL DYNAMISM	PROJECTED INDUSTRY GROWTH
20+	1.2x	1.0x	GREATER THAN AVERAGE	MODERATE
Local companies with 50 or more employees	More companies with 50 or more employees than expected compared to the rest of the U.S.	More companies with 50 or more employees than expected compared to other metros in the surrounding area	Proportion of local companies with 50 or more employees launched in last decade	Projected growth for national industry in coming years

TYPICAL EMPLOYMENT

- **Proportion of Roles Requiring Less Than a Bachelor's Degree: Average (84 percent)**
  Most common occupations: Laborers, Material Movers, Drivers, Reservation Agents, Cargo and Freight Agents, Mechanics, Dispatchers
- **Proportion of Roles Requiring a Bachelor's Degree or Higher: Average (16 percent)**
  Most common occupations: Engineers, Operations Managers, Pilots, Accountants, Logisticians, Business Operations Specialists

about 1,000 in Detroit and 200 in Toledo. These related companies are part of a larger hub. Entrepreneurial shipping and logistics companies are just as prevalent throughout surrounding areas, as indicated by the one-to-one concentration when comparing Southeast Michigan to nearby metropolitan areas.

Rush found success by breaking down barriers and now applies her experience to her company's own efforts in boosting workplace diversity. The company uses employment agencies that recruit diverse candidates, and includes woman-owned and minority-owned businesses in its bidding process for new suppliers whenever possible. Even if candidates don't win the contract, Rush is known to coach them so they can get ahead in the future.

Rush Trucking is one of numerous shipping and logistics companies in the area. Southeast Michigan's geographic position gives the area an advantage as a national logistics hub and freight corridor, and as an international hub for just-in-time delivery with its proximity to Canada. There are several other long-standing large employers in the region that offer ground shipping and warehousing. These include United Road Services, a company that hauls vehicles and was acquired by the asset manager The Carlyle Group in 2017, and Universal Logistics Holdings that went public in 2005. A company founded more recently is RPM and it has scaled rapidly with its specialty supply chain management solutions.

The national context continues to influence local entrepreneurial companies. The shipping and logistics industry as a whole has faced ongoing driver shortages and increasing regulations that are contributing to a shortfall in capacity. Technological advancements in automation may one day address these operational challenges. This may include driverless platooning where a human driver in the lead truck guides a convoy of multiple trucks. An advancement like this would, however, significantly disrupt job growth. Nationally, the industry is estimated to grow at a moderate rate of 6 percent over the next eight years, compared to the expected increase of 5 percent across all sectors.

MARKETING AND BRANDING AGENCIES

Companies that create advertising campaigns and provide branding or design services

PROMINENT LOCAL SUBSECTORS

- Branded Events
- Full-Service Agencies
- Digital Marketing

DIFFERENTIATING AND DIVERSIFYING AS A BUSINESS STRATEGY

Marilyn Barnett founded MARS Advertising, Inc. in 1973 after modeling in TV commercials. She appeared in ads for the Farmer Jack grocery store chain at a time when supermarkets primarily advertised with print media. She saw an opportunity and launched her agency with two telephones and three employees. MARS stood for "marketing, advertising, research and service," and she had the vision to involve consumers and manufacturers in the process of developing tailored marketing strategies. This focus on "shopper marketing," which studies consumers' behaviors, helped distinguish the company from its competitors.

As the company grew into a full-service marketing agency, it opened independent offices near major retailers. By 2002, the agency had locations in Philadelphia, Columbus, Ohio, Salt Lake City, Los Angeles, and northwest Arkansas (where Walmart is headquartered). In 2008, the agency opened its first international office in Toronto. It rebranded as The Mars Agency in 2014, growing its revenue to $58 million that year.

The agency represents how a metropolitan area with a competitive advantage in marketing and branding can bring in revenues from outside the immediate region. MARS now operates 11 offices in North America and Europe and has more than 300 employees. Among its clients are Walmart, Kroger, Samsung, Campbell's, Lowe's, and Hallmark.

The agency has been recognized for its growth and excellence throughout the decades. In its early years, Mars was the only women-owned advertising agency listed in Crain's Detroit and grew quickly enough to be listed as one of Michigan's largest women-owned businesses by 1987. More recently, the agency was named the fifth most effective independent agency in North America for two years in a row by the Effies Index, an industry-recognized ranking.

The company is known for leveraging new technologies, mobile applications, and adapting its services to respond to new shopping preferences. For instance, it developed and tested technology that allows shoppers to ask an electronic customer assistant about products while they shop. Using Amazon's Alexa Skills Kit (ASK)

Note: See Appendix 3 for notes and sources.

LOCAL SIZE	CONCENTRATION VS. REST OF U.S.	CONCENTRATION VS. NEARBY METROS	LOCAL DYNAMISM	PROJECTED INDUSTRY GROWTH
15+	1.4x	1.3x	AVERAGE	SLOW BUT POSITIVE
Local companies with 50 or more employees	More companies with 50 or more employees than expected compared to the rest of the U.S.	More companies with 50 or more employees than expected compared to other metros in the surrounding area	Proportion of local companies with 50 or more employees launched in last decade	Projected growth for national industry in coming years

TYPICAL EMPLOYMENT

- **Proportion of Roles Requiring Less Than a Bachelor's Degree: Below Average (49 percent)**
  Most common occupations: Advertising Sales Agents, Product Promoters, Customer Service Representatives, Mail Clerks, Mail Machine Operators, Administrative Assistants
- **Proportion of Roles Requiring a Bachelor's Degree or Higher: Above Average (51 percent)**
  Most common occupations: Designers, Public Relations Specialists, Market Research Analysts, Operations Managers, Artists, Software Developers, Advertising and Promotions Managers, Writers, Editors

capabilities, this voice-activated, in-store feature can help customers pick out a whiskey based on their preferences or tell a customer about the right lotion for different skin types.

The national projection for labor force in the marketing and branding industry shows only the slightest increase over the next eight years (2.3 percent). Despite this projection, The Mars Agency is looking to spur new growth by helping the next generation of marketing entrepreneurs.Its venture and innovation arm, MarsVentures, identifies and vets marketing, retail, and eCommerce startups then matches the most promising new entrepreneurs with clients for low-risk, low-cost projects. Since October 2012, they have evaluated more than 400 startups and invested in three companies.

Marilyn's son, Ken Barnett, serves as the Global CEO and Marilyn remained the company's board chair and president until her passing in 2016. To honor her memory and in keeping with her commitment to innovation and creativity, the company established an annual Founder's Day where employees attend sessions on new innovations like augmented reality and work across teams to develop new ideas.

The other high-value, entrepreneurial marketing and branding agencies in Southeast Michigan are a relatively small group and primarily cater to the automotive manufacturing industry. These include branded event companies such as Production Plus and EWI Worldwide that produce auto shows, as well as the long-standing, full-service agency, Campbell Ewald. Larger, entrepreneurial agencies that focus on digital marketing include DP+ and Shift Digital, which was founded more recently.

On the one hand, this is an example of how high-value companies have grown up around other local strengths, in this case automobile manufacturing. Southeast Michigan's group of high-value agencies is 1.4 times more prevalent than what one might see in a typical city elsewhere in the country, given its population size. This has added higher-paying jobs to the local economy as marketing and branding companies typically offer above-average wages per employee of $70,000, as opposed to the national average of about $50,000. On the other hand, the local group of high-value companies demonstrates how Southeast Michigan's economy continues to rely on a single industry.

SPECIALTY FOOD AND BEVERAGE MANUFACTURING COMPANIES

Businesses that manufacture packaged food items and beverages, primarily for wholesale distribution

PROMINENT LOCAL SUBSECTORS

- Beverages
- Snack Foods

MENTORSHIP CAN DIRECTLY SHAPE THE OUTCOME OF A BUSINESS

Drought was founded in 2010 by the four James sisters. After moving back in with their parents in Plymouth, Michigan, they poured their energy and resources into building a business. They started the company through an online Kickstarter campaign where they raised $13,000. They bought a cold-press juice extractor and launched the Midwest's first raw organic juice company.

The James sisters first made their juice in a facility that had been used by Garden Fresh Gourmet, a successful salsa company that grew rapidly before it was sold to Campbell Soup for $231 million. Garden Fresh's founders, Jack and Annette Aronson, mentored the sisters, showing them a specialized process involving high-pressure pasteurization (HPP). This technology, then new to the region, significantly increased the shelf-life of their products and allowed Drought to expand into other markets across the country.

The regulations on wholesale raw juice are complex. Drought is one of only a handful of companies to have successfully navigated these regulations and was therefore able to grow at a rapid rate. After starting with a storefront in Plymouth in 2014, Drought opened locations in Royal Oak and Birmingham. They expanded to a new 18,000-square-foot production facility to keep up with demand and joined the Endeavor network of entrepreneurs in 2016. They now have five locations and make more than 5,000 bottles of cold-pressed juice per week.

Mentorship is a continuing theme among these examples. Following the sale of Garden Fresh, the Aronsons went on to launch the Great Lakes HPP Food Innovation Center and continued to mentor other local food and beverage companies. In turn, Drought launched its own services arm called Drought Solutions, where they offer manufacturing, business development, and internal management guidance to other food and beverage producers.

Note: See Appendix 3 for notes and sources.

LOCAL SIZE	CONCENTRATION VS. REST OF U.S.	CONCENTRATION VS. NEARBY METROS	LOCAL DYNAMISM	PROJECTED INDUSTRY GROWTH
10+	1.5x	1.4x	BELOW AVERAGE	SLOW BUT POSITIVE
Local companies with 50 or more employees	More companies with 50 or more employees than expected compared to the rest of the U.S.	More companies with 50 or more employees than expected compared to other metros in the surrounding area	Proportion of local companies with 50 or more employees launched in last decade	Projected growth for national industry in coming years

TYPICAL EMPLOYMENT

- **Proportion of Roles Requiring Less Than a Bachelor's Degree: Above Average (90 percent)**
  Most common occupations: Food Processors, Packaging and Machine Operators, Laborers, Material Movers, Drivers
- **Proportion of Roles Requiring a Bachelor's Degree or Higher: Below Average (10 percent)**
  Most common occupations: Designers, Operations Managers, Industrial Production Managers, Agricultural and Food Scientists, Market Research Analysts, Accountants

In addition to Drought and Garden Fresh, there are other companies producing snack foods in the region including Kar's Nuts, a trail mix manufacturer that recently acquired Sanders & Morley Candy Makers, and Better Made Potato Chips. There are relatively few high-value, entrepreneurial companies operating in the specialty food and beverage manufacturing industry within the Southeast Michigan region, but the concentration of these companies is much higher than what can be found in the rest of the country. In addition, there are 1.4 times as many in Southeast Michigan than there are in neighboring metropolitan areas.

The specialty food and beverage industries offer more opportunities to workers with lower levels of education, but provide lower than average wages per employee. The sector as a whole will continue to offer jobs into the future with an estimated positive growth rate of more than 3 percent. While this is below the average expected growth of the overall labor force, Southeast Michigan's particular kind of snack food and beverage companies that have attracted new capital in the past may enable the local sector to exceed expectations going forward.

RECOMMENDATIONS:

DECISION MAKERS SHOULD USE "ENTREPRENEUR-LED ECONOMIC DEVELOPMENT" TO SUPPORT THE GROWTH OF LARGER, HIGH-VALUE, ENTREPRENEURIAL COMPANIES.

Decision makers in Southeast Michigan have an opportunity to create a new component of the region's economic development strategy targeting larger, high-value, entrepreneurial companies. Future efforts can utilize the competitive advantages outlined in the previous pages to achieve two critical objectives: (1) increase the number of new larger, high-value, entrepreneurial companies in the region, and (2) support existing larger, high-value, entrepreneurial companies in continuing their growth.*

Endeavor Insight has developed a set of principles for decision makers through its work with the Bill & Melinda Gates Foundation, the Ewing Marion Kauffman Foundation, and other organizations. These principles make up an approach for "Entrepreneur-Led Economic Development" designed to help leaders across the world increase the productivity of local entrepreneurs.

The following pages outline how decision makers in Southeast Michigan can use these principles to help more larger, high-value, entrepreneurial companies develop and grow in the region. For more information on these principles and the ways in which they can be applied, please contact the authors of this study.

1. AVOID THE "MYTHS OF QUANTITY."

While relocation incentives and support for new and small businesses can play useful roles in local economic development, the ability of each to have an impact on Southeast Michigan is limited. Simply doing more of these activities is unlikely to dramatically improve job creation or increase economic growth.

Rather than following the "myths of quantity" — assuming that simply doing more of current activities will always be beneficial — decision makers should consider the importance of quality as they develop strategies for the future. This can help ensure that limited resources for local economic development are dedicated to the companies that will offer the greatest results for the region.

2. FOCUS ON SCALE.

The importance of fostering growth is clear in Southeast Michigan. Companies that reach the size of 50 or more employees make up about 10 percent of local businesses, but they have created more than 74 percent of the jobs in the community.†

Data also indicates that if Southeast Michigan could create 60 new larger, high-value, entrepreneurial companies, it would increase local GDP by over $5 billion annually. This growth would also increase the average incomes of its 4.7 million residents by more than $1,200 per person.[26]

Though growing entrepreneurial companies are powerful, they are not as well supported as other types of businesses in the community. The New Economy Initiative recently conducted analyses of more than 100 entrepreneurship-focused organizations for a report that will be released in the coming months. These analyses revealed that while there is broad support for ideation and early stage entrepreneurs in Southeast Michigan, few local organizations are currently targeting the founders of growing and scaling companies for assistance.[27]

* For more information, see the Endeavor Insight report "Fostering Productive Entrepreneurship Communities" available at endeavor.org/fpec.
† See the Supporting Analyses for more information.

3. FOLLOW THE LEAD OF SUCCESSFUL LOCAL FOUNDERS.

Local entrepreneurs who have built large companies are among the most valuable economic resources in a community.[28] Data compiled from founders in Southeast Michigan indicates that there are six types of larger, high-value, entrepreneurial companies that provide competitive advantages in entrepreneurship. Decision makers should follow the lead of local founders operating these six types of businesses and offer them tailored support while also providing general assistance to growing companies in other high-value sectors.

Civic leaders in Southeast Michigan can learn a great deal from the founders of larger, high-value, entrepreneurial companies, but in order to do this, they must listen to them. Decision makers should bring together groups of these founders, ideally organized by industry, to hear them discuss the challenges that slow the growth of their businesses. They should also continue to evaluate data in the region to identify when new types of high-value entrepreneurial companies arise within the community.

4. BUILD NETWORKS AROUND THE BEST LOCAL ENTREPRENEURS.

The stories of founders at the larger, high-value, entrepreneurial companies profiled in this report demonstrate the value that successful entrepreneurs can provide to upcoming companies by acting as mentors and investors. When entrepreneurs who have built companies that reached scale support upcoming founders, it increases the likelihood that local businesses will succeed.[29]

Decision makers should build networks around the founders of larger, high-value, entrepreneurial companies to help them share their knowledge, social connections, and financial capital with upcoming entrepreneurs. These networks can be constructed in several ways:

- By facilitating individual connections like mentoring and early stage investing;
- By including successful founders in leadership positions at organizations that support local entrepreneurship; and
- By enlisting these founders in efforts to improve the local entrepreneurship community and work toward common goals, such as increasing inclusion.

Developing networks like these that encourage a virtuous cycle of entrepreneurial support is one of the best ways leaders can help new larger, high-value, entrepreneurial companies to thrive.

ENDNOTES, GLOSSARY, METHODOLOGY, APPENDICES, AND SUPPORTING ANALYSES

ENDNOTES

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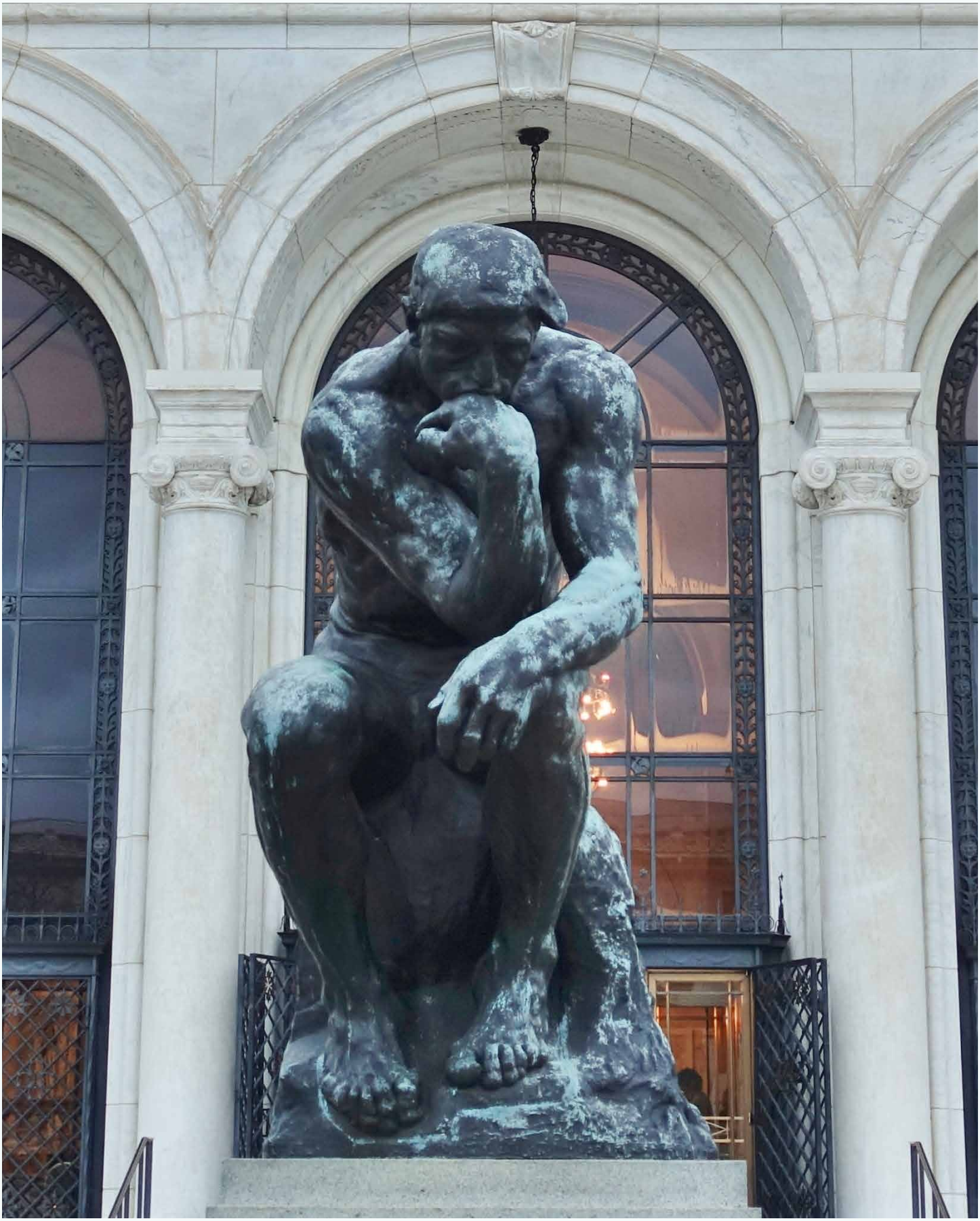

GLOSSARY

- **Dynamism:** A measure based on the proportion of larger, high-value, entrepreneurial companies founded within the last decade.
- **Entrepreneurial Companies:** Companies that are founder-led on the local level. This excludes entities such as governments and nonprofit organizations operating outside the for-profit legal framework and branches of companies headquartered outside of the region.
- **Competitive Advantages in Entrepreneurship:** Groups of larger, high-value, entrepreneurial companies operating in a similar industry and given geographic area.
- **Gross Domestic Product (GDP):** The market value of goods and services produced by labor and property in the United States, regardless of nationality. (U.S. Bureau of Economic Analysis.)
- **High-Value:** Refers to companies operating in certain industries that are considered "tradable" (i.e., they tend to sell to customers from outside the immediate geography) and are associated with higher economic productivity than other industries.
- **Larger, High-Value, Entrepreneurial Companies (LHVEs):** Companies employing 50 or more people, operating in industries that meet the "high-value" criteria, and were founded by individuals in the local area.
- **Local Concentration:** The ratio of larger, high-value, entrepreneurial companies in the local area compared to a larger geography such as the rest of the United States or surrounding metropolitan areas, adjusted for differences in population.
- **Major Cities:** Metropolitan statistical areas with 500,000 or more in population.
- **Metropolitan Statistical Area:** A geographic area defined by the U.S. Census Bureau with at least one urbanized area of 50,000 or more inhabitants.
- **Microbusinesses:** Companies employing fewer than 10 people.
- **Network:** A group of actors working to support local entrepreneurs. This includes city leaders, investors, support organizations, foundations, and experienced entrepreneurs.
- **Productivity:** A measure of economic output quantified in this report by GDP per capita.
- **Projected National Growth:** Rates provided by the U.S. Bureau of Labor Statistics indicating expected employment growth for industries between the years 2018 and 2026.
- **Scale:** A term used to describe companies that have grown to employ 50 or more people.
- **Startups:** New companies less than one year old with at least one employee. (Kauffman Foundation.)
- **Support Organizations:** Organizations offering skill-development programs, investment, mentoring or other support for entrepreneurs and startups. These include incubators, accelerators, and networks.
- **Venture Capital:** A type of investment typically for early stage businesses that have high growth potential. Venture capitalists (VCs) often provide expertise in finance and operations, in addition to capital.

METHODOLOGY

1. DETERMINING HIGH-VALUE SECTORS: Endeavor Insight identified industries that met two criteria: (1) those that are considered "traded industries," i.e., industries that tend to sell products or services to customers outside their immediate geographies; (2) those with higher GDP per employee. The full list of high-value sectors appears in Appendix 2.

2. DATA COLLECTION: Endeavor Insight analyzed data from Dun & Bradstreet to identify companies with 50 or more employees operating in "high-value" sectors (using the North American Industry Classification System), and that are headquartered within Southeast Michigan. We omitted branches, nonprofit organizations, and government entities.

3. CONCENTRATION CALCULATION: Based on this data, we compared the number of larger, high-value, entrepreneurial companies (LHVEs) in Southeast Michigan to the rest of the United States adjusting for population size. Sectors in Southeast Michigan with a larger proportion of LHVEs vs. the rest of the United States — a concentration of more than 1.0 — remained in the study for further analysis. The sectors that had lower concentration levels were removed.

4. VERIFICATION: Endeavor Insight utilized data available on LinkedIn and company websites to verify the information provided by Dun & Bradstreet. This included reviewing location, employee size, year founded, operating status, and business purpose. In some cases, sectors were grouped to form a larger local industry type (e.g., specialty food and beverage manufacturing), especially if they shared common traits such as employee or investor pools.

5. DYNAMIC ENTREPRENEURIAL HUBS: If sectors had fewer than 10 companies with 50 or more employees, they were dropped from the study to ensure that the recommended competitive advantages were substantive avenues for entrepreneurship. Only sectors with local dynamism, i.e., at least one company founded in the last decade, were included in the study.

6. PROJECTED NATIONAL INDUSTRY GROWTH: Using U.S. Bureau of Labor Statistics projections, we identified the projected national industry growth rate for each hub between the years 2018 and 2026. Hubs with positive growth were included in the report, and those with negative projections moved forward for further analysis.

7. LOCAL DYNAMISM: For each hub, local dynamism is based on the proportion of companies founded between 2008 and 2017 using data from Dun & Bradstreet. We compared this to the national average dynamism of each hub. Local hubs with below national average dynamism and negative projected growth were removed from the study.

8. RECOMMENDED COMPETITIVE ADVANTAGES: The results make up the six competitive advantages in entrepreneurship of the Southeast Michigan area. Using Crunchbase and other sources, staff analyzed capital raised, acquisition or IPO activity, and employment growth to identify prominent local subsectors and companies that demonstrate the strengths of each of the six groups.

9. REGIONAL ANALYSES: Where county-level information was unavailable, authors analyzed data for the Detroit-Warren-Dearborn and Ann Arbor metropolitan statistical areas, which includes Lapeer County and excludes Monroe County. The difference in population between the total of the seven counties and the combined MSAs is less than 2 percent.

APPENDIX 1: SOUTHEAST MICHIGAN'S COMPETITIVE ADVANTAGES IN ENTREPRENEURSHIP

Competitive Advantage	North American Industry Classification System (NAICS) Description
Consulting Firms	Management, Scientific, and Technical Consulting Services; Research and Development in the Physical, Engineering, and Life Sciences (except Biotechnology)
Software Companies	Data Processing, Hosting, and Related Services; Software Publishers; Computer Systems Design and Related Services
Lending-Based Businesses and Financial Services Firms Specialty	Credit Intermediation and Related Activities; Other Financial Investment Activities
Shipping and Logistics Businesses	Support Activities for Transportation; Air Transportation
Marketing and Branding Agencies	Specialized Design Services; Advertising, Public Relations, and Related Services
Specialty Food and Beverage Manufacturing Companies	Beverage Manufacturing; Ice Cream and Frozen Dessert Manufacturing; Other Snack Food Manufacturing; Flavoring Syrup and Concentrate Manufacturing

APPENDIX 2: LIST OF HIGH-VALUE INDUSTRIES

Based on the 2012 North American Industry Classification System

Forestry and Logging
Fishing, Hunting and Trapping
Support Activities for Agriculture and Forestry
Oil and Gas Extraction
Mining (except Oil and Gas)
Support Activities for Mining
Food Manufacturing
Beverage and Tobacco Product Manufacturing
Paper Manufacturing
Petroleum and Coal Products Manufacturing
Chemical Manufacturing
Plastics and Rubber Products Manufacturing
Nonmetallic Mineral Product Manufacturing
Primary Metal Manufacturing
Machinery Manufacturing
Computer and Electronic Product Manufacturing
Electrical Equipment, Appliance, and Component Manufacturing
Transportation Equipment Manufacturing
Air Transportation
Water Transportation
Pipeline Transportation
Scenic and Sightseeing Transportation
Support Activities for Transportation
Couriers and Messengers
Publishing Industries (except Internet)
Motion Picture and Sound Recording Industries
Data Processing, Hosting, and Related Services
Other Information Services
Credit Intermediation and Related Activities
Securities, Commodity Contracts, and Other Financial Investments and Related Activities
Insurance Carriers and Related Activities
Professional, Scientific, and Technical Services

APPENDIX 3: INDUSTRY PROFILE NOTES AND SOURCES

LOCAL SIZE

Source: Dun & Bradstreet. app.avention.com. Accessed Mar. 2018.

CONCENTRATION vs. REST OF U.S.

Source: U.S. Census Bureau, Population Division. "Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2017." factfinder.census.gov/bkmk/table/1.0/en/PEP/2017/PEPANNRES/0100000US.31000.005. Mar. 2018; Dun & Bradstreet. Accessed Oct. 2018.

CONCENTRATION vs. NEARBY METROS

Note: This is represented by the nearest ten metropolitan statistical areas (MSAs) measured by the distance from the largest city in the MSA to downtown Detroit. These are Battle Creek, MI; Bay City, MI; Cleveland-Elyria, OH; Flint, MI; Jackson, MI; Lansing-East Lansing, MI; Mansfield, OH; Midland, MI; Saginaw, MI; Toledo, OH. The estimated combined population of the region was 4,340,000.

Source: U.S. Census Bureau, Population Division; Dun & Bradstreet. Accessed Oct. 2018.

LOCAL DYNAMISM

Source: Dun & Bradstreet. Accessed Mar. 2019.

PROJECTED INDUSTRY GROWTH

Note: Rates indicated in the profiles have been calculated for the years 2018 to 2026.

Source: Endeavor Insight analysis; U.S. Bureau of Labor Statistics Employment Projections. "Table 2.7 Employment and output by industry, 2006, 2016, and projected 2026." 24 Oct. 2017.

PROMINENT LOCAL SUBSECTORS

Source: Endeavor Insight analysis; Dun & Bradstreet. Accessed Mar. 2018; Linkedin.com. Accessed 3 May 2019; Crunchbase.com. Accessed 3 May 2019.

TYPICAL EMPLOYMENT

Source: Endeavor Insight analysis; U.S. Bureau of Labor Statistics, Employment Projections. "Table 1.7 Occupational projections, 2016–26, and worker characteristics, 2016." 24 Oct. 2017; U.S. Bureau of Labor Statistics, Employment Projections. "Table 1.9 2016–26 Industry-occupation matrix data, by industry." 12 Apr. 2019.

AVERAGE WAGES

Note: The national annual mean wage for all major occupation groups in 2017 was $51,960, as of the May 2018 U.S. Bureau of Labor Statistics release. Local average wages in Southeast Michigan were $54,360 according to the U.S. Census County Business Patterns based on the most recent data available. Industry average wages appearing in the text were calculated based on data from the U.S. Bureau of Labor Statistics.

Source: Quarterly Census of Employment and Wages. "Employment and Wages Annual Averages, 2017." 3 Oct. 2018.

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OTHER COMPANIES MENTIONED

Source: Details on acquisitions, IPOs, and capital raised were identified on Crunchbase.com (accessed 3 May 2019). Employee numbers, histories, business purposes were identified on company websites and Linkedin.com (accessed 3. May 2019).

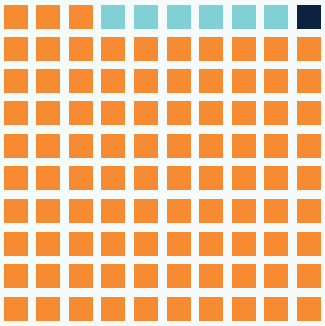
SUPPORTING ANALYSES

MOST COMPANIES IN SOUTHEAST MICHIGAN START SMALL AND REMAIN SMALL.

Expected Outcomes: 100 Startups

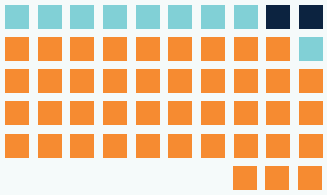
DETROIT METROPOLITAN AREA

BIRTH YEAR



93 Micro Businesses (1-9 employees)
6 Small Businesses (10-49 employees)
1 Medium+ Businesses (50+ employees)

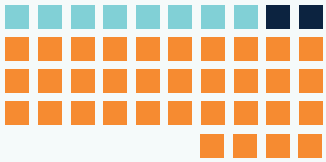
3 YEARS OLD



47 Failed Businesses (Primarily Micro)

42 Micro Businesses (1-9 employees)
9 Small Businesses (10-49 employees)
2 Medium+ Businesses (50+ employees)

5 YEARS OLD

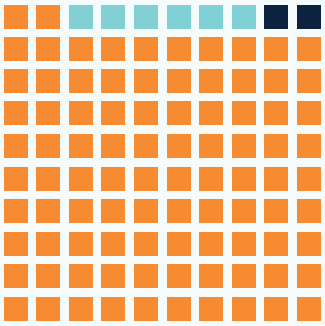


56 Failed Businesses (Primarily Micro)

34 Micro Businesses (1-9 employees)
8 Small Businesses (10-49 employees)
2 Medium+ Businesses (50+ employees)

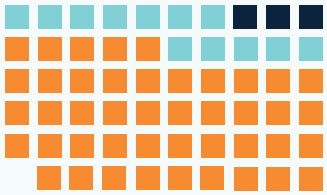
ANN ARBOR METROPOLITAN AREA

BIRTH YEAR



92 Micro Businesses (1-9 employees)
6 Small Businesses (10-49 employees)
2 Medium+ Businesses (50+ employees)

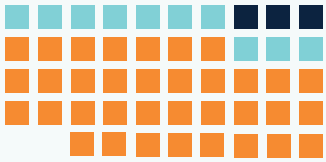
3 YEARS OLD



41 Failed Businesses (Primarily Micro)

44 Micro Businesses (1-9 employees)
12 Small Businesses (10-49 employees)
3 Medium+ Businesses (50+ employees)

5 YEARS OLD



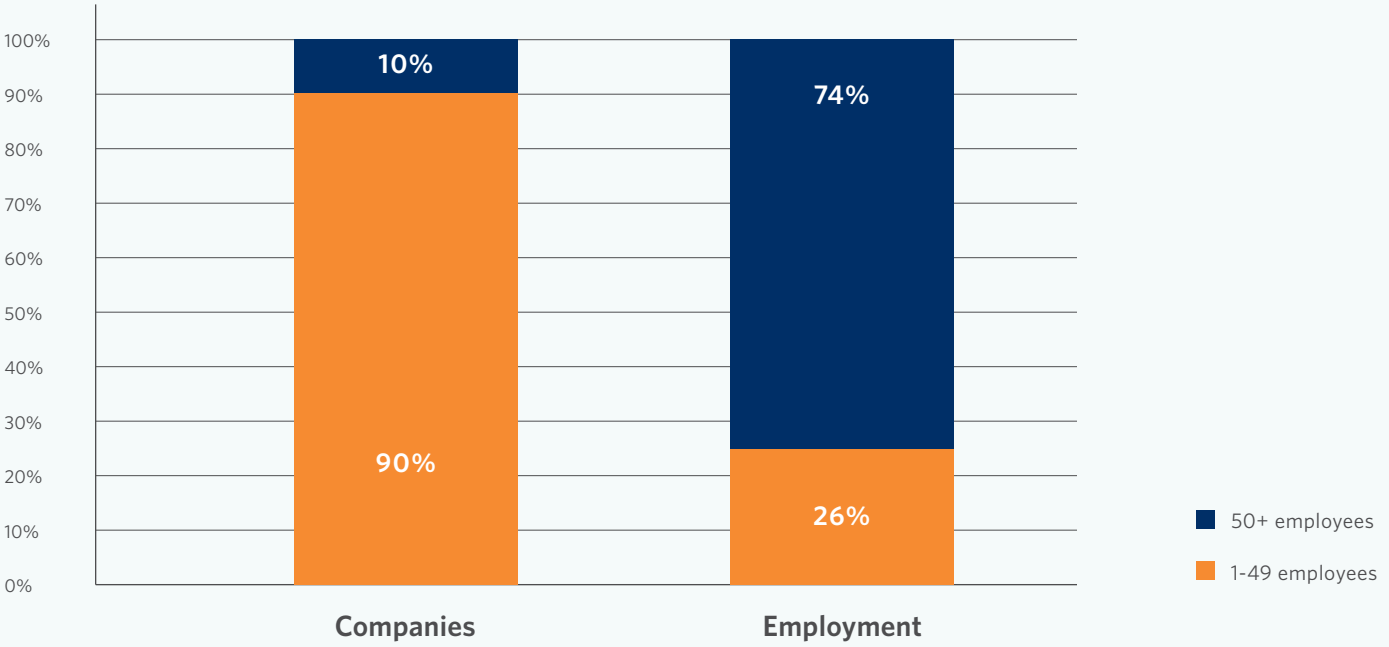
52 Failed Businesses (Primarily Micro)

35 Micro Businesses (1-9 employees)
10 Small Businesses (10-49 employees)
3 Medium+ Businesses (50+ employees)

Note: This analysis is based on a ten-year average.
Source: Endeavor Insight and U.S. Census Bureau, Business Dynamics Statistics.

PERCENTAGE OF COMPANIES AND EMPLOYMENT IN SOUTHEAST MICHIGAN

Comparison by Size Class



Note: Data based on Detroit-Warren-Dearborn and Ann Arbor metropolitan statistical areas.
Source: Endeavor Insight analysis and U.S. Census Bureau, Business Dynamics Statistics.

Endeavor Insight analyzed ten years of data on companies in the Detroit and Ann Arbor metropolitan areas that showed the vast majority of new local companies begin small, as the charts on the previous page demonstrate. About 93 out of every 100 companies in the Detroit area and 92 in the Ann Arbor area employ nine or fewer people in their birth year.

Only one company out of every 100 in Detroit and two out of every 100 in Ann Arbor achieved the scale of 50 or more employees in its first year.

On average, 47 percent of businesses in the Detroit area and 41 percent in the Ann Arbor area failed after three years, primarily the smallest businesses employing fewer than 10 people. Of those that remained open past three years, only a small proportion grew to employ 10 or more people.

After five years of operation, 56 percent of the businesses in the Detroit area and 52 percent in Ann Arbor closed. Only two or three companies out of every 100 had grown to employ 50 or more people.

The chart above shows that only a small percentage of companies reach the scale of 50 or more employees, but they are responsible for generating the bulk of jobs. While there are numerous small- and medium-size companies in the area (90 percent of all companies), they only make up 26 percent of total employment. The 10 percent of larger companies, however, have generated 74 percent of the jobs.

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