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SCALING UP FINTECH COMPANIES IN SOUTHEAST MICHIGAN

A Network Analysis of the Region's Fintech Entrepreneurship Community

A REPORT BY:

endeavor INSIGHT

PART OF A SERIES ON SOUTHEAST MICHIGAN'S COMPETITIVE ADVANTAGES IN ENTREPRENEURSHIP

ABOUT ENDEAVOR INSIGHT

Endeavor Insight is the research and policy division of Endeavor, a nonprofit organization with a 20-year history of supporting high-impact entrepreneurs around the world. Our team of economists, data scientists, and policy analysts provide data-backed insights on entrepreneurship and its contribution to economic development. We specialize in understanding how entrepreneurship networks can drive job creation and inclusive growth. We partner with organizations that support entrepreneurs, including foundations, multilateral agencies, and corporations.

The methodology utilized in this study builds on previous Endeavor Insight research supported by the Omidyar Network and the Kauffman Foundation. The findings summarized in this report are drawn from interviews with more than 30 fintech founders operating in Southeast Michigan, as well as secondary data on over 110 lending-based businesses and financial services firms.

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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

In 2019, Endeavor Insight completed a study with support from the William Davidson Foundation that identified six sectors that make up Southeast Michigan's competitive advantages in entrepreneurship.* Lending-based businesses and financial services firms make up one of the sectors highlighted as a local strength. This report revisits that research to identify strategies for furthering the growth of the fastest-growing segment of local lending-based businesses and financial services firms — financial technology firms, or "fintech" companies.† Data collection was conducted before the COVID-19 crisis, but the findings have been presented so that they are especially relevant to ongoing economic recovery efforts.

Southeast Michigan needs to diversify its economy and leverage existing competitive advantages in entrepreneurship.

The COVID-19 crisis exposed Southeast Michigan's continued dependency on the automotive industry. The region now needs to leverage its existing economic strengths, which include lending-based businesses and financial services firms. Companies in this industry have already played a critical role in the economy during the pandemic. This report provides information on how decision makers in both the private and public sectors can support the growth of fintech companies. The study shares three major findings:

1. Local fintech companies, which played an important role during the 2020 lockdown, are driving growth in the financial services sector.

Most new lending-based businesses and financial services firms founded in the past ten years have been financial technology, or "fintech" companies. Several of these companies have scaled rapidly to 50 or more employees and many have attracted significant capital to the region. Much of the growth of the local fintech sector stemmed from a single digital lending company, Quicken Loans. As the sector grew, so did the pool of local resources to support further growth. During the COVID-19 crisis, fintech companies have taken on an important role in keeping the economy going.

2. Though many resources are available, fintech entrepreneurs face significant barriers in scaling. Support from experienced founders could help address these issues.

Despite the positive developments of the fintech sector in Southeast Michigan, many companies have not yet reached scale. An analysis of the local fintech network identified very few connections between entrepreneurs in terms of mentorship and investment, which are important activities for helping younger companies grow. In addition, access to managerial talent and local fundraising are two barriers that fintech founders face when scaling their companies. The fintech ecosystem is relatively young, which can make attracting qualified executives more difficult. Furthermore, low levels of local investment make it harder for founders to raise capital for their companies.

3. There are several strategies that decision makers can adopt to leverage fintech as one of Southeast Michigan's competitive advantages in entrepreneurship.

Recommendation 1: Diversify influence in the fintech entrepreneurship community. Social network analysis suggests that the fintech entrepreneurship community in its current state is dependent on Quicken Loans founder Dan Gilbert. Decision makers should help open the network to new pillars of influence, and design opportunities where new generations can interact with founders at scale in a curated setting. It is especially important to build an entrepreneurship community that is more inclusive of founders of color and women founders.

Recommendation 2: Leverage the Southeast Michigan diaspora. In order to scale, founders need to address existing challenges in hiring and fundraising. Members of the Southeast Michigan diaspora might help address these challenges. Decision makers can leverage Southeast Michigan's strong connections to its diaspora, and curate events focusing on the greatest challenges founders have faced, such as hiring and fundraising for scaling companies.

Recommendation 3: Think and act regionally. Individual cities in Southeast Michigan have isolated strengths that can contribute to the growth of their own fintech communities. Fintech founders can benefit from the combined resources regionwide, and tap into a larger network, broader talent pool, and more capital. Local support organizations in Detroit and Ann Arbor can play a vital role in facilitating this exchange between cities.

Recommendation 4: Elevate the examples of scaled founders, mentors, and investors. Local leaders should promote and champion founders who have already reached scale to bring greater visibility to the importance of entrepreneurship in the region. Given the strength of the local fintech sector in the region, leaders can amplify these stories to foster greater attention to up-and-coming fintech leaders. Local leaders should also publicly acknowledge mentors and investors who have supported high-potential entrepreneurs. Moreover, decision makers should consider promoting the fintech sector as one of the region's competitive advantages in local and national media campaigns, and ensure founders highlighted are representative of Southeast Michigan's diverse communities.

* The analysis for Southeast Michigan in this report are based on the following seven counties: Livingston; Macomb; Monroe; Oakland; St. Clair; Washtenaw; and Wayne. Where county-level information was unavailable, data for the Detroit-Warren-Dearborn and Ann Arbor metropolitan statistical areas was used, which includes Lapeer County and excludes Monroe County. Endeavor Insight's research on the region's competitive advantages in entrepreneurship identified six groups of larger, high-value, entrepreneurial companies operating in a similar industry and given geographic area. These 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. For more information, please see the report titled "Southeast Michigan's Competitive Advantages in Entrepreneurship" available at endeavor.org/semi-cae.

† Jason Raznick, a prominent financial technology entrepreneur based in Detroit, defines fintech as tools that innovate and bring solutions to the banking, lending and capital markets. Previous Endeavor Insight network mapping projects have defined financial technology as a technological solution dedicated to enabling financial services.

INTRODUCTION:

Southeast Michigan Needs to Diversify Its Economy and Leverage the Region's Competitive Advantages in Entrepreneurship.

The COVID-19 crisis exposed Southeast Michigan's continued dependency on the automotive industry.

For several years leading up to 2020, Southeast Michigan's economy was steadily improving. Detroit was celebrated across the country for the successful revitalization of its downtown areas, and entrepreneurs and students were looking to move to Detroit.[1] In February 2020, seven years after the city declared bankruptcy, Moody's gave the city's rating a positive outlook, citing, among other considerations, its "improved job base" and "rising tax benefits."[2]

A month later, the COVID-19 pandemic hit, exposing age-old structural problems in Southeast Michigan's economy.[3] The State of Michigan continues to depend on the auto industry, which the Brookings Institution identified as one of the most heavily and immediately impacted industries in the crisis.[4] By mid-April, the Washington Post reported that roughly a quarter of Michigan's workforce had applied for unemployment benefits.[5] The outlook in the city's rating was revised to stable, then negative.[6] By May 2020, Detroit was one of the hardest hit areas by the economic effects of the pandemic in the United States.

Southeast Michigan needs to leverage existing competitive advantages in entrepreneurship in order to diversify its economy.

Endeavor Insight research suggests that regions have certain competitive advantages in entrepreneurship that decision makers can leverage to diversify local economies. Companies that are larger (employing 50 or more people) and operating in high-value industries are closely linked to important outcomes in cities, such as job creation and higher productivity. There is also evidence from the aftermath of the 2008 Financial Crisis that companies like these tend to be more resilient in times of crisis because they shed fewer employees.[7]

In 2019, with support from the William Davidson Foundation, Endeavor Insight scanned the region for these productive companies and found that Southeast Michigan is fortunate to have several of them. These valuable companies are concentrated in six sectors that are more prevalent in Southeast Michigan compared to the rest of the United States, giving the region a competitive edge.* These sectors are lending and financial services, specialty food and beverage manufacturing, software, consulting, shipping and logistics, and marketing and branding.†

* For more information, see the full report on Southeast Michigan's Competitive Advantages in Entrepreneurship at endeavor.org/semi-cae.

† The analysis on local competitive advantages in entrepreneurship is based on the North American Industry Classification System (NAICS). Under this system, lending-based businesses and financial services firms correspond to Credit Intermediation and Related Activities and Other Financial Investment Activities.

All six groups of local companies operate in sectors outside the traditional automotive industry. The findings of this study found that by devoting support to these six groups, decision makers can further diversify the economy and help the companies with the greatest capacity to create large numbers of local jobs. Although this research was conducted before the onset of the COVID-19 pandemic, the findings are even more relevant and necessary for increasing Southeast Michigan's economic growth and resilience.

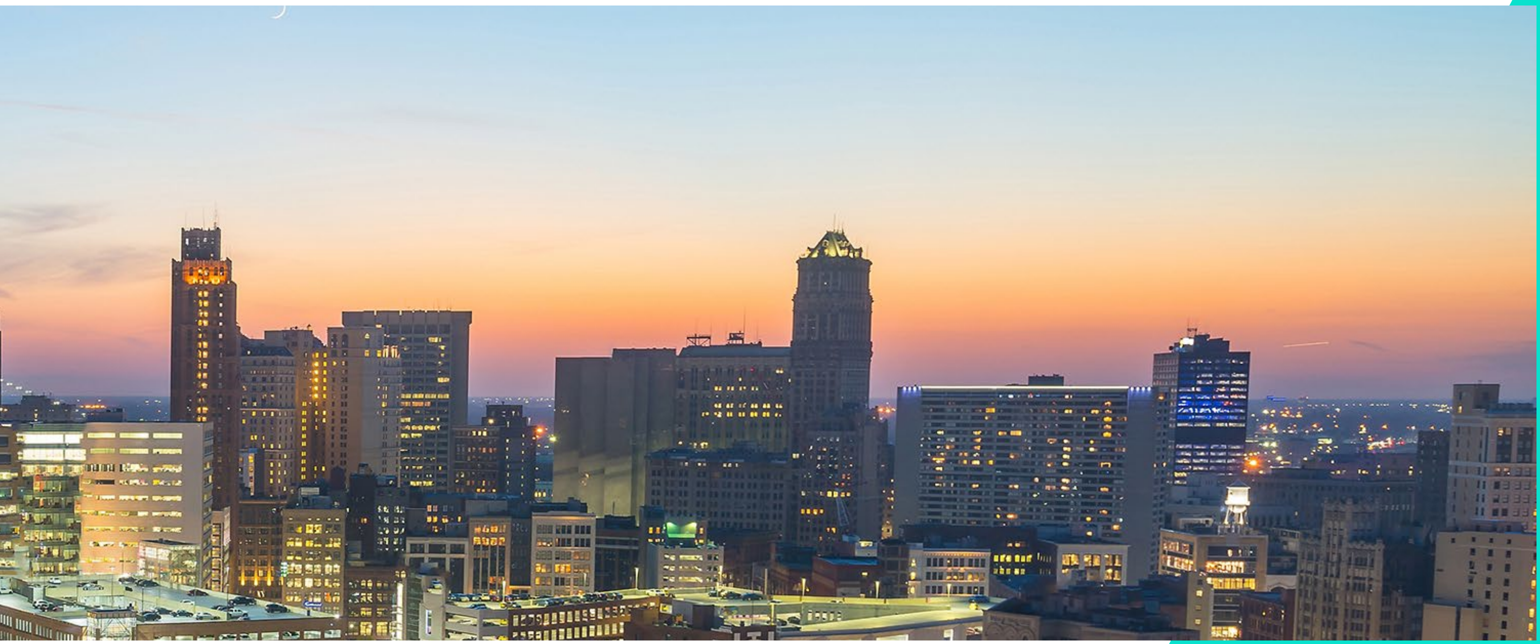
Fintech is emerging as an important pillar of the local economy.

Endeavor has partnered with the William Davidson Foundation to better understand the financial technology, or "fintech," entrepreneurship community. This report provides information on how decision makers in the private and the public sector can support the growth of fintech companies in Southeast Michigan. For this research, the pathways of over 67 local founders from 55 fintech companies were analyzed to understand how they built their companies, and what challenges they encountered along the way. The report also includes social network analysis to help identify opportunities where decision makers can support fintech entrepreneurs by leveraging network effects in the entrepreneurship community.

A specific segment of financial services firms has taken on a crucial role nationwide to keep the economy going during the COVID-19 crisis.

The closure of retail banks during the 2020 lockdown led to a surge in demand for fintech apps and online banking, bringing fintech companies to the fore.[8] Credit and lending institutions assisting national economic bailout efforts needed fast-scaling solutions, and business-to-business (B2B) fintech companies were well placed to deliver faster payment solutions.[9]*

In Southeast Michigan, local fintech companies saw a spike in demand for their services and stepped up to partner with financial institutions and the state government to help small businesses get paid. **Credibly,** a multi-lender borrower platform, was approved as a Paycheck Protection Program funder and helped small businesses receive streamlined access to federally-backed COVID-19 stimulus funding.[10] **Autobooks,** an online accounting platform, waived monthly fees for customers in 2020, and developed ways to facilitate business transactions for small businesses in the crisis.[11]



* Evidence from Milan, Italy also suggests that fintech may have a longer-term role in keeping the economy growing in geographies like Southeast Michigan that rely heavily on manufacturing.

1. Local Fintech Companies, Which Played an Important Role During the 2020 Lockdown, Are Driving Growth in the Financial Services Sector.

Fintech has become a primary driver of growth among local lending-based businesses and financial services firms.

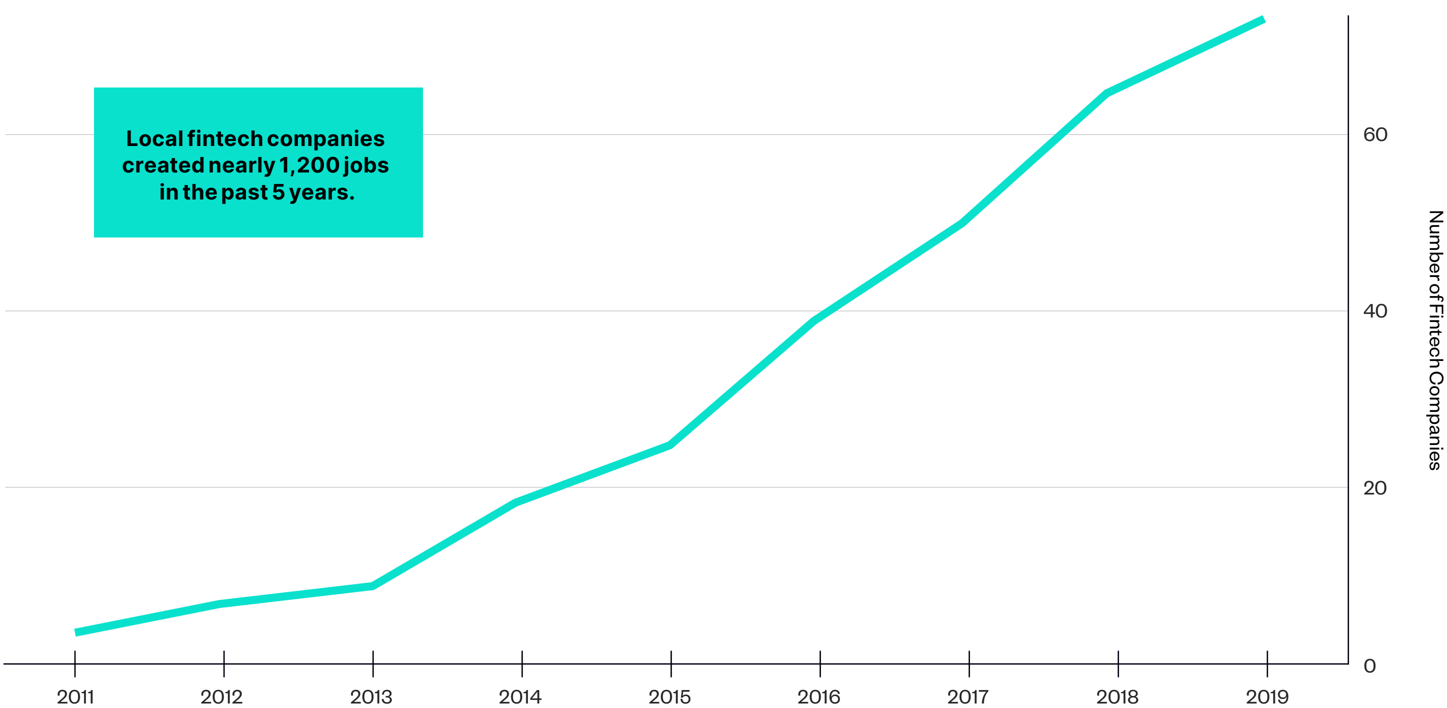
In the past decade, the proportion of new lending-based businesses and financial services firms founded in Southeast Michigan was higher than the nearby metropolitan areas.[12] Most of these are fintech companies, defined here as businesses that offer a technological solution dedicated to enabling financial services.

During this time, new fintech companies were not only prevalent within the sector, but they were also a primary driver of job growth. Of the new lending-based businesses and financial services firms founded in the last decade in Southeast Michigan, eight achieved rapid growth and scaled to 50 or more employees. Importantly, seven of these fast-growing businesses were fintech companies.[13]

The success of newer fintech companies was not limited to the number of jobs created. There are several examples of companies that have attracted significant capital to the area.

- **Benzinga** is a Detroit-based financial media company aiming to provide investors with real-time news and unique market analysis. It was founded by Jason Raznick in 2010 and has raised a total of $4.5 million. Raznick also leads the Detroit Fintech Association, a nonprofit aiming to build mentorship opportunities between local fintech entrepreneurs.[14]
- **Autobooks** was founded in 2015 by Steve Robert, who has raised a total of $47.8 million in funding. His company focuses on digital banking solutions for small businesses.[15]

CUMULATIVE GROWTH OF FINTECH COMPANIES IN SOUTHEAST MICHIGAN BETWEEN 2011 AND 2019



Note: Based on 55 fintech companies founded or headquartered in Southeast Michigan.

Sources: Endeavor Insight analysis, Dun & Bradstreet; LinkedIn; and Crunchbase.

Much of the growth of the fintech sector stems from one digital lending company.

Endeavor Insight analyzed the local fintech sector according to seven sub-industries, as the chart below illustrates. **Companies that specialize in investment and capital markets technology make up the largest proportion of fintech companies in Southeast Michigan, but more digital lending companies are scaling.** Endeavor Insight analysis found that digital lending companies were more likely to have 50 or more employees.[16]

The recent growth of the digital lending industry started with **Quicken Loans,** one of the first companies in the country to offer online mortgage lending. The company was launched in 1985 as Rock Financial by entrepreneur Dan Gilbert, along with his friend and his brother. In 2000, Quicken Loans (now under its new name) shifted its fundamental business model from brick-and-mortar operations to an online platform, a move that eventually led to its dominance of the national home lending market.[17]

Over time, the company grew to employ approximately 17,000 local employees, making it the largest employer and taxpayer in the city of Detroit. The success of its online platform was apparent by 2018. In the first quarter of that year, its financial technology platform originated $20.5 billion in loan volume, outpacing its nearest competitor, Wells Fargo, by more than $4 billion.[18]

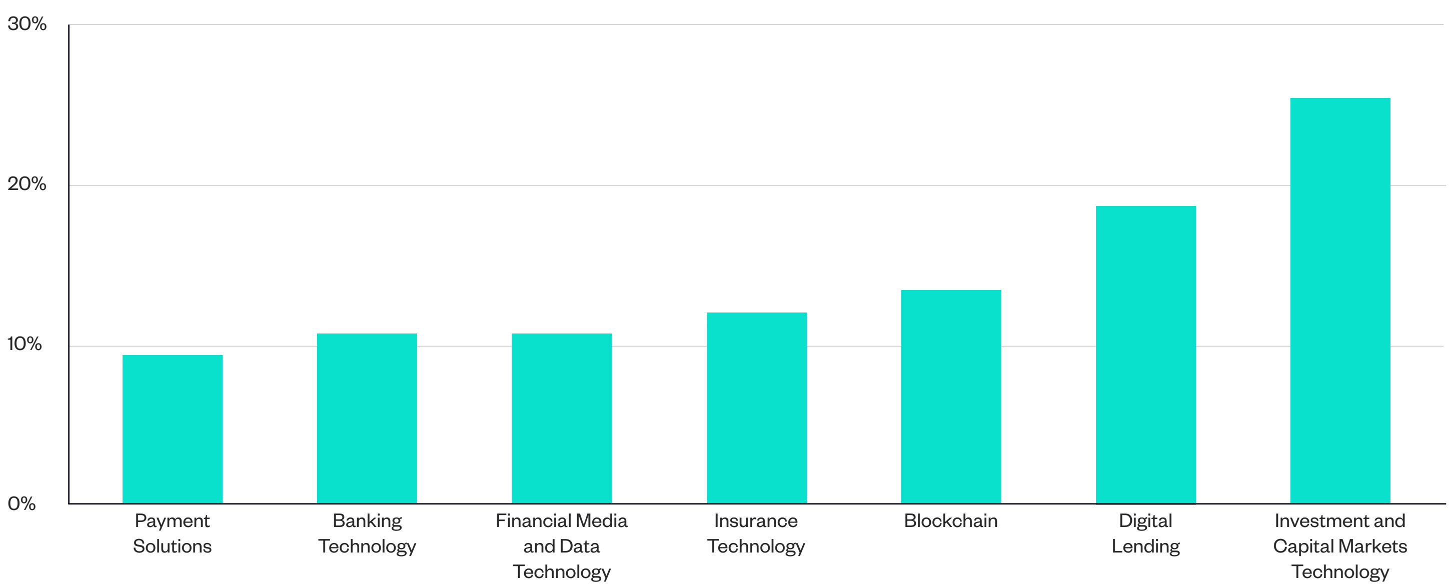
Quicken Loans has made significant contributions to the local community through philanthropy and direct investment in local residential and business development. Through its parent company, Rock Holdings, it has acquired several notable fintech companies, and invested in or supported local early stage fintech businesses.[19]

Fintech companies need specific resources to grow.

The success of Quicken Loans exemplifies how fintech companies can achieve significant scale. Quicken Loans was able to succeed as a mortgage lender in part because the founders were experienced, and because Gilbert focused on building the business around the customer service experience. They also benefited from the area's low operational costs and high quality talent pool. Most of the Quicken Loans leadership team are Michigan State University graduates, including founder Dan Gilbert and CEO Jay Farner.

Previous Endeavor Insight research of fintech sectors shows similar patterns. Fintech companies founded by experienced executives, especially those with financial services backgrounds and those who have access to strong talent pools, tend to scale more than others.[20] Quicken Loans may have been one of the first cases to demonstrate how fintech companies grow in Southeast Michigan, but its story is evidence that the region has numerous assets to support other founders in the sector.

PERCENTAGE OF COMPANIES OPERATING WITHIN SOUTHEAST MICHIGAN'S FINTECH SUB-INDUSTRIES



Note: Based on 55 fintech companies founded or headquartered in Southeast Michigan. Sub-sectors were determined for each company by Endeavor Insight using the descriptions from the S&P Global Market Intelligence 2018 U.S. Fintech Report.

Sources: Endeavor Insight analysis; LinkedIn; and Crunchbase.

The region has many resources available to fintech entrepreneurs.

As the local fintech sector has grown, so too has support for local founders. The New Economic Initiative (NEI) was launched in 2007 as a $100 million fund to drive local entrepreneurship.[21] In addition, organizations such as Endeavor Detroit and TechStars Detroit have supported entrepreneurial growth in the region through a series of mentorship and grant programs.[22]

In order to gain a deeper understanding of how fintech founders, in particular, have benefited from this increase in entrepreneurship support, Endeavor Insight interviewed more than 30 local founders. Nearly two-thirds of respondents noticed positive growth of the fintech sector in the past five years. Looking ahead, over two-thirds of these founders felt positive about the future state of their entrepreneurship community.[23]

Some founders mentioned that recent success stories in Southeast Michigan have helped to shift investors' perceptions of growth opportunities in the area. One of the four companies valued at $1 billion in the region, **OneStream Software,** is a fintech company. Founded in 2010, the company leverages technology to unify and simplify financial consolidation, planning, reporting, analytics, and financial data quality for organizations. (Beyond its unicorn status, the company also employs over 500 people in Detroit, and in 2019 it was also named one of the top places to work by the Detroit Free Press.) [24]

Endeavor Insight also asked founders about other local assets that have helped their businesses. In response, many founders emphasized the pool of talent and networks that local universities provided.* For instance, the University of Michigan, a nationally ranked university based in Ann Arbor, boasts a vibrant entrepreneurial culture. Michigan Fintech is the first and largest student-led initiative focused on fintech entrepreneurship at the University of Michigan.[25] Wayne State University, located in Detroit, has various degree programs related to fintech, and Detroit Fintech Bay, a local fintech incubator, has a workspace and accelerator program located on campus.[26]

The second most commonly cited advantage was affordability. For example, the median monthly rent in the region is $ 1,100 (for an average-sized 800-square-foot apartment), which is well below the national average. By comparison, Silicon Valley's median rent is $1,629, and apartments are about 10 percent smaller on average.[27]

Local fintech founders are enthusiastic about their entrepreneurship community and are committed to staying in the region. The benefits of operating a fintech company in the region have shaped how these founders consider their future. More than two-thirds of the founders interviewed mentioned that they planned to continue living in the region for at least the next three years or indefinitely.[28]

* Michigan-based universities are important to the larger sector. When reviewing the founders from all of the lending-based businesses and financial services firms in this study, more than half received a degree from a Michigan-based university, with nearly one-third of founders receiving their education from the University of Michigan.

2. Though Many Resources Are Available, Fintech Entrepreneurs Face Significant Barriers in Scaling. Support from Experienced Founders Could Help Address These Issues.

Connectivity among fintech founders in Southeast Michigan is low.

Social networks shape the ways in which entrepreneurship communities develop. Endeavor Insight analyzed the connections that exist among fintech companies in Southeast Michigan using a methodology developed by members of the Global Entrepreneurship Research Network.* The resulting network map can be found on the next page.

This methodology looks at four specific relationships among founders and their companies: serial entrepreneurship; former employment; mentorship; and investment. These connections illustrate the ways in which local founders take the knowledge and other resources acquired from founding one firm and use it to support others. By studying the relationships in entrepreneurship networks, it is possible to follow the movement of people, knowledge, and capital, and use this to draw lessons on the state of the entrepreneurship community.

Each entrepreneurial company is represented by a blue circle, and each entrepreneurship support organization or investment firm by a gray circle. The size of each circle on the map represents a founder's influence on the community as measured by their outward employment, mentorship, and investment connections to other members of the network.

Each concentric ring on the map represents a time period in the entrepreneurship community's life and helps demonstrate the growth of the network over time. In later time periods, the rings are noticeably more crowded; most new companies were founded in the past 10 years.

A closer look at the network reveals that mentorship and former employment connections between fintech entrepreneurs are rare.

Even though a relatively large number of founders reached scale, very few of them worked at other local fintech companies before starting their own, and 80 percent of those who did worked at Quicken Loans. Even fewer fintech founders moved on to start other fintech companies in the sector as serial entrepreneurs. In addition, few local companies have received investment from another local fintech company.*

According to Endeavor Insight research, connections play an important role in helping entrepreneurship communities create jobs. When experienced entrepreneurs mentor new entrepreneurs, when they make angel investments in others, and when entrepreneurs gain experience working for companies at scale, new companies are significantly more likely to grow and employ 50 people or more.

The nature of these connections also influences company growth rates. For example, founders that work at a company with 100 or more employees before starting their own firm are nearly twice as likely to build high-growth companies as their peers.[29] Founders who receive mentorship from experienced entrepreneurs are two to three times more likely to build high-growth companies. When it comes to challenging moments in scaling a company, these potential mentors can provide valuable advice to new founders because they have solved similar challenges in the past.[30]

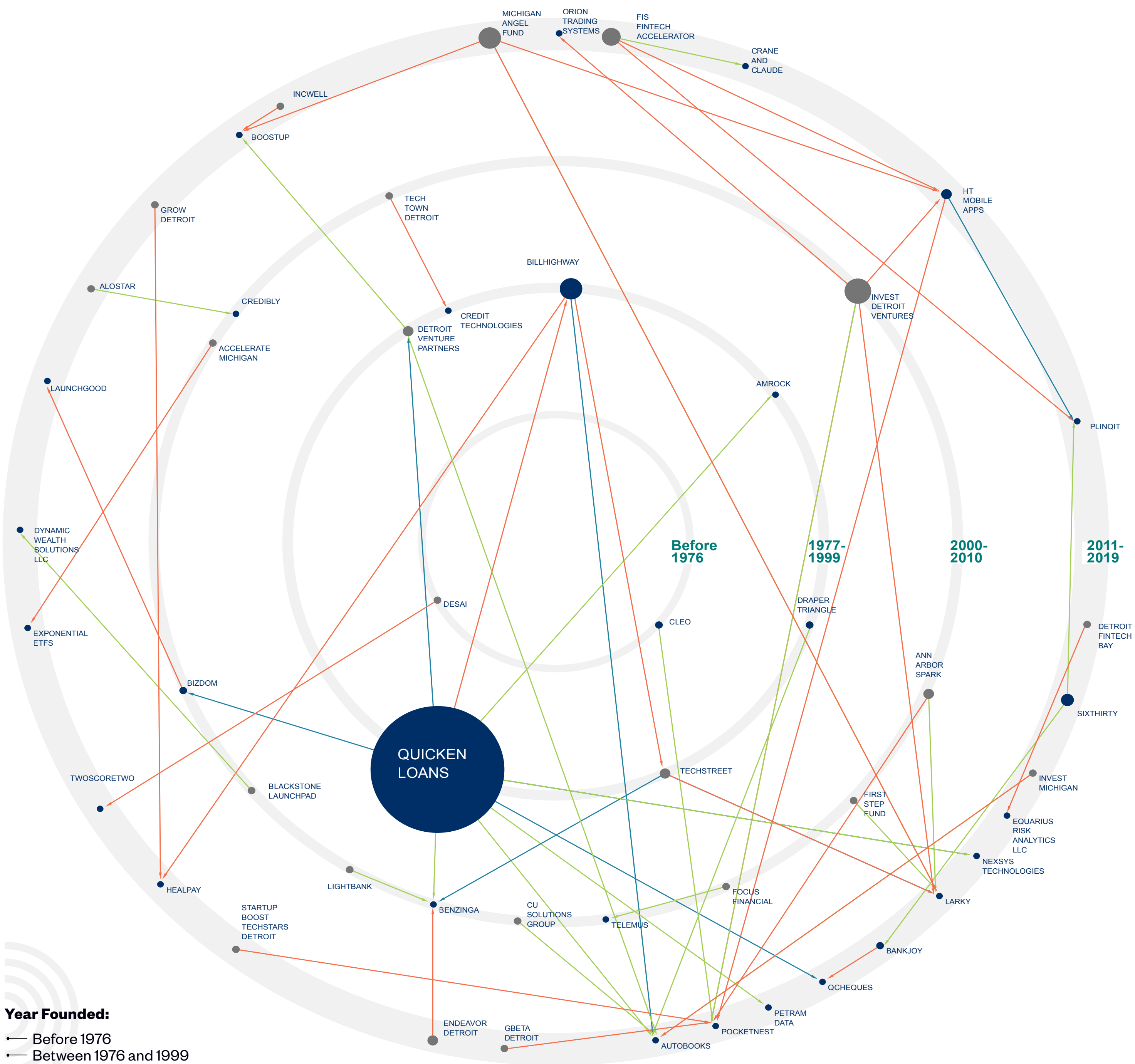
The fintech network is heavily dependent on a single entrepreneur: Quicken Loans founder Dan Gilbert.

Most connections in the network today continue to trace back to Quicken Loans, a company founded in 1985. Over half of the companies on this map can be traced directly or indirectly back to Quicken Loans, making Gilbert and his company disproportionately influential in the network.

The few founders who are not already connected to this pillar of influence are likely not benefiting from the resources that Quicken Loans and its broad network provide, which constrains the prospects of those unconnected founders. In entrepreneurship communities that are centralized around a single actor, the members of the community without connections to existing leaders may be excluded from resources like capital or information. This phenomenon can make the local network more fragile.

* For the purposes of this analysis, only investment firms with at least two investments in the Southeast Michigan area were included in the research.

VISUALIZATION OF THE ENTREPRENEURIAL FINTECH NETWORK IN SOUTHEAST MICHIGAN



Year Founded:

- Before 1976
- Between 1976 and 1999
- Between 2000 and 2010
- Between 2011 and 2019

Connections:

EXPERIENCE: Former employment or serial entrepreneurship

SUPPORT: Mentorship or program participation

INVESTMENT: Angel or venture capital

Note: This analysis is based on Southeast Michigan fintech companies, investors, and local support organizations.

Actors:

Entrepreneurial Companies

Other Organizations

(e.g., accelerators, investment firms)

The size of the circle reflects the number of connections originating from the founders of each company or the leaders of each organization. Founders and leaders are represented by their most prominent company or organization.

Previous international research has shown that networks with multiple pillars of influence contribute to more productive entrepreneurship communities where more companies reach scale. In a range of geographies from Buffalo, New York, to Bangalore, India, network analysis of local tech sectors show that dense entrepreneur networks led by more than a single experienced founder tend to have more companies that scale and create more jobs.[31]

In Southeast Michigan, fintech founders with connections to Quicken Loans had a clear advantage. They were significantly more likely to scale in the past 10 years than others. Of the six companies that grew to 50 employees or more in the past 10 years in Southeast Michigan, several had direct connections with Quicken Loans, including Benzinga and Autobooks. Those with no connections to the network experienced specific challenges, especially in terms of customer access and fundraising.

The fintech network in Southeast Michigan does not reflect the diversity of the business community.

Patterns of influence shape entrepreneurship communities over time. Influential individuals tend to transmit their values through these networks. The network map of Southeast Michigan's fintech community illustrates a principle observed in network systems commonly referred to as "like-attracts-like," where network members tend to build relationships with people who share common characteristics.[32]

Most fintech founders reviewed in this study were white and, of the fintech founders interviewed, the majority identified as men. When looking more closely at connections among people of color and women founders in the local fintech sector, there are even fewer connections among entrepreneurs that have scaled a company in all categories of mentorship, investment and former employment.

Entrepreneurial networks that are overly homogenous are less productive. Networks that reflect these qualities often only attract similar-minded people and backgrounds, resulting in less diversity in perspective overall. These types of networks also constrain the prospects of founders not already connected to influential individuals.

Fintech founders are facing challenges with access to talent and capital.

In addition to the challenges presented by the state of the local network, founders identified two other key barriers to scaling their companies. In interviews with local fintech founders, Endeavor Insight asked about the challenges they faced in operating their businesses. These challenges were assessed across three key areas: access to talent; access to capital; and access to customers.

Access to talent. Founders highlighted the myriad benefits of having nationally ranked universities nearby. They often noted that this proximity allowed them to recruit junior staff easily and to benefit from a vibrant entrepreneurial atmosphere.

Despite having access to skilled talent from universities and an abundance of traditional financial services talent in Detroit, founders found it difficult to find qualified managerial talent. Nearly two-thirds of respondents ranked it as a serious or very serious obstacle to running their business. Executive and other top managerial roles require industry-specific skill sets. Many founders noted their primary challenge was finding individuals with the relevant work experience in fintech specifically.

Another reason why founders struggled to fill senior managerial positions is that the sector is relatively new. About half of the fintech companies in the area were founded in the last 10 years. As a result, there are few local executives and other top managerial candidates with experience in scaling an entrepreneurial fintech company, such as managing exponential growth in the number of employees or late-stage fundraising. The shortage of managers who can lead rapidly scaling companies means that founders need to attract applicants from elsewhere. This is particularly challenging for founders of early stage companies and those without name recognition.

It was less challenging for founders to secure technical talent. Even so, nearly half of the founders interviewed considered finding technical talent to be a serious or very serious obstacle. Founders mentioned that the demand for top technical talent in Southeast Michigan has been growing and consequently, filling technical roles has become more competitive and more expensive.

Access to capital. Access to capital was a secondary challenge for founders, with more than half of the respondents considering it a serious or very serious obstacle. There is a large amount of private wealth in Southeast Michigan, yet local investors tend to be risk-averse. Fintech entrepreneurs often have to look outside of the region for funding at both early and mid-stage rounds. For example:

- **Credibly,** a company offering loan solutions for small businesses, has raised $70 million of funding in total, but all capital investment has come from outside of the region; and
- **Clinc,** which builds AI virtual assistants for financial institutions, raised nearly $60 million in total across four funding rounds, yet five of the six investors were from outside of Southeast Michigan.

Access to customers. Only one-third of respondents cited access to customers as a serious or very serious obstacle. Many fintech entrepreneurs described that being based in Southeast Michigan offered no present disadvantage to building a larger customer base.

However, entrepreneurs with a B2B model (those developing products for financial institutions) mentioned some notable barriers. Traditional financial institutions tend to be more financially conservative and often bureaucratic. As a result, they are slower to adopt new financial technologies, making it harder for fintech entrepreneurs to sell their products.

3. There Are Several Strategies That Decision Makers Can Adopt to Leverage Fintech as One of Southeast Michigan's Competitive Advantages in Entrepreneurship.

The COVID-19 crisis is an important reminder that Southeast Michigan needs to diversify its economy and become less dependent on the automotive industry. Decision makers should look to the entrepreneurial assets already present in the community as it navigates the resulting economic shocks.

Lending-based businesses and financial services firms make up one of the region's competitive advantages in entrepreneurship, and they are emerging as an important pillar of local economic recovery. Fintech is the financial services segment that is most likely to provide substantial economic benefits, as demonstrated by the sector's resilience during the recent crisis.

But fintech companies need to scale in order to drive job growth. Companies that scale drive job creation, and evidence from the aftermath of the 2008 crisis suggests that such companies were less impacted by the economic downturn than smaller firms.[33]

There are a several strategies that decision makers in the public and private sectors can follow to help fintech companies scale, and leverage fintech as one of Southeast Michigan's competitive advantages in entrepreneurship. Local leaders can use the following four practical recommendations as a guide.

1 Diversify Influence in the Fintech Entrepreneurship Community.

Social network analysis of the current Southeast Michigan fintech entrepreneurship community shows that the network is currently dependent on a single person: entrepreneur and investor Dan Gilbert, the founder of Quicken Loans. Research suggests that centralized networks are more exposed to risk than those with several centers of influence, and as of this writing, Quicken Loans is operating in a difficult economic climate that has already heavily impacted U.S. real estate markets.[34]

To diversify influence in the entrepreneurship community, decision makers should: 1) work to open the network to new pillars of influence by involving more successful fintech founders as leaders of new and existing support initiatives; and 2) curate opportunities where new generations of scaling founders can interact with founders at scale in a dedicated setting. Decision makers can organize highly curated pitch sessions where experienced entrepreneurs can invest in scaling founders. Such sessions have often yielded positive results. Endeavor's experience in organizing such events in the COVID-19 crisis suggests that pitching is easily adapted to an online video format.

Decision makers should also build a network that is more inclusive of founders of color, who already faced special barriers in access to financial and social capital prior to the COVID-19 crisis, and now are disproportionately affected by it. Decision makers should track the pathways of founders of color, address the needs they report, and work to increase diversity among support organization leadership.

2 Leverage the Southeast Michigan Diaspora.

In order to scale, founders need to address existing challenges in hiring and fundraising. Members of the Southeast Michigan diaspora can help local founders overcome these obstacles. Endeavor Insight research from other geographies suggests that communities outside Silicon Valley can rely on founders who have moved away from their hometowns to help more entrepreneurs scale.[35]

Decision makers can support and fund more networking opportunities that connect local founders of scaling companies with experienced founders living outside the community. Local founders could tap into the talent pool of former Southeast Michigan residents who have moved away to tech hubs. These Southeast Michigan "expats" could also become angel investors in the community. For example, city leaders can invite experienced entrepreneurs to visit home and attend events to meet with local founders and discuss topics like hiring and vetting candidates for senior manager positions.

The COVID-19 crisis has also demonstrated that tech-enabled companies are already savvy at leveraging online environments. Therefore, leaders can also leverage the opportunity presented by Southeast Michigan's existing connections to its diaspora, and curate virtual events focusing on hiring and fundraising for scaling fintech founders.

3

Think and Act Regionally.

Individual cities in Southeast Michigan have isolated strengths that can contribute to the growth of their own fintech communities. For instance, Ann Arbor has a nationally ranked university with a large talent pool, while the largest national online lending company is headquartered in Detroit. By working together as a region, decision makers have more opportunities to pool resources for the entire entrepreneurship community.

Fintech founders can, therefore, benefit from combining resources regionwide to tap into larger networks, a broader talent pool, and more capital. Previous research in Denver and Boulder tells a similar story. Boulder founders who scaled often moved some of their operations to Denver, where operational costs and rent were significantly cheaper. When founders needed advice, they often found it in the network of seasoned tech entrepreneurs in Boulder. Both cities thrived as a result of this exchange. Entrepreneur-focused podcasts broadcasting from Boulder remain very popular in Denver.

Local support organizations in Detroit and Ann Arbor can do more to facilitate this type of exchange between cities. Endeavor Insight identified many local organizations that provide support to entrepreneurs, including accelerators, incubators, and co-working spaces. Decision makers should work together to distribute their resources effectively. An increasingly virtual event culture presents an opportunity to extend the scope of job fairs and networking events to include all of Southeast Michigan. Podcasts, an increasingly popular medium in entrepreneurship circles nationwide, can also serve to expand the limits of local networks.

4

Elevate the Examples of Scaled Founders, Mentors, and Investors.

Local leaders should promote and champion founders who have already reached scale to bring greater visibility to the importance of entrepreneurship in the region. Based on previous Endeavor Insight research from New York City and Istanbul, founders are often inspired to follow the path of entrepreneurs who have successfully scaled when they see their stories celebrated in the media.

Given the strength of the fintech sector in the region, local leaders can amplify these stories to bring greater attention to up-and-coming fintech leaders. Furthermore, decision makers can showcase Southeast Michigan fintech companies that have worked hard to support small businesses and customers during the COVID-19 crisis.

Local leaders should also publicly acknowledge mentors and investors who have supported high-potential entrepreneurs. This can build a stronger and more engaged community. Anecdotal evidence from Boulder, Colorado and Buffalo, New York indicates that in communities where angel investing and mentorship are highly valued, accomplished entrepreneurs are more likely to dedicate time to community engagement.

Additionally, decision makers should consider promoting the fintech sector as one of the region's competitive advantages in local and national media campaigns, and ensure founders who are highlighted are representative of Southeast Michigan's diverse communities.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SAVCO HOSPITALITY
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Methodology

Competitive Advantages in Entrepreneurship:

Endeavor Insight identified Southeast Michigan's competitive advantages in entrepreneurship in a 2019 study by scanning the region for industries with a high concentration of larger, high-value, entrepreneurial companies.

The methodology and results of the study were developed in partnership with the William Davidson Foundation. Additional details can be found in the report titled "Southeast Michigan's Competitive Advantages in Entrepreneurship," available at endeavor.org/semi-cae.

Sampling Frame:

Companies were considered "targets" and included in the sampling frame if they met the following criteria:

1. The company is local. Companies were included if they were:

a) founded in Southeast Michigan, or

b) currently headquartered in Southeast Michigan after they were founded elsewhere.

Target companies also included businesses that have closed after being founded or headquartered in the area, or those that have been acquired after being founded or headquartered in the area.

For the purposes of this research, Southeast Michigan was 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.

2. The company's industry falls within the sector covering lending-based businesses and financial services firms.

Lending-based businesses and financial services firms were defined as companies providing financial services focused on lending, banking, and financial advisory offerings.

Fintech was defined as tools that innovate and bring solutions to the banking, lending, and capital markets. Fintech is a technological solution dedicated to enabling financial services.

Fintech includes software companies operating in the financial services industry including cryptocurrency companies.

Fintech does not include financial services companies that would exist in the absence of the software solution such as banks that have a website or allow e-transfers.

3. The company is entrepreneurial.

Entrepreneurial companies are those started by individuals. This excludes businesses that began as either:

a) Government entities, or

b) Local divisions of corporations based in other cities.

Data Collection:

The data collected for this project comes primarily from surveys and interviews with local entrepreneurs and stakeholders.

This study began by compiling a primary company list from multiple sources, including Pitchbook, D&B Hoovers, and Crunchbase, as well as the portfolio companies of investors and entrepreneurship support organizations operating in Southeast Michigan.

Only those that were target companies moved forward for further investigation i.e., those founded or headquartered in Southeast Michigan, with entrepreneurial origins, and in the selected industry.

Entrepreneurs from the target list received invitations to fill out an online survey or set up an interview (either in person or over the phone). This mass outreach campaign used standard questions, but the interviews were adapted to be more conversational.

Endeavor Insight maintains confidentiality, and collected data is accessible only to Endeavor Insight and its research partners.

In order to ensure that the company list was comprehensive, a secondary list of companies was compiled from those mentioned in the interviews and surveys that were not already on the primary list. The secondary list also included additional companies sourced from the portfolio companies of those associated with the new mentions.

The secondary list also included new companies found on LinkedIn while collecting data on entrepreneurs and companies. These secondary targets then received invitations to complete surveys and interviews.

Network Analysis:

The network analysis process within an entrepreneurship community typically lasts six to nine months, from the preliminary data gathering to the concluding analysis.

Previous research by Endeavor Insight has found that there are four main connection types among entrepreneurs that drive the growth of an industry. These are:

1. Investment;
2. Mentorship;
3. Serial entrepreneurship; and
4. Former employee spinoffs.

To learn about these connections within entrepreneurship communities, the surveys and interviews discussed above focused on five core questions:

1. Who invested in your company? (This includes both angel and institutional investors.)
2. Who was your mentor during the growth and development of your company?
3. Have you founded other lending-based businesses and financial services firms in Southeast Michigan?
4. Which of your former employees have gone on to found lending-based businesses and financial services firms in Southeast Michigan?

The survey and interviews also asked about work and education history. LinkedIn provided data to fill in the gaps for founders who did not respond. The responses to these questions formed an edge list of connections among organizations, along with a corresponding set of four types of outbound connections. The edge list then informed all subsequent network analysis and created the network map visualization.

For each network analysis, each founder was assigned to only one company or organization. Where an entrepreneur had founded multiple companies, his or her most prominent company represents his or her influence in the analysis and on the map. This was based on an index of founding date, number of employees, total investment, and exit sizes.

The size of a company's influence in the network was based on directed closeness centrality for unconnected graphs. In other words, the size of an organization was a function of the number of first-, second-, third-, etc. degree connections that the organization and its entrepreneurs had to others in the network.

There was no limit to the degrees of separation that factored into the centrality score. For example, if one mentor led to a chain of mentorship among entrepreneurs, the original mentor's centrality score will increase even if the mentor only directly mentored one entrepreneur. All connections on the map were weighted equally. Financial numbers and employee counts did not factor into an organization's centrality.

Connections accrue to an organization based on the time period in which the connections occurred. Where the year of a connection was unknown, two different approaches informed the date used in the study. Where year information for a former employee, investment, or founder connection was missing, it was assumed that the year of the connection between the source and the target companies was equal to the year the target company was founded. To estimate a mentorship relationship start year, authors reviewed mentorship relationships.

Companies were only included in the analysis if it was possible to identify their founding year. Companies that were no longer operating were included in the analysis if it was possible to find enough data to target them. For companies that were acquired, the number of employees at the time of acquisition were used. The proximity of companies in network mapping visualizations does not necessarily reflect the degree of connectivity. However, the maps will occasionally feature clustering sub-networks in order to emphasize the role of specific companies in the sector.

Limitations:

Omitted variables may have played a role in sampling, creating bias that would otherwise expose gaps in the research process. The study's double interview, verification, and analysis procedures were meant to offset any adverse effects. If gaps in or misinterpretations of the data were revealed during the analysis, the map and results were corrected.

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