SCALING UP IN THE MOTOR CITY

How to Accelerate the Entrepreneurship Ecosystem for Scaleup Companies in Southeast Michigan

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endeavor

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FOR SOUTHEAST MICHIGAN

SCALEUP CITIES SERIES
Entrepreneurship Assessment
EXECUTIVE SUMMARY

Southeast Michigan needs to generate 6,000 new jobs to return its unemployment rate to pre-Financial Crisis levels.

Unemployment in Southeast Michigan remains above its pre-crisis levels, and lags levels in peer cities. From just over 7% before the Financial Crisis, local unemployment peaked at 15% in 2009, and still remains at almost 8%. Even though more than 112,000 people have left the local labor force, there are still 14,000 more unemployed people today in Southeast Michigan than in 2007. In comparison, unemployment in peer cities like Cleveland and Pittsburgh remained under 8% through 2013. As the most populous region in the state of Michigan and an important bell weather for U.S. industry, Southeast Michigan will need to find new sources of growth to reduce unemployment and recreate the conditions that have made it home to some of the world’s largest companies.

Scaleups are some of the most important job creators across the world and have great potential to help reduce unemployment in Southeast Michigan.

Research in Southeast Michigan and across the U.S. demonstrates that scaleups—firms growing at 20% annually or more for three years—drive job creation. Between 2007 and 2012, Southeast Michigan’s unemployment rate increased from 7.6% to 10.1%, and in that same period, the number of Southeast Michigan scaleup firms declined by more than 50%, from 674 to 323. The correlation between job creation (or destruction) and scaleups firms is important because the average Southeast Michigan scaleup employed 25 times as many people as the average lower-growth firm. On average, scaleups created 94 jobs, compared to not a single job for lower-growth firms between 2009 and 2012.

There is a framework for action that leaders in Southeast Michigan can use to foster the development of more scaleup companies by improving the local ecosystem for high-growth companies.

Cities that wish to foster the growth of more scaleup firms and become hubs of entrepreneurship must foster the development of the local entrepreneurship ecosystem—the way individuals, companies, organizations and governments interact to influence the development of local entrepreneurs and their firms. This is the single most important task a city can undertake to improve its economy.

Successful ecosystems for high-growth companies follow a specific cycle of growth, in which local entrepreneurs who succeed in building scalable firms go on to reinvest their financial, intellectual, and
social capital into the next generation of local entrepreneurs and companies. This increases local access to funding, talent, and customers, which are the three most important resources for growing companies, and creates a virtuous cycle of growth.

Interviews with local entrepreneurs who have achieved high rates of growth or who aspire to do so suggest that the local ecosystem for scaleup companies has three major strengths and four key weaknesses.

Endeavor interviewed over 50 entrepreneurs from Southeast Michigan in the fall of 2014. These founders were divided into two groups. The first group includes the leaders of high-growth companies—defined as firms that have experienced 20 percent average annual employment growth for a period of three years or more in the last five years. The second group includes founders of high-potential companies. These firms were nominated by local investors or entrepreneurship organizations as having strong likelihood to experience high-growth in the next three to five years.

Interestingly, entrepreneurs in both groups shared very similar views. They reported that the local entrepreneurship ecosystem for high-growth companies has three major strengths: great quality of life, excellent access to customers, and access to a skilled workforce. However, founders in the city noted that the local ecosystem also has a number of significant challenges: poor access to capital, a lack of angel investing among founders, low levels of mentorship from successful entrepreneurs, and a relatively small number of former employees from these companies who go on to found new ones.

Endeavor will support high-growth companies in Southeast Michigan to improve their local ecosystem. Stakeholder interviews from the project also uncovered a number of promising ideas to address specific needs in the city.

The major weaknesses of Southeast Michigan’s ecosystem for high-growth companies closely match the challenges that Endeavor’s model addresses. Endeavor Southeast Michigan has identified almost 700 high-growth and high-potential companies in the Southeast Michigan area through this assessment. Each of these firms will be invited to apply to join the Endeavor network. The report also shares additional recommendations for improving individual aspects of the local ecosystem suggested by leading investors, government officials, and leaders of entrepreneurship organizations.
Southeast Michigan needs to create 6,000 new jobs to reduce its unemployment rate to 2007 levels.

Before the 2008 Financial Crisis struck, Southeast Michigan’s economy was already weak. Its unemployment rate was above its historical average and its local industries, particularly automotive manufacturers, were struggling. When the crisis struck, it hit the region much harder than most in the country. Unemployment peaked at over 15% and some of its largest companies went bankrupt. Six years later, the region’s unemployment rate, still a percentage point higher than its pre-crisis levels, ranked it 46th out of the 50 largest metropolitan areas in the country.¹

In December 2014, Southeast Michigan’s unemployment rate stood at 7.7%.² Even with over 112,000 Southeast Michigan citizens leaving the labor force, more than 6,000 people were still looking for work.³ Those who have left and those who stay in search of opportunity tell the story best: Southeast Michigan has one of the most challenging labor markets in the country. Economists have long noted the negative impact of unemployment, with the long-term unemployed suffering from reduced lifetime wages and worse health and educational outcomes for their children as a result.⁴ Only by creating new jobs can the region end the exodus of people and talent and support both its workers and their families.

### Change in the Relative Number of Southeast Michigan Companies by Type, 2007-2012

![Graph showing change in the relative number of Southeast Michigan companies by type, 2007-2012.](image)

**Note:** Scaleup firms are greater than three years old, have more than 10 employees, and have at least one three year period of employment growth greater than or equal to 20% between 2007 and 2012.

**Source:** Endeavor Insight analysis based on 2012 NETS Database data for the Detroit-Warren-Livonia MSA.
Scaleups employ more people, create more jobs, and are longer lasting than any other type of firm in Southeast Michigan.

A significant body of research demonstrates that scaleup firms are the drivers of job creation. In cities around the world, it is a small percentage of fast-growing firms that account for a disproportionate percentage of job growth. Analysis of data from the World Bank shows that firms that grow at an average of 20 percent or more during a three-year period typically represent 5–10 percent of the businesses in a country, but create more than half of the nation’s new jobs. In this way, scaleups have a direct and measurable impact on the economy. Nurturing these growing firms is an excellent way to reduce unemployment, create high-quality jobs, and catalyze lasting economic growth.

It is not the number of companies that exist in a region, but rather their growth ambitions that drive regional economic growth. In fact, between 2007 and 2012, despite adding over 50,000 new firms, Southeast Michigan’s unemployment rate jumped 2.5%.5 A closer analysis of the data reveals that the overall growth in the number of firms is met by a significant decline in the number of high-growth firms, with the region losing 50% of its scaleups in this time period. It is no surprise that after losing over 350 scaleups—declining from 674 in 2007 to 323 in 2012—the region continues to confront high unemployment.6

The Impact of Scaleup Firms on Job Growth, 2009-2012

Scaleups are the key to Southeast Michigan’s economic resurgence. Scaleups employ many more people per firm than either lower-growth or startup firms, with scaleups employing 153 people on average in 2012, compared to eight and two, respectively, for lower-growth and startup firms.7 Scaleups also create more jobs than other types of businesses, creating on average 94 new jobs between 2007 and 2012, compared to two and zero, respectively, for startup and lower-growth firms.8

Scaleups and the jobs they create are also durable. A 2008 study from the U.S. Small Business Administration found that only 3% of fast-growing startup firms failed in the four years after they experienced high-growth.9 A separate study in the journal of Small Business Economics likewise found that scaleups create long-term jobs. The authors examined Canadian firms with the fastest employment growth from 1985 to 1999 and found these firms to be resistant to job losses during periods of recession.10 Between 1990 and 2012, Southeast Michigan firms that had at least one period of high-growth lasted on average 19 years, while those firms that did not have a high-growth period survived just seven years.11

Finally, scaleups promote their employees’ professional development. As these companies grow and add new employees, workers who started in entry-level positions move into middle management, developing project management and governance skills along the way. These skills add value to the company and allow workers to improve their compensation. A recent EY report found that companies that are able to develop an “internal talent pipeline” will enjoy a competitive advantage.12 Scaleups are best positioned to create this pipeline and improve the broader economy’s human capital base.
There is a framework for action that leaders in Southeast Michigan can use to improve the local ecosystem for scaleup companies.

Cities that wish to spur the growth of more scaleup firms and become hubs of entrepreneurship must foster the development of the local entrepreneurship ecosystem that supports high-growth companies. The term “entrepreneurship ecosystem” describes the way individuals, companies, organizations, and governments interact to influence the development of entrepreneurs and their firms in a single metropolitan area or region. Participants in the ecosystem include entrepreneurs, investors, customers, suppliers, employees, and many other individuals and institutions.

Healthy ecosystems for high-growth companies enable entrepreneurs to access the resources they need to grow their companies and create jobs and values for their communities. Research suggests that the best ecosystems follow a specific cycle of growth, in which local entrepreneurs who succeed in building scalable firms go on to reinvest their financial, intellectual, and social capital into the next generation of local entrepreneurs and companies.

One of the most famous examples of this cycle can be found in Silicon Valley, where Endeavor Insight recently conducted a study into the creation of the local tech industry. While the San Francisco Bay Area is now a thriving tech hub, it was a very different place in the mid-1950s. At that time, the region lacked what are now considered essential components of a successful ecosystem: customers, talent, and growth financing. In fact, before the area South of San Francisco became famous for its computer chip companies, it was known for being the largest producer of prunes in the United States.\(^{13}\)

However, in 1957, eight entrepreneurs decided to do something that seemed crazy. They launched a new computer chip company, called Fairchild Semiconductor in a small farming town in the region. The entrepreneurs leveraged their professional networks in cities outside the Bay Area to find two key supporters who helped them raise capital and sign contracts with their first customer. These connections set them on the path to success. After just three years, Fairchild’s annual revenues were over $20 million. By the mid-1960s, the group was generating $90 million in annual sales. Yet this was only the beginning of the co-founders’ accomplishments.\(^{14}\)

As Fairchild started to grow, employees began to leave the firm to launch new spin-off businesses. The eight co-founders supported a number of these new businesses, and it wasn’t long before the entrepreneurs at Fairchild began to invest into local startups and create their own spin-off firms. In just 12 years, the co-founders and former employees of Fairchild generated more than 30 spin-off companies and funded many more. In 1971, a local journalist, describing the silicon used to manufacture computer chips at many of these companies, coined a new name for the region: Silicon Valley.\(^{15}\)

These new companies and investment firms dramatically multiplied the impact of Fairchild and its founders. Intel and AMD continue to be two of the largest companies in the industry. Two venture capital firms started by former Fairchild employees, Kleiner Perkins and Sequoia, were early investors in AOL, Apple, Cisco, Compaq, Electronic Arts, Google, Netscape, LinkedIn, Oracle, PayPal, Sun, Yahoo!, and YouTube. Many entrepreneurs they supported also became active mentors and investors, including Steve Jobs of Apple, who mentored Facebook’s Mark Zuckerberg, and Marc Andreessen of Netscape, who has invested in Skype, Twitter, and Zynga.\(^{16}\)

Today, about 70 percent of the publicly listed Bay Area tech companies can be traced directly back to the founders and employees of Fairchild. The total impact of these businesses is staggering. Today, the 92 descendants of Fairchild employ over 800,000 people and have a market capitalization of more than $2.1 trillion. These 92 publicly traded companies are more valuable than the annual GDP of Canada, India, or Spain. If we look beyond companies traded on the NASDAQ and NYSE, Fairchild’s impact is even greater. In total, we can trace over 2,000 companies back to the firm’s eight co-founders.\(^{17}\)
The Entrepreneurship Acceleration Cycle.

The story of Silicon Valley illustrates the Entrepreneurship Acceleration Cycle that enables successful entrepreneurship ecosystems to develop. Additional examples of this cycle can be found in a variety of successful ecosystems, including those of fashion companies in Paris, healthcare companies in Nashville and even high-end restaurants in New Orleans.

The cycle has four stages, as illustrated on the opposite page.

1. **AMBITION**: The process begins with ambitious, new entrepreneurs who seek to build large, scalable businesses in the local area due to their desire to grow and their appreciation for the local quality of life.

2. **GROWTH**: Next, these founders grow their firms by acquiring the resources their companies need to expand—access to talent, finance and customers—and possessing the ability to put them to use.

3. **COMMITMENT**: Once they succeed, the founders make a commitment to support the next generation of entrepreneurs. This requires that they wish to continue living in the local area and have the desire to reinvest their capital, knowledge, and connections into others.

4. **REINVESTMENT**: Successful founders can best support new entrepreneurs by reinvesting their resources through working as mentors and investors, by supporting spinoff businesses, and through acting as an inspiration to others. These actions help new generations of ambitious entrepreneurs grow companies and repeat the cycle, which accelerates the development of local industries.

We have illustrated this framework on the opposite page. It is important to note that even though entrepreneurs are at the center of this process, other stakeholders can still play critical roles.

In order to maximize the benefits of the cycle, supporters of local entrepreneurs should focus their efforts on firms that fit the framework—the high-potential companies that can scalep to create large numbers of jobs and go on to provide resources to others.
The Growth Cycle of Successful Entrepreneurship Ecosystems.

1. AMBITION
New entrepreneurs seek to build scalable companies in the local area due to:
- Local quality of life
- Desire to grow

2. GROWTH
Entrepreneurs are able to grow their companies and reach scale based on:
- Access to customers
- Access to financing
- Access to talent
- Entrepreneurial ability

3. COMMITMENT
Successful entrepreneurs stay in the local area & engage with new companies due to:
- Local quality of life
- Desire to reinvest

4. REINVESTMENT
Successful entrepreneurs reinvest in the next generation through:
- Angel & VC investing
- Inspiration
- Mentorship
- Spinoff businesses

Examples of Ways Local Leaders Can Support Each Step of the Cycle:

1. AMBITION
- Provide security and amenities that make your local area a great place to live for early-stage founders.
- Recognize fast-growing, early-stage firms in your area to inspire new founders.
- Fund programs and organizations that specifically target fast-growing companies and evaluate these initiatives based on participating companies’ growth.

2. GROWTH
- Eliminate protectionist regulations and subsidies that make it difficult for new companies to win customers from established firms.
- Offer loan and contract guarantees to qualified, fast-growing firms.
- Create job fairs and job boards specifically for local startups and entrepreneurs.
- Establish public-private partnerships and events to attract outside investors to your area.

3. COMMITMENT
- Provide security and amenities that make your local area a great place to live for older, successful founders.
- Recognize successful entrepreneurs who reinvest in the next generation of founders by acting as mentors or investors.
- Recruit successful founders to help lead and guide entrepreneurship programs and initiatives in your area.

4. REINVESTMENT
- Create channels that connect successful entrepreneurs with high-potential, early-stage founders who can benefit from mentorship.
- Offer tax incentives to successful founders who make angel investments.
- Reduce enforcement of non-compete agreements for employees who leave entrepreneurial companies.
- Promote successful entrepreneurs as local role models.

Source: Endeavor Insight analysis.
Scaleup entrepreneurs in Southeast Michigan report that the local entrepreneurship ecosystem has three major strengths.

Endeavor conducted interviews with over 50 founders of companies that had achieved high-growth rates consistent with scaleup firms or were designated as high-potential by a local investor or entrepreneurship support organization. Data from these interviews suggests that local founders believe that Southeast Michigan’s entrepreneurship ecosystem for high-growth companies possesses three major strengths that support the first, second, and third steps of the Entrepreneurship Acceleration Cycle.

Strengths within the Components of Southeast Michigan’s Entrepreneurship Ecosystem (areas with strengths highlighted in green).

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<thead>
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Source: Endeavor Insight analysis.

LOCAL QUALITY OF LIFE: Southeast Michigan attracts and retains growth oriented entrepreneurs with excellent quality of life.

Southeast Michigan has a unique advantage, above and beyond traditional quality of life metrics like cost of living, schools, and crime. According to entrepreneurs, the region has a strong draw for people who are already connected to it. In fact, 78% of founders noted that they started their business in Southeast Michigan because they were either already living there or because they had family ties to the region.

Once they become successful, Southeast Michigan entrepreneurs tend to stay in Southeast Michigan for many of the same reasons. According to these entrepreneurs, the number one reason they stay in Southeast Michigan is because they are invested in the local community and see that there are business opportunities there. As an economic hub for Michigan, Detroit and its surroundings anchor the state’s growth prospects. Southeast Michigan can bank on being able to both retain entrepreneurs who already live there, either because of a job or university, and draw new ones in who have family ties to the region. Once they come and establish their business here, Southeast Michigan entrepreneurs tend to stay put.

“My extended family is from Detroit, and it was important to me that I stayed in the area.”

“Our key employees and leadership team are all based in Detroit, along with our long-term client relationships.”

“The arts and culture in our city are second to none. We have the second most diverse culinary environment in the U.S.”
ACCESS TO CUSTOMERS: Regional entrepreneurs report excellent access to customers in Southeast Michigan and beyond.

Fast-growing companies need excellent access to potential customers in order to generate revenue and expand. Before a company’s product has sufficient visibility, proximity to existing industries and consumers, along with pre-existing relationships, can help facilitate the first sales. For these reasons, Southeast Michigan’s entrepreneurs across industries have great access to potential customers. Eighty percent of the entrepreneurs we surveyed agreed that the region had excellent access to customers, including both other businesses as well as consumers.

Southeast Michigan benefits from its historic role as a capital of the global automotive industry, as well as its strategic location and excellent infrastructure. Businesses that sell to the automotive industry extend well beyond original equipment manufacturers (OEM) to things like digital marketers and professional services. Southeast Michigan’s location makes it central to both coasts and its world-class port infrastructure makes it a gateway not only to the Midwest, but also to Canada.

ACCESS TO TALENT: Southeast Michigan offers fast-growing entrepreneurs excellent access to a large pool of potential employees.

Excellent employees are the foundation of a scaleup business. Even in capital intensive industries, management and senior employees enable a business to sell and pursue new business opportunities. As one of the key inputs to the Entrepreneurship Acceleration Cycle, human capital, or the lack thereof, can be an important determinant of the success or failure of an enterprise. In Southeast Michigan, however, 69% of entrepreneurs agree that they have excellent access to talented employees.

Southeast Michigan is home to world-class research institutions, including the University of Michigan in Ann Arbor and Wayne State University, as well as to companies like General Motors, Ford, and Chrysler. These institutions train and anchor talent to the region across a range of disciplines, including engineering, sales, and general management. Some entrepreneurs, however, note that retaining talent can be challenging, especially where employees’ outside option is either a major local company or a firm based in San Francisco or New York City.
Scaleup entrepreneurs in Southeast Michigan note that the local entrepreneurship ecosystem has four key weaknesses.

Endeavor conducted interviews with over 50 founders of companies that had achieved high growth rates consistent with scaleup firms or were designated as high-potential by a local investor or entrepreneurship support organization. Data from these interviews suggests that local founders believe that Southeast Michigan’s entrepreneurship ecosystem for high-growth companies has four key weaknesses that affect the second and fourth steps of the Entrepreneurship Acceleration Cycle and slow the expansion of high-growth entrepreneurship in the area.

Weaknesses within the Components of Southeast Michigan’s Entrepreneurship Ecosystem (areas with weaknesses highlighted in orange).

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Source: Endeavor Insight analysis.

ACCESS TO FINANCING: Access to finance is low for scaleup entrepreneurs in Southeast Michigan.

All businesses rely in some part on access to finance to maintain their daily operations. For scaleup businesses though, finance can also be a key component of an effective growth strategy. Venture or growth equity capital can allow a business with a good product to expand to new markets or develop new businesses. Without it, entrepreneurs must rely on existing cash flows or high-cost financing facilities from banks. Southeast Michigan’s entrepreneurs report barriers to accessing finance, with under half—43%—reporting that they have even moderate access to the cash they need to grow their businesses.

These entrepreneurs pointed to specific gaps. Several mentioned that Small Business Administration (SBA) loans were complicated to apply for and obtain, even for relatively straight forward capital investments like machinery. For equity investments, a number of entrepreneurs noted that seed stage money was more readily available through both angel investors and established programs than later stage financing. Moreover, there is a very small pool of venture and growth equity financing, and it tends to be most available in two industries: information technology and health care technology. In more traditional industries, equity financing is very difficult to come by.

“Most resources are for tech. If you’re outside of the tech industry, there’s a lot less, especially in retail.”

“My sense is that companies are finding it difficult to get a 2nd or 3rd round.”

“There’s just not as many and they’re certainly not from transcendent companies. We just don’t have many successful entrepreneurs in the sectors that have been big targets for venture investing.”
ANGEL & VC INVESTING: Entrepreneurs in Southeast Michigan are not investing capital in each other.

Angel investment is just one form of capital, but it is oftentimes termed “smart capital.” A good angel is more than a source of money; he or she can help make sales, advise on critical business issues, and help source senior executive talent. Southeast Michigan’s entrepreneurs may have access to seed capital, but they are currently lacking a strong network of locally successful angel investors. Over half of entrepreneurs—53%—report that they personally angel invest infrequently.

The region is home to many wealthy individuals, but most are either not interested in angel investing or are difficult to connect to. Entrepreneurs need help unlocking and tapping local wealth to put it to work. The region also has very few examples of local entrepreneurs who have sold their companies and become angels. The handful that have been successful are already reinvesting at the angel and venture level, and yet the demand for angel investment remains.

MENTORSHIP: Few growth-oriented entrepreneurs have local mentors, and even fewer of these entrepreneurs are mentoring other firms themselves.

Mentorship is a critical but difficult to measure element of a successful entrepreneurship ecosystem. In fact, mentorship is the way that successful, later stage entrepreneurs can ensure that their know-how finds its way into subsequent generations of companies. The majority, 56%, of Southeast Michigan entrepreneurs who we spoke with, however, reported being mentored infrequently.

There is desire to mentor and a demand to be mentored, but regional fragmentation has made bridging this gap difficult. For example, despite low levels of mentorship, the vast majority of entrepreneurs, 74%, report a desire to reinvest in younger entrepreneurs. The challenge is in correcting this market failure and creating a platform to connect later and earlier stage entrepreneurs.

SPINOFF BUSINESSES: Few employees are leaving successful local firms to launch their own spinouts in Southeast Michigan.

Running parallel to the challenge of mentorship is the lack of employees of local businesses who go on to found their own firms. Like the Paypal Mafia in Silicon Valley, groups of former employees who have experience growing a business oftentimes make the best entrepreneurs. In Southeast Michigan, however, former employee spinouts are rare, with 58% of local entrepreneurs noting that their former employees infrequently found new companies.

Entrepreneurs and investors cite several challenges. Even entrepreneurial firms may not have an internally entrepreneurial culture. This is particularly the case where leadership or employees come out of large local firms in the automotive industry. Another issue is the lack of local examples or successful spinouts. Without role models to look towards, it is less likely that employees will strike out on their own.
Endeavor will support high-growth companies in Southeast Michigan to improve their local ecosystem. Endeavor Insight identified a number of promising ideas to address specific needs in the city.

The major weaknesses of Southeast Michigan’s ecosystem for high-growth companies—poor access to financing, lack of mentoring, and few spinout businesses—closely match the challenges that Endeavor’s model addresses. Given the demonstrable need for the services Endeavor offers as well as the potential of local entrepreneurs, Endeavor opened a new affiliate office in Detroit in February 2015. The Endeavor Detroit team, led by Managing Director Antonio Lück, will work to implement Endeavor’s model, which has been launched in 22 countries and over 45 cities across the world.

Through the process of conducting this assessment, Endeavor Detroit has identified almost 1,300 high-growth and high-potential companies throughout Southeast Michigan. Each of these firms will be invited to apply to join the Endeavor network. Every founder who is selected to join the Endeavor program will receive access to mentoring from leading executives and established entrepreneurs in Southeast Michigan and around the world. They will also be invited to participate in unique training programs and networking events designed especially for the leaders of fast-growing and high-impact companies.

Endeavor Detroit will then select the most promising high-impact entrepreneurs from among the 1,300 identified in this research and support their growth with additional programs that increase their access to talent, capital, and mentors. These include participation in events hosted by Endeavor’s Investor Network, which has helped Endeavor companies raise over $400 million in the last three years, as well as talent-focused fellowship programs with corporate partners, such as EY and Bain & Company, and custom-built advisory boards of executive-level mentors.

Endeavor also actively encourages the entrepreneurs it supports to become mentors and investors for other companies as they become successful. Worldwide, more than 60% of Endeavor’s current entrepreneurs act as advisors and investors for other entrepreneurs in their communities. Successful entrepreneurs who participate in Endeavor’s program will then be promoted as role models for the next generation of founders in the community.

In addition to providing Southeast Michigan firms with services from the Endeavor network, the researchers leading this project identified a number of recommendations for improving specific aspects of the ecosystem for high-growth firms in the city. We draw these recommendations from an analysis of over 1,000 policies and programs from 100 cities, as well as from discussions with leading stakeholders in government and the private sector. We recommend that these programs be duplicated in Southeast Michigan as independent efforts or through incorporation into existing initiatives to accelerate the development of the local entrepreneurship ecosystem.
Early-Stage Investment Training Workshop (Angel Resources Institute)
The Angel Resources Institute (ARI) trains high net worth individuals and entrepreneurs, particularly those who have recently exited their companies, to become early-stage investors. The workshops are one-to two-day training programs for potential angel investors, as well as entrepreneurs who plan to raise angel funds. Attendees receive instruction on the investment process, valuation, term sheets, the post-investment relationship, and due diligence. Some sessions are attended jointly by entrepreneurs and potential investors, while others are taught separately to each group. Invited attendees include experienced entrepreneurs, who are ready to start investing in other local companies and, in doing so, participate in the final step of the ecosystem growth cycle.

Venture Capital Promotion and Training (Kauffman Fellows Program)
The Kauffman Fellows Program (KFP) is a two-year program designed to train successful entrepreneurs to become successful venture capitalists, too. Every year, 35 fellows are selected to participate in the program, with modules taught by professionals from leading venture firms like Andreessen Horowitz, Benchmark Capital, and Union Square Ventures. As a compliment to an angel-focused training program, the KFP can create capacity in Southeast Michigan to support companies from their earliest stages through growth ones, too.

Promote and Facilitate Startup Mentorship (ENLACE E+E)
Early-stage mentorship can help entrepreneurs take ideas and turn them into scalable business models. ENLACE E+E is a program designed by Mexican entrepreneurs and the leading technical university institute in the country, the Monterrey Institute of Technology and Higher Education (TEC). Entrepreneurs who join the program are matched with three mentors who guide and support their development. The mentor network of ENLACE E+E includes many successful entrepreneurs as well as experienced business leaders, and the program focuses on businesses that can scale rapidly.

Celebrate Scaleup Mentors (Monosson Prize)
Entrepreneurs don’t just need early-stage mentors; they need them at all stages of their lifecycle. By raising the visibility of local mentors, Southeast Michigan can encourage more and higher-quality mentorship. MIT’s Adolf F. Monosson Prize for Entrepreneurial Mentoring has done just this in Boston. There, a committee comprised of leaders of local entrepreneurship organizations accept nominations for great mentors, and honor the recipients at an annual ceremony. Mentors tend to mention the award prominently in their bios, encouraging other local business leaders and successful entrepreneurs to give back to the entrepreneurship ecosystem.

Limit the Impact of Non-Compete Agreements (Non-Compete Transparency)
Research suggests that non-compete agreements in place at existing companies can have a cooling effect on the growth of future entrepreneurial ventures. They can prevent workers from taking the job of their choice and make talented employees unavailable to younger companies and entrepreneurs. Several tweaks to the enforceability of existing regulations can eliminate barriers employees face when considering starting a new business: 1) mandate early disclosure for job seekers; 2) limit the duration of the agreement to no more than one year; 3) limit the number of industries included in the agreements; 4) require employees to provide additional compensation to employees who are subject to non-competes.

Coordinate Existing Resources
To ensure that companies can scale from grassroots to high-growth, existing organizations can work to leverage the resources of existing programs. Southeast Michigan is fortunate to have a wealth of resources for entrepreneurs, and ensuring that high-potential entrepreneurs view their journey as a pipeline rather than a series of disconnected steps can increase the speed with which these entrepreneurs grow their businesses. This can start with an organization serving as a central clearinghouse for existing resources and could extend to holding regular working groups of regional stakeholders.
16 / Scaling Up in the Motor City

PROFILES OF SCALEUP ENTREPRENEURS IN SOUTHEAST MICHIGAN

DBA Worldwide | Rochester

DAN COBB, CEO & EXECUTIVE CREATIVE DIRECTOR
Dan Cobb founded marketing firm DBA Worldwide in 1992 in Rochester, Michigan, and over the course of two decades has expanded the company to new geographies and clients. What was a one office operation is now a national agency with over 50 employees. The team offers a range of marketing services, including branded entertainment and rich media internet solutions to clients like Disney, Warner Brothers, Whole Foods, and Coca-Cola. Locally, DBA works with Flagstar Bank, Hungry Howies, and the Michigan Education Trust. Building on these strengths, Dan has expanded DBA to Los Angeles, scaling his business to take advantage of new opportunities.

Why is Southeast Michigan such a great location for media and advertising?
Southeast Michigan has a very large and diverse talent pool. The region not only has a history of design and technical know-how, but its people also bring a unique work ethic to their jobs. We have successfully incorporated both of these into DBA’s DNA, and created a unique corporate culture as a result.

How has the advertising industry changed in the region and what impact has that had on your business?
Across the U.S., the 2008 Financial Crisis devastated the advertising business, with whole firms going bankrupt and many talented people leaving the industry. Southeast Michigan was in many respects a magnified version of these challenges. In the last two years, auto industry spending on marketing has increased, and we’ve succeeded in diversifying our customer base.

How have you achieved the rapid growth at DBA Worldwide?
Southeast Michigan is really well located and has great infrastructure. As we have expanded nationally, I have grown to appreciate the relatively quick flights to our Los Angeles and Miami office. I have continuously reinvested in digital marketing development business, sometimes up to 20% of our annual revenue, which has enabled us to hire fast and acquire crucial technology.

As a result of your growth, what impact have you had on Southeast Michigan?
We have improved both the breadth and depth of the advertising industry in Detroit by expanding beyond the automobile sector and producing TV shows and Hollywood-quality documentaries for our clients. Now that I have successfully grown my own business, I have begun to share my experiences with other entrepreneurs by teaching seminars and speaking publicly.
Hacienda Mexican Foods | Detroit

**LYDIA GUTIERREZ, PRESIDENT & CEO**

Started in 1994, Hacienda Mexican Foods is one of the largest private label Latino food producers in Southeast Michigan. Lydia Gutierrez and her late husband Richard grew the business from just a handful of employees to over 50 in 2014 right in the heart of Mexicantown. Today the business generates $5 million annually selling Mexican food products to grocery stores, restaurants, and foodservice companies in more than fifteen states and parts of Canada.

**Why is Southeast Michigan such a great location for Hacienda?**

Food and beverage companies live and die by our supply chain. Both the raw materials we work with and finished products are highly perishable. Along both fronts though, Southeast Michigan is an ideal place to run a food manufacturing business. Michigan is the third largest state for agricultural production in the US, giving us easy access to manufacturing inputs, and the regions shipping infrastructure makes it easiest for us to move our product to customers around the US and Canada.

**What are the greatest challenges you faced in growing Hacienda, and how did you overcome them?**

Competition and cost have been big challenges for us. To differentiate ourselves from competitors, we began promoting the Hacienda brand and labeling out products, which had previously sold as generic items to distributors. We also reduced costs as we grew by moving some of our production in-house. I am a single mother, so trying to balance my business and my personal life has definitely been a challenge. When I started the business with my late-husband, I was not very involved in the day-to-day operations, besides occasionally giving advice. I was known to the employees as the “owner’s wife” and wasn’t considered a manager of the company. When he passed away and I had to take over the business, people were skeptical of my qualifications. There are very few successful women in the manufacturing industry. Working in two industries (food and manufacturing) in equal measure has been a real structural challenge as a manager as well.

**What impact has Hacienda’s growth had on Southeast Michigan?**

Social accountability is very important to us, and we provide our employees with access to world-class training opportunities so that when they leave Hacienda, they will be ready to tackle new challenges. I reinvest in the ecosystem by working at Michigan State University’s Product Center, and work to inspire and mentor other food entrepreneurs.
Jim Ketai, CEO & Managing Partner

When Jim Ketai and Dan Gilbert founded Bedrock Real Estate Services, they saw a unique opportunity to revitalize Detroit’s urban core. Bedrock specializes in acquiring, leasing, financing, developing and managing commercial real estate. The company has invested in excess of $1.6 billion in more than 70 properties totaling more than 10 million square feet in downtown Detroit. Within just four years, Ketai and his team have grown Bedrock from four team members to over 200.

Why is Southeast Michigan such a great place for Bedrock Real Estate Services?

Detroit has been the hub for events and entertainment for the metropolitan area for years. Several years ago, Dan Gilbert and I realized that the younger generation was looking for urban areas to live, work and play. Many recent college graduates in Michigan were moving to other cities, not the suburbs, but for an urban experience. We thought if we could create that kind of environment here, Detroit would be better able to attract and retain talent and develop a vibrant, collaborative youth culture.

What have you done to grow Bedrock Real Estate Services?

The speed at which we have acquired real estate over the last four years has required us to find passionate, motivated team members for roles in all areas of the company. We hire from within the City of Detroit whenever possible and we are lucky enough to have college graduates from across the country eager to come work with us. We have also built teams within the organization to lead and execute on specific initiatives like leasing, placemaking, construction, development and more. Finding and developing great leaders within the organization has made it possible for us to grow at the rate we have grown in a short period of time, while still preserving the culture, values, and mission that brought us to where we are today.

As a result of your growth, what impact have you had on Southeast Michigan?

We have made a significant impact on Southeast Michigan over the last four years. We have created office, retail, parking and recreational spaces where none existed before and plans for new residential developments are in the works. We have located hundreds of businesses in Detroit, and with them, brought thousands of jobs and new opportunities. We have transformed previously vacant lots, into vibrant downtown destinations, and have activated these spaces with art, culture, and business. We have also given back to the community around us in countless ways. Our impact on downtown Detroit cannot be summed up in words, you have to come experience it for yourself. Since Detroit is the heart and soul of Southeast Michigan, we hope our efforts to reenergize the city will have a ripple effect and a positive impact on the entire region.
KEVIN CHOKSI, CEO

A well-timed investment allowed WorkForce Software to add 300 employees in five years. Founded in 1999 in Livonia, WorkForce Software is a SaaS workforce management company that helps organizations overcome complex regulations and labor rules. In 2011, the company raised $17 million of venture capital, followed by another round of investment in 2014, in a round led by Insight Venture Partners. In just five years, Kevin has grown WorkForce Software from 100 employees to more than 400, expanded its global market presence, and secured the company a place on the Inc. 5000 list of fastest-growing companies in the U.S.

*Why is Southeast Michigan such a good location for a software company?*
WorkForce Software really benefits from the low cost structure here, but on the flip side it is very hard to hire tech people in the region. The costs probably outweigh these challenges, but recruiting is nevertheless a top company priority.

*What have you done to grow WorkForce Software?*
Given the tremendous number of ups and downs I faced as an entrepreneur, perseverance and the willingness to work hard were crucial. Also, finding and hiring talented people has been a big challenge, but doing it well has enabled us to grow. Finally, we raised capital at the right time, which gave us the funding we need to accelerate company growth.

*What is the most valuable thing that helped you grow your business?*
Raising capital when the time was right. Companies in the area are unwilling to think about raising capital. There’s this misguided view of doing it myself as opposed to borrowing other people’s money. The attitude in the region has traditionally been that people don’t want to give up equity to borrow money, because they want to maintain control.

*What is the impact of WorkForce Software’s growth on Southeast Michigan?*
We’ve created hundreds of jobs in the area; in the last five years alone we hired more than 300 people and contributed to the economic recovery of Detroit. As we have grown, we have inspired other entrepreneurs to start their businesses and begun to draw talent and financing into Southeast Michigan.
Synergia | Troy

KURIAN POTHEN: PRESIDENT
Synergia Automotive has built on Southeast Michigan’s great engineering talent, infrastructure, and customers to build a regional staffing company with automotive roots. After more than two decades in the automobile industry, Kurian founded Synergia Automotive in 2006 to design and engineer vehicle interiors, exteriors, and electrical for automotive companies. Despite the automotive industry’s challenges, Kurian grew Synergia from 40 to 290 employees in the past five years. Today, his customers include automobile giants such as Ford, GM, and Chrysler.

What made you start Synergia Automotive?
When the Financial Crisis hit, many people saw the automotive industry as a difficult or even impossible space to do business in. After years working for other auto companies in the region, I saw that the opposite was true: there was a need for design and engineering solutions. Synergia has been able to seize this opportunity and capitalize on the region’s great talent, customers, and infrastructure to grow rapidly. Being based where your customers are has been a huge advantage for us. We are more than a typical ‘staffing’ company—in many instances we supervise and provide complete solutions to the customers.

How has the automobile industry changed in the region and what has caused that change?
The restructuring that occurred in 2008 and 2009 was clearly very important to our growth. GM and Chrysler declared bankruptcy and have since returned from it, and Ford almost went bankrupt as well. In their present incarnations, these are all new companies, in a way. The most important result of this restructuring has been the simultaneous increase in sales volumes and in cost pressure: manufacturing has become very cost-competitive.

What are the greatest challenges you faced in starting and growing the company?
The main challenges we’ve faced and overcome have been increasing costs and securing great talent. We’ve made use of a strong, local network that I’ve built over the course of my career to help address this challenge. It is still an issue, and one I work to fix every day.

What was most valuable in helping you grow Synergia?
Having a significant amount of industry experience and people behind me greatly increased my chances of success as an entrepreneur. I never put the company on autopilot and have always stayed in touch with the customers and employees.
Focusing on the fundamentals has allowed ITC Holdings Corp. (ITC) to build some of the most reliable electric transmission systems in the country. ITC Holdings was founded by Joseph Welch in 2003, who established it as a stand-alone entity from its parent corporation. The firm operates high-voltage transmission systems serving the majority of Michigan's Lower Peninsula and parts of six other states, and is the largest independent transmission company in the US. In 2005, ITC went public on the New York Stock Exchange and, over the last five years, Joseph has grown the business to more than 1,100 personnel, about equally split between full time and skilled labor contractors.

Why do you continue to headquarter your company there?

The thing I’ve found about Detroit is that I love the area. Notwithstanding the challenges facing the area, it is beautiful. There are a lot of smart people, and access to really good engineering talent. And with the auto industry here, we’ve really had access to really good talent. There are also a lot of good contracting firms all within a stone’s throw, and they really wanted to partner with us, too. From that nexus we’ve been able to expand into seven states and 15,600 miles of wire. As we’ve grown, we’ve built out the headquarters here, which has been another thing keeping us in the region.

Why is Southeast Michigan such a good location for a company in the energy industry?

If you really take a look at the geography, first of all we’ve got a lot of major universities with great engineering programs, and plenty of accounting and financial talent as well. Being in the Great Lakes region has given us access to a very robust transportation system as well. Some of our equipment is massive, but we can still have it shipped overseas and across state lines a lot more easily than in most other states. We’ve also had a lot of support from state and local governments, which has served our business very well.

What have you done to achieve growth?

Following the advice of my mentors to focus on the fundamentals made me realize that delivering great service in a dependable, cost-conscious manner is the key to long-term sustainable growth. Today, we run a top-notch business from start to finish, and are one of the safest electric transmission companies in the country.
ENDNOTES


11. Firms with at least one high-growth period between 1990 and 2012 on average survived 18.82 years, while those without a high-growth period survived 7.33 years. Endeavor Insight analysis based on 2012 NETS Database data for the Detroit-Warren-Livonia Metropolitan Statistical Area.


14. Ibid.

15. Ibid.

16. Ibid.

17. Ibid.
Methodology

The region’s economy extends well beyond Detroit, and for the purposes of this report, we define Southeast Michigan as the Detroit-Warren-Livonia Metropolitan Statistical Area (MSA). The regional MSA is defined as the six-county region of Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne counties. This region had a total combined population of 3.7 million people as of the 2010 Census.

We draw data for this report from three principle sources. Firm-level data comes from the National Establishment Time-Series Database, a longitudinal database of job creation and destruction from over 900,000 establishments in the Detroit MSA from 1990 to 2012. Unemployment statistics for Southeast Michigan and peer cities come from the Bureau of Labor Statistics (BLS).

Data relating to the needs of Southeast Michigan’s high-growth firms comes from interviews and surveys with over 100 high-growth entrepreneurs, investors, policymakers, and other entrepreneurship stakeholders conducted in Southeast Michigan between June and September 2014. Comparison data and benchmark programs used in this report are drawn from previous Endeavor Insight research in more than 100 cities across the world.

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Blue Medora
Center for Empowerment and Economic Development
Charter School Partners
Check Corporation
Chemetech Enterprises
Chris Bean And Associates
Compendia Bioscience
Compsat Technologies
DBA Worldwide
Derderian Construction Concepts
Detroit Development Fund
Detroit Dirt
Detroit Labs
Detroit Manufacturing
Detroit Motor Company
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Digitali
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Duo Security
Eastern Market
ESS
Etkin Equities
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Express Employment Professionals
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Lawrence Technical University
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Leon Speakers
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Mipro Consulting
Mission Throttle
Mollus Circuits
My Urban Toddler
North Coast Technology Investors
On Duty Gear
Pca Maintenance
Pump Engineering
Quantum Signal
R&BJ Distributing
Rch Legacy
Renaissance Venture Capital Fund
Research Technologies International
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Serpea
Shock Engine Works
Sigma International
Sigma Luminous
Singh Enterprises
Startgrid Detroit
Stik
Synergia Auto
Tax Experts
TechTown Detroit
Terrayeko And My Inch Of The Earth
The Arc
The Bear Factory
The Front Door
The Machine Shop
The-Writing-Center.Com
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Vectorform
Venture for America
Virtual Advantage
Visionet
Wayne State Tech Transfer
Workforce Software
ENDEAVOR is leading the global high-impact entrepreneurship movement to catalyze long-term economic growth. Over the past fifteen years, Endeavor has selected, mentored, and accelerated the best high-impact entrepreneurs around the world. To date, Endeavor has screened more than 30,000 entrepreneurs and selected 1,000+ individuals leading 600+ high-impact companies. These entrepreneurs represent over 400,000 jobs and over $6.8 billion in revenues in 2013 and inspired future generations to innovate and become entrepreneurs too.

ENDEAVOR INSIGHT. Endeavor’s research arm, studies high-impact entrepreneurs and their contribution to job creation and economic growth. Its research educates policy makers and practitioners on how to accelerate entrepreneurs’ success and support the development of strong entrepreneurship ecosystems. In 2013, Endeavor Insight joined with the Kauffman Foundation and the World Bank to co-founded the Global Entrepreneurship Research Network (GERN).

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