

Entrepreneurs and Economic Development

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W.E. Upjohn Institute for Employment Research

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Agenda

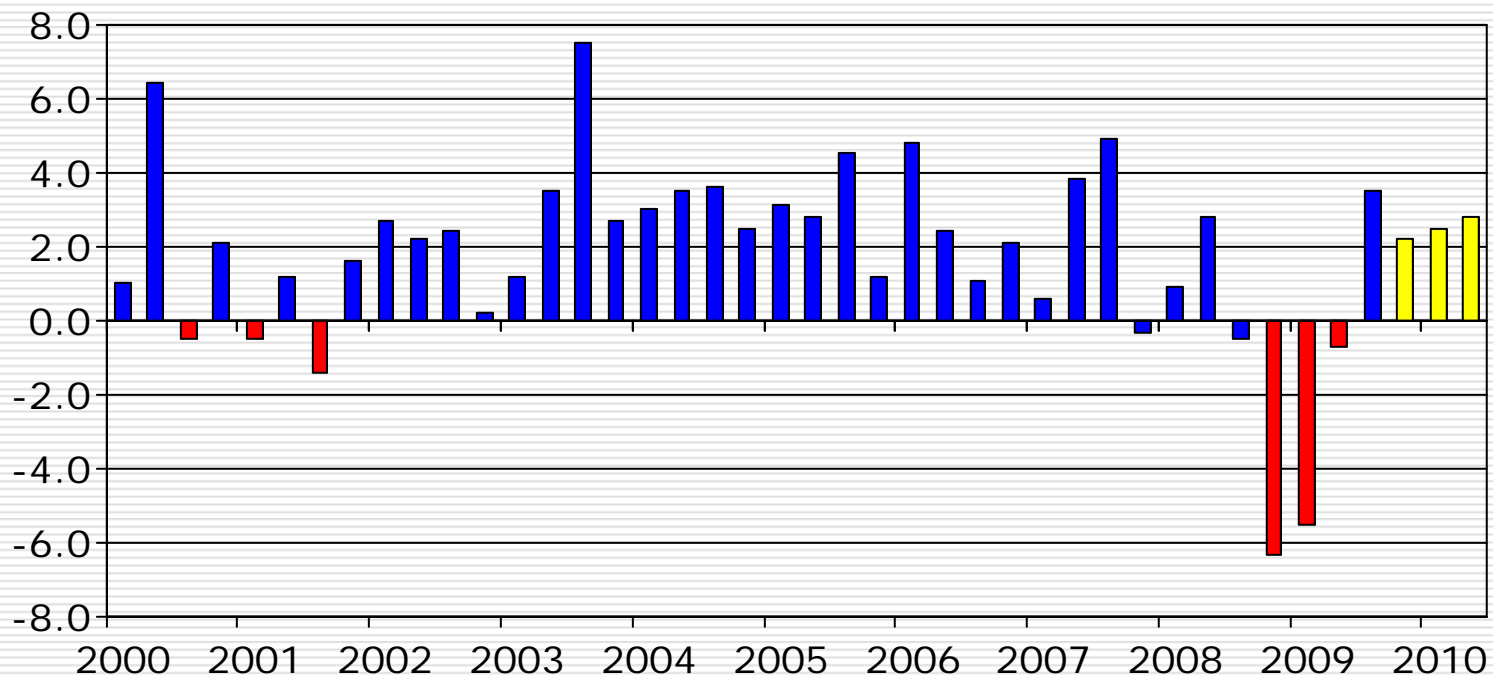
- National Outlook— *There are signs of spring.*
- Michigan— *Are we looking into a tunnel or a mine?*
- The role of entrepreneurs
 - *Revisit the economic standard model*
 - *Not all entrepreneurs are the same*
 - *Small business and the product cycle*
 - *Approaches to small business assistance*

Summary of the national and state economic situation

- ❑ Likely scenario: Slow, stable growth nationwide, with employment growth lagging for 12 months.
- ❑ Financial markets will improve especially for regional banks
- ❑ The state economy will remain lackluster.
- ❑ *Not a great environment for starting a new business.*

Good News! GDP rose at a 3.5 percent annualized rate in the third quarter.

Annualized Percent Change in GDP



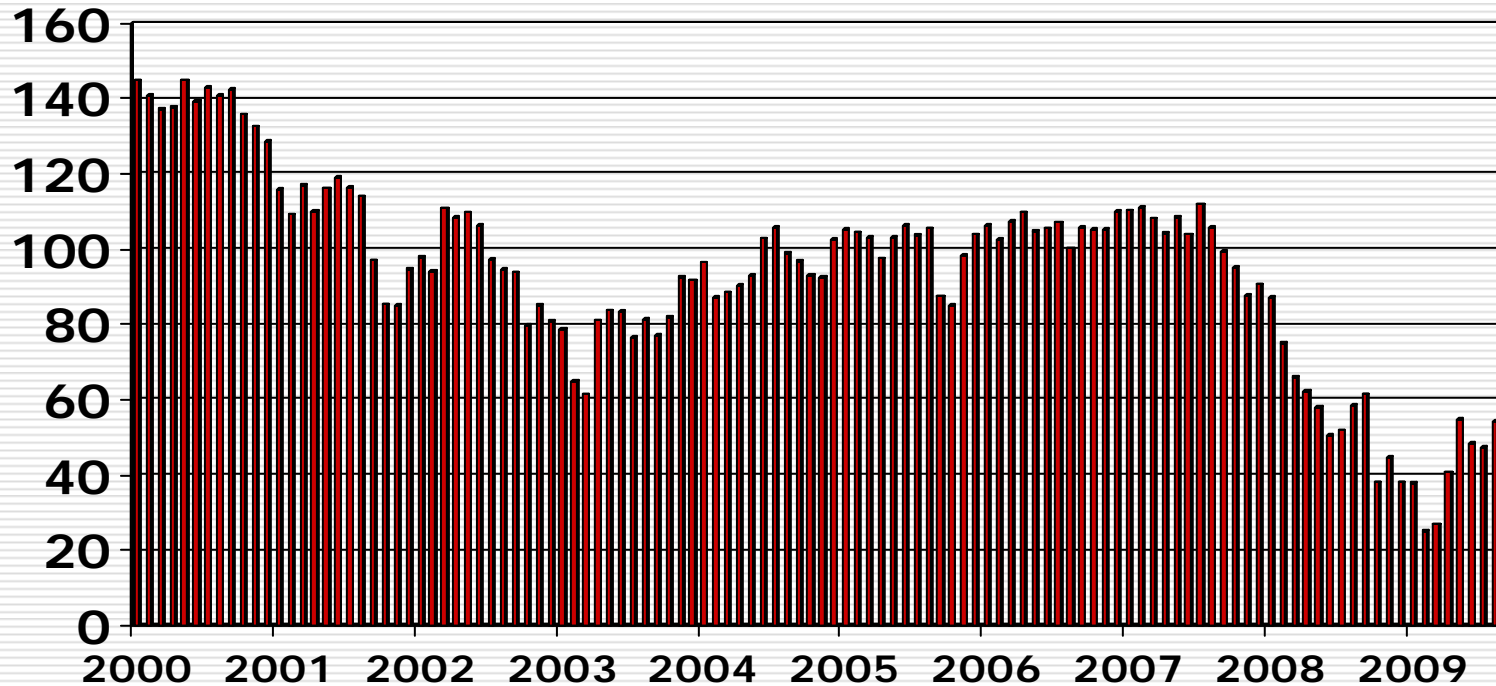
Source: BEA, Philadelphia Federal Reserve Survey of Professional Forecasters.

National outlook: The nation's economic indicators have improved.

<input type="checkbox"/> Employment	RED
<input type="checkbox"/> Residential construction	YELLOW
<input type="checkbox"/> Consumer confidence	YELLOW
<input type="checkbox"/> Consumer financial conditions	YELLOW
<input type="checkbox"/> Credit markets	YELLOW
<input type="checkbox"/> ISM Purchasing Mgrs. Index	YELLOW
<input type="checkbox"/> Stock market	YELLOW
<input type="checkbox"/> Inflation	GREEN

Consumers' confidence is still low but improving.

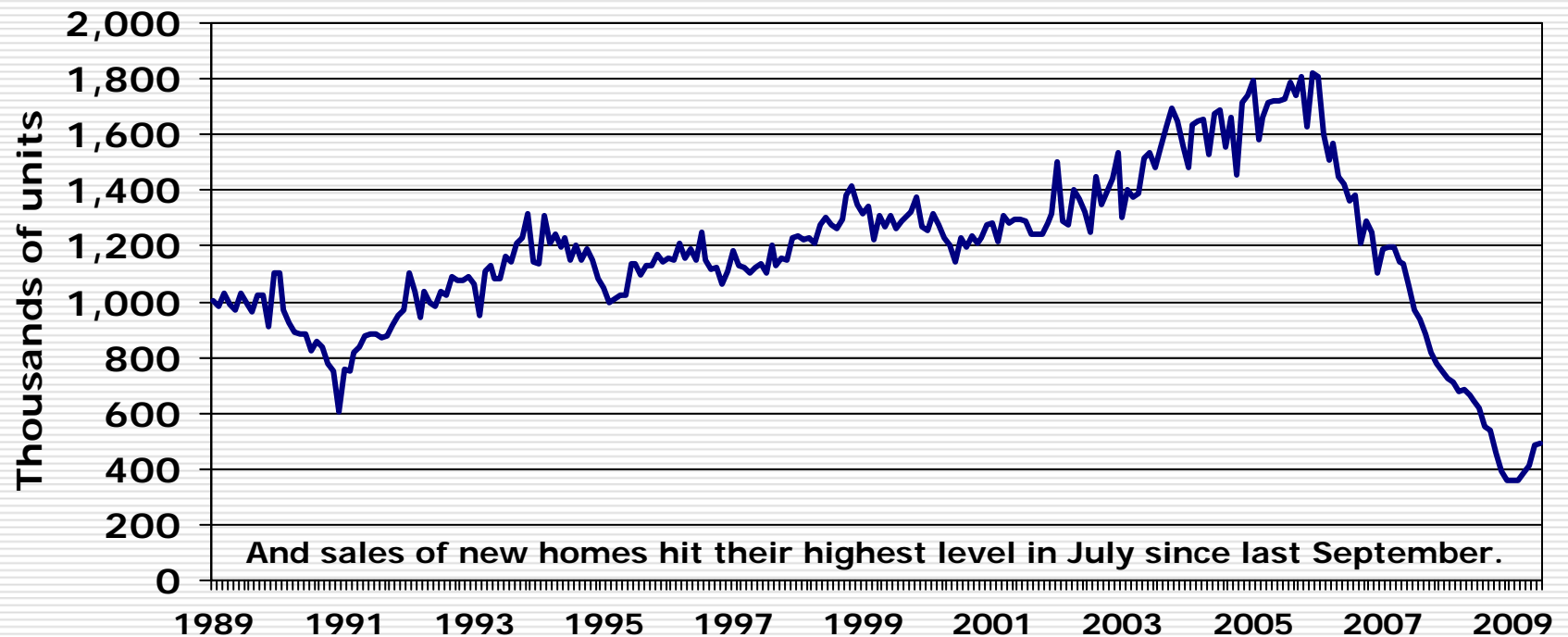
Consumer Confidence (1995=100)



Source: Conference Board.

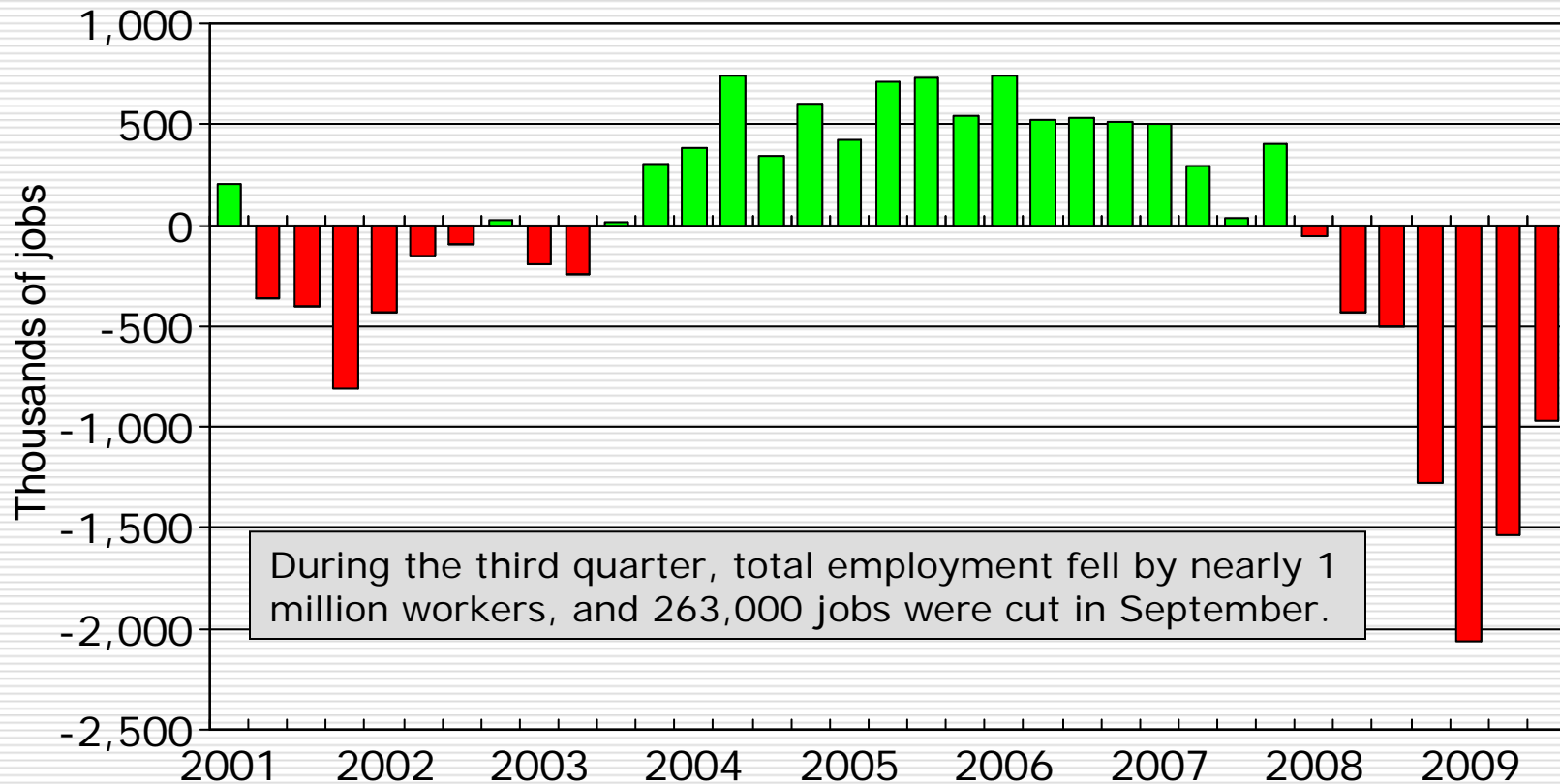
Single-Family Housing Starts—*Have we found bottom?*

Seasonally Adjusted Annual Rates



U.S. Census

Nationwide, employers are still cutting payrolls.



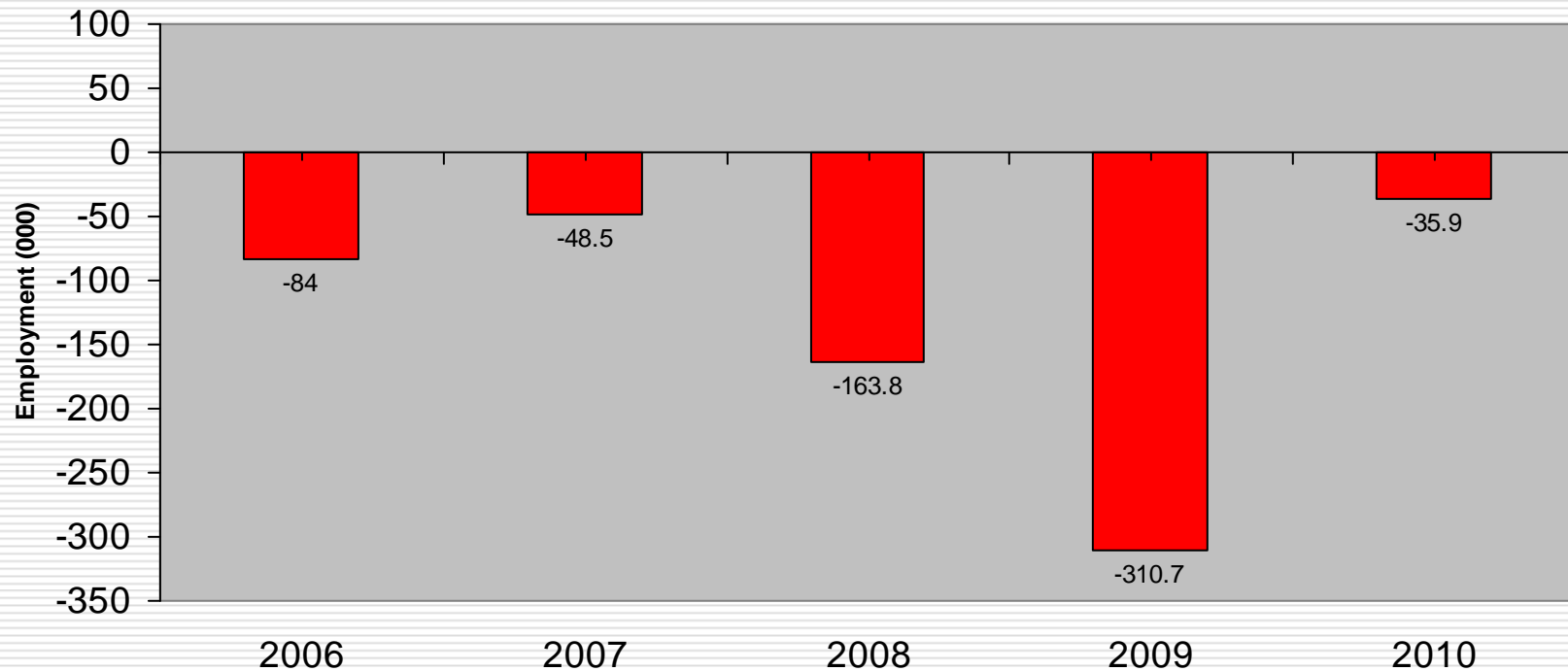
Source: BLS.

Michigan remains in crisis.

- ❑ A one-horse town with one sick horse.
- ❑ State government is facing a structural deficit that will not go away without a substantial change in its tax structure.
- ❑ Perceptions are important and hard to change.

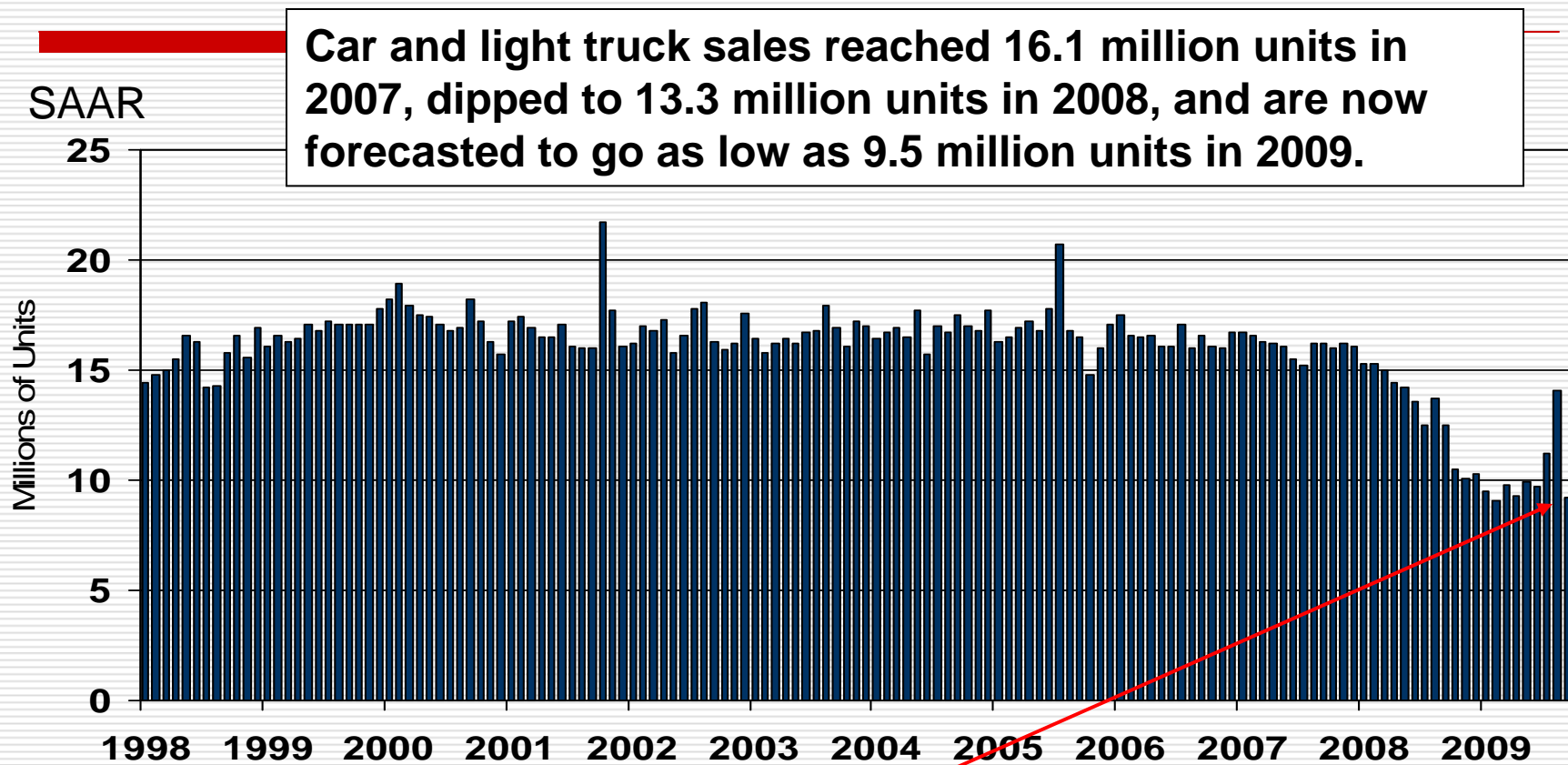
Employment declined for 10 straight years.

Employment Change, 4th Quarter to 4th Quarter



Source: University of Michigan, July 2009.

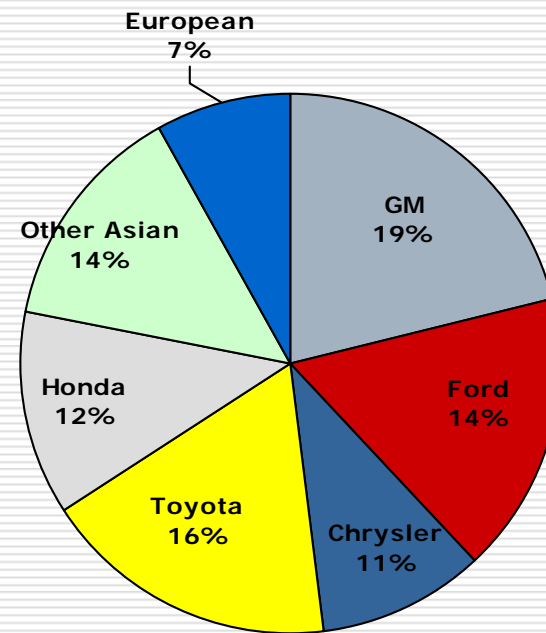
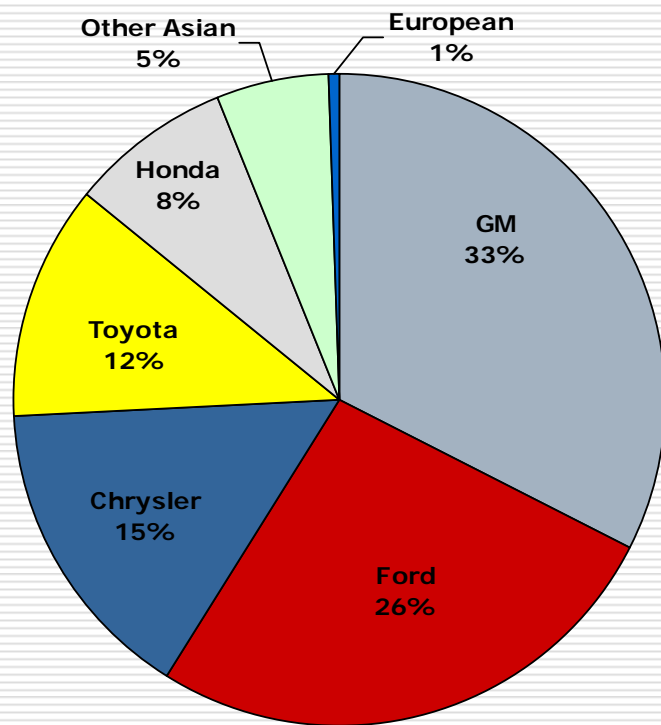
Now that clunkers are no longer gold, the showrooms are quiet.



Source: BEA.

The sales rate slowed to 9.2 million unit rate in September after posting a 14.1 million unit rate in August .

Loss of market share: In 2001, the Detroit Three controlled 74%; in 2009 it fell to 45%.



Source: *Wards AutoWorld*.

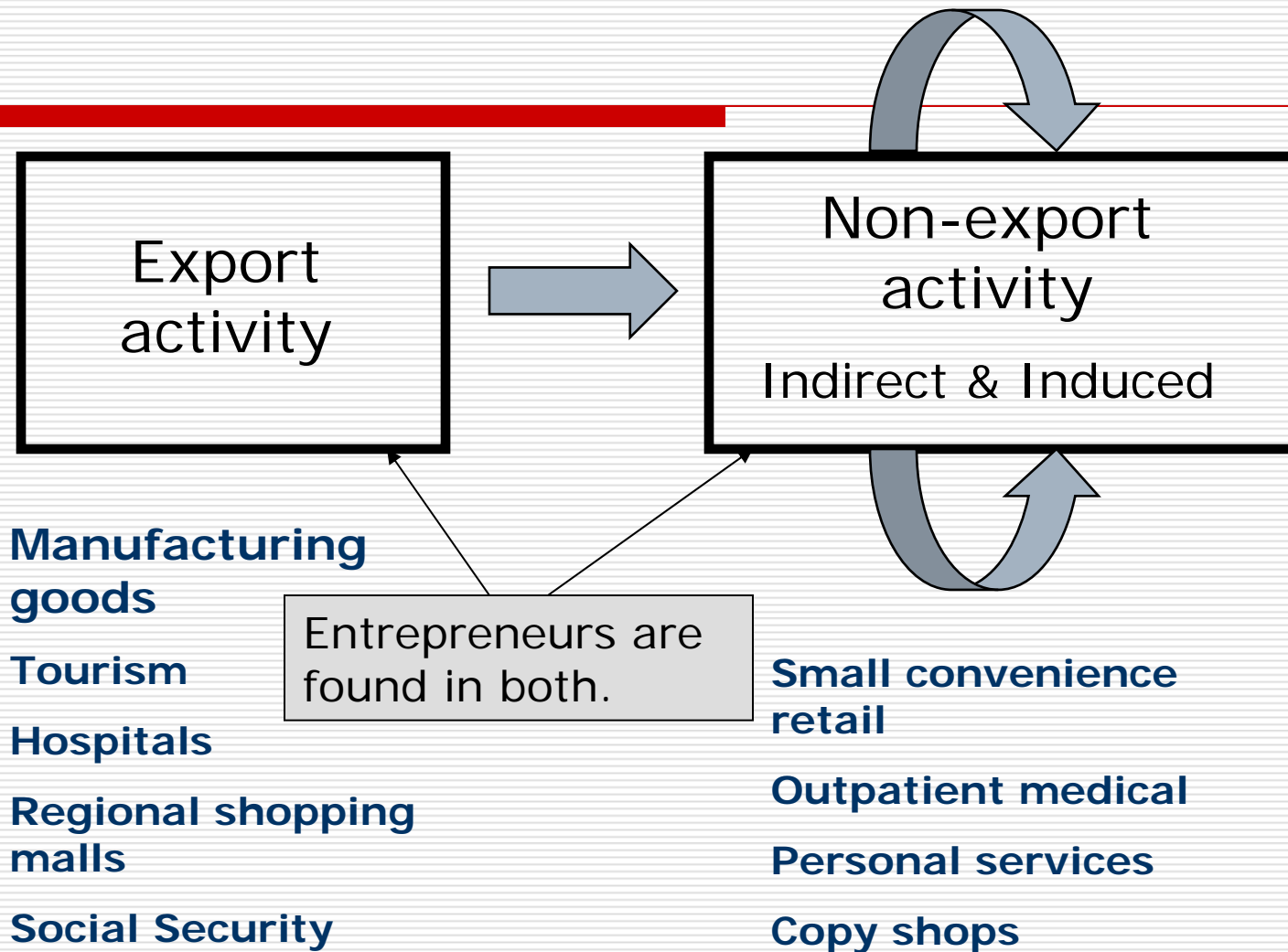
2001

YTD 3rd Q 2009

Thoughts on Economic Development

- The very essence of long-run growth is, in fact, ***the transition*** ...from one export base to another as the area matures in what it can do, and as rising per capita income and technological progress change, ***what the world economy wants done.***
- Local economic development activities should be focused on bringing economic opportunity to ***current underemployed and unemployed residents.***

Basic Economic Model



Challenge to the Traditional Base Model

- Increasingly, it is NOT the industry but the activity that matters:
 - New medical procedures
 - Tourism
 - Specialized law services
 - Specialized software design
 - Green architecture
 - But a bigger challenge is that talent and “ideas” may be driving investment and growth.
-

The Product Life Cycle Model of Economic Growth



Entrepreneurship and the Product Cycle – *It is not only for new firms.*

- ❑ Entrepreneurial thinking can make an existing product/service young again.
- ❑ It can allow a new or existing company to enter new markets.
- ❑ However, many start-ups and companies in stable or declining markets may not be open to new products/services but instead become stuck on the low-road of production which will either add little to the local economy or end sooner or later in an offshore solution.

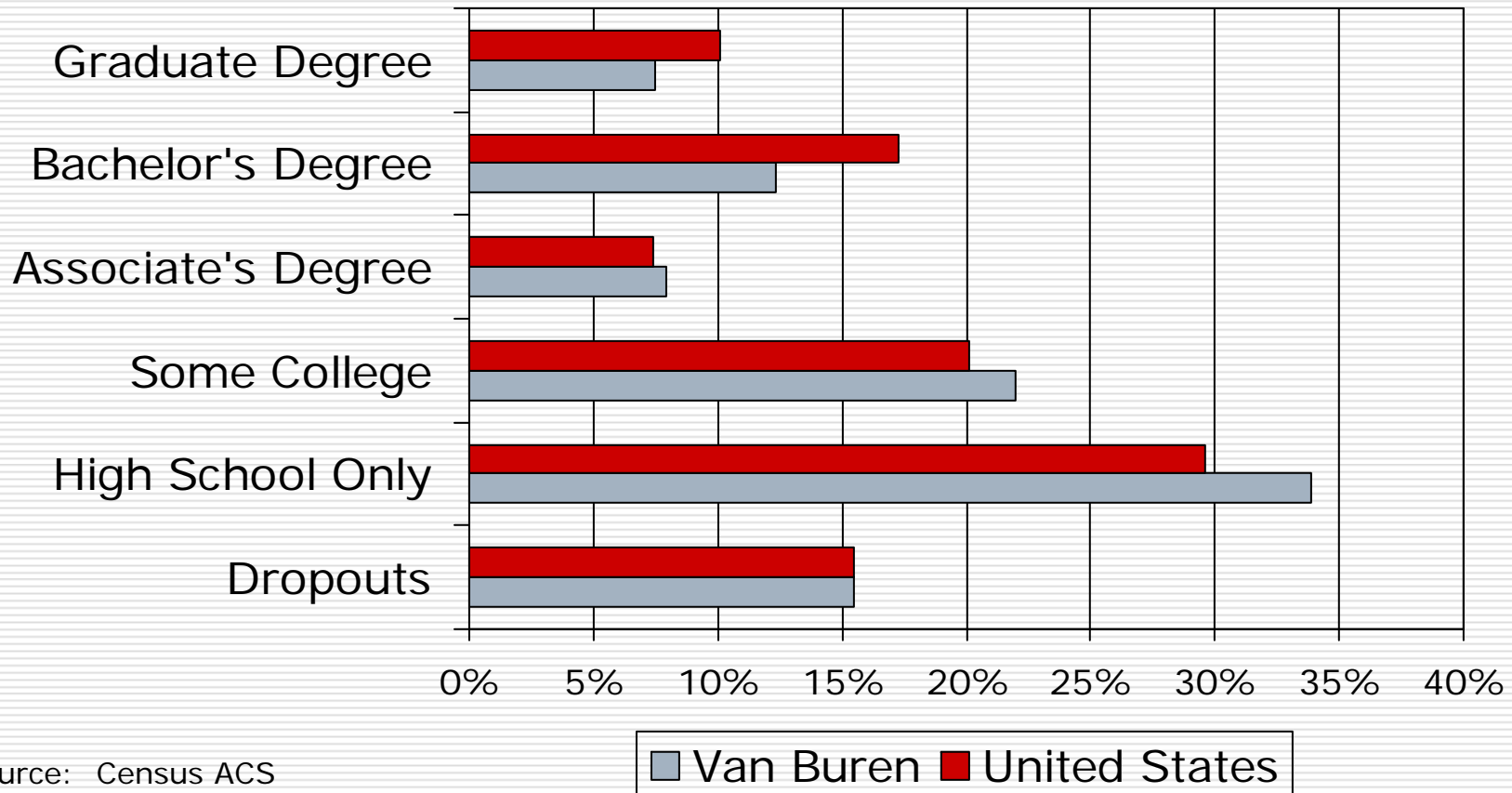
Thinking differently about economic development:

□ What if:

- Human capital and entrepreneurship, and not physical capital, will be the new dominant factor for growth:
 - Tax abatements lose their value.
 - Government services become more important—good schools, safe streets, recreational/cultural opportunities, and a vibrant downtown.

2006-08 Education Profile

High school was once the ticket.



Source: Census ACS

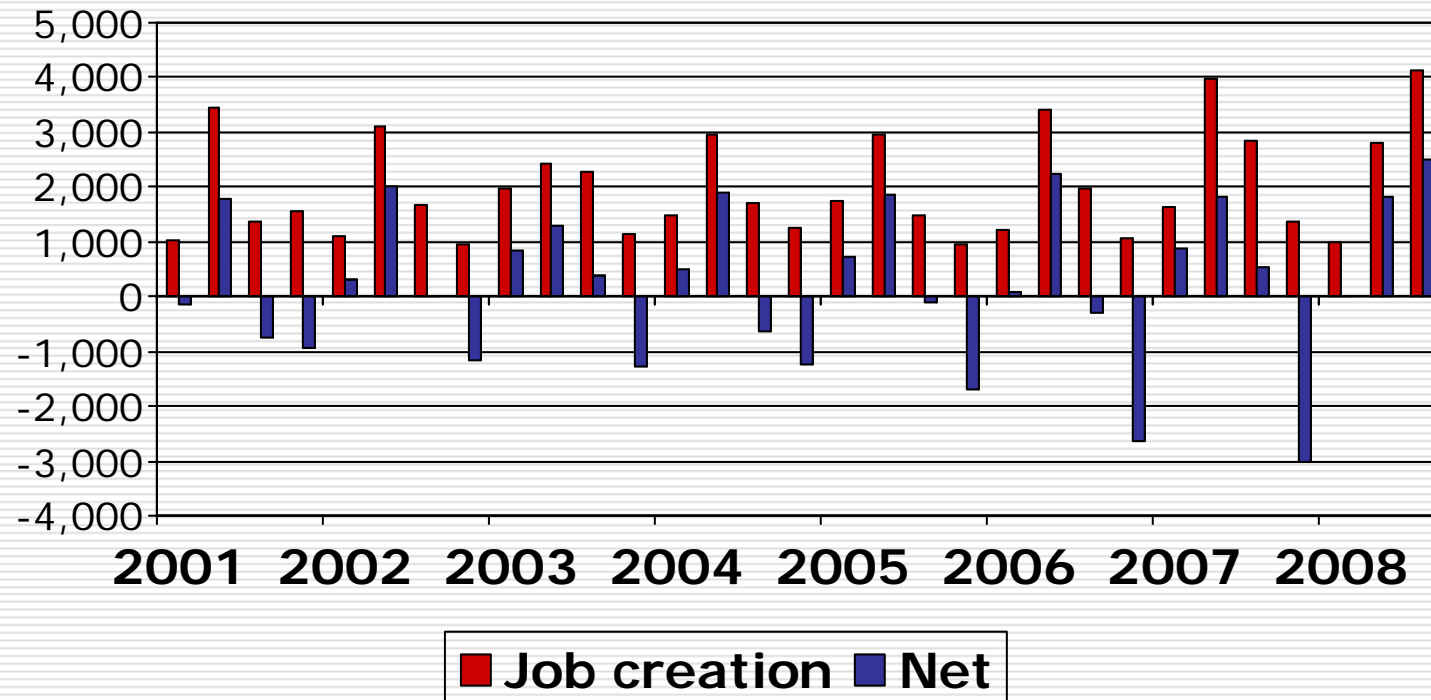
In Van Buren County, 17.8% of 25-34 year olds have a four-year degree or higher; U.S. 29.2%.

What is the evidence in Van Buren County for job creation?

- ❑ The “net” numbers do not hold much promise.
- ❑ Nevertheless, job creation in Van Buren County is pretty impressive.

Job Creation is alive and well in Van Buren County.

Quarterly Employment Change Due to Job Creation and Net Flows



Approaches to small business assistance

- Standard Approach
- Advocacy
- Skill-building
- Competitive team building

Approaches to small business assistance

- Standard Approach
 - Help all that come.
 - Provide assistance in the development of a business plan.
 - Marketing
 - Financial statements
 - Help make connections with sources of financing.

Standard Approach

□ STRENGTHS

- By making the individual complete a solid business plan, many bad ideas are discovered before life savings are wasted.

□ WEAKNESSES

- It assumes that the entrepreneur can do it all – product/service development, marketing and finances and undervalue the role of an advocate. (Sirolli Institute)
- It misses the importance of “skill building.” (Collaborative Strategies)

The Advocacy Approach:

- The entrepreneur is in charge and the advocate works to pull him/her the resources he needs:
 - Accounting services
 - Marketing assistance
 - Government regulations
- The advocate NEVER judges or gives his/her opinion of the project and will work with the entrepreneur until he/she gives up or is successful.
- A VERY EXPENSIVE PROGRAM, especially if it is through the Sirolli Institute.

Skill Development Model

- “Building entrepreneurial skills demands a transformation on the part of the entrepreneur, a leap to a higher level of functioning... It is important for the service providers to recognize that entrepreneurs come to entrepreneurship with different levels of skills.” Kutzhanova, Lyons, & Lichtenstein, 2009

Skill Development Model (cont)

- ❑ The service provider is a “coach.”
- ❑ Assumptions:
 - Entrepreneurs will be successful if they have the right 4 skills
 - ❑ Technical - Can they produce a good product or service?
 - ❑ Mgt. Can they manage day-to-day operations?
 - ❑ Entrepreneurial – Can they recognize economic opportunities?
 - ❑ Maturity – Control their emotions because it gets very emotional.
 - Entrepreneurs start out with weaknesses in one or more of these skills.
 - Skills can be developed.

Skill development Model (cont)

- The role of the coach is to identify the entrepreneur strengths and weaknesses and through one-on-one or peer group training address their weaknesses.

Competitive Team Building

- Venture Island – Northern California
 - Entrepreneurs compete against each other for a \$50,000 prize.
 - To be a contestant the entrepreneurs must attend training classes where they develop their business plan and elevator speech.
 - The classes are peer-driven but led by a coach.
 - The final competition is high profile as each of the finalists give their elevator speech to three judges.
 - Results: Great plans are developed, contacts and deals are made, and the whole area celebrates entrepreneurship.

Final Thoughts on Entrepreneurship

- ❑ It avoids the problem of picking winner – a common error in economic development.
- ❑ Still, many start-ups simply displace existing businesses. Better services are preferred, but the economic impact is likely small.

Final Thoughts on Entrepreneurship

- ❑ The role of the entrepreneurship is too important to limit to new business start-ups; it should be alive in the county's existing firms as well.
- ❑ The South Haven economic development community must decide how much "skin" to put into the game.

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