

Community Capitalism

By Ron Kitchens, CEcD

KALAMAZOO COMES BACK FROM THE BRINK

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“If you don’t like change, you’re going to like irrelevance even less.” Those words by American four-star General Eric Shinseki could just as aptly describe today’s worldwide battle for business as they do the need to morph military strategy with the changing times. Economic development in the 21st century is vastly different than it was even a decade ago. Companies, business models, and entire industries rise and fall with astonishing speed. Companies routinely merge, acquire competitors, restructure, relocate, expand and fail. Competitors can materialize next door or on the other side of the globe.

Recognizing that it was on the road to irrelevancy in the late 1990s, Kalamazoo, Michigan, responded by embracing change. The focus of its economic development efforts shifted dramatically from attracting big new manufacturing plants to creating an environment where existing and new business can grow and thrive. Rather than engage in rearguard efforts to retain jobs, the community has worked to figure out ways to enable and encourage dislocated employees to start companies of their own. The focus has been less on marketing the region as something it might become to making the most of existing resources. Finally, the community has relied less on incentives tailored to individual companies and more on creating the infrastructure that entrepreneurs and corporations can use as a platform for growth.

The results of this new “Community Capitalism” approach – as the innovative business model is now being called – speak for themselves. During the past four years, more than 25 life science start-up companies have launched in the region. The



The picturesque Kalamazoo River winds through downtown Kalamazoo, with both historic and modern office buildings in the distance representing the city’s celebrated past and promising future.

community leveraged nearly \$1.6 billion in private and public investments to nurture the companies. Families are moving back into the city and there has been a marked up tick in real estate prices and public school enrollment. The unemployment rate for West Michigan now stands significantly lower than the rest of the state at 5.2 percent compared to 6.9 percent statewide.

All communities are unique, but the experience in Kalamazoo in recent years holds several important lessons on how cities and regions can make the most of their existing resources. Not all components of the region’s quest for relevancy can be replicated, but many can. More importantly, the mindset and the sense of partnership and innovative thinking can inspire similar approaches. Here is Kalamazoo’s story with the hope that it will serve as a model on how other communities can re-imagine their economic potential.

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KALAMAZOO COMES BACK FROM THE BRINK

Like many cities across America’s so-called “Rust Belt,” Kalamazoo, Michigan, had suffered a long period of economic decline since the 1980s. Community and business leaders, educators, and the region’s privately funded economic development organization, Southwest Michigan First, however, took a radically different approach to spur a reversal of fortunes. Now dubbed “Community Capitalism” and gaining national recognition for its successes to date, the economic development strategy rests on a set of initiatives, partnerships, and public-private efforts to revitalize the local economy by tapping into existing local resources – rather than looking to the state or federal government for help. The innovative model received IEDC’s 2007 Multi-Year Economic Development Program Award for areas with a population of 50,000-200,000.



The Southwest Michigan Innovation Center, an incubator for life science companies, has launched more than 15 successful companies since it opened in 2003.

UNCOMMON RESPONSE TO COMMON PROBLEMS

Like many areas across America's so-called "Rust Belt," Kalamazoo had suffered a long period of economic decline since the 1980s when factories hummed making everything from Gibson Guitars to Checker Cabs. In 1999, a General Motors stamping plant closed, laying off 4,000 people. Six paper mills closed between 1999 and 2001, putting 1,200 people out of work. Perhaps most devastating was a series of mergers and acquisitions at Pfizer that eventually led to the loss of 4,000 high-paying jobs.

These business closings left a void in the city's tax base since most of the organizations that remained downtown – government, colleges and universities, theaters, museums, and other non-profit groups – were tax-exempt. The void forced tax increases on the city's lower class, driving families out of Kalamazoo and creating a disturbing domino effect: poverty, struggling schools, slipping home values, and shrinking middle- and upper-class populations.

When faced with similar problems, many communities would have looked to the state or federal government for help or thrown time and money at temporary solutions. Subsidized housing, shelters, food banks, lower standards for education, and programs for at-risk children are among the stopgap measures that cities often rely on in times of distress.

Kalamazoo, however, took a decidedly different tact. The community took to heart the proverb "If you give a man a fish, you feed him for a day. If you teach a man to fish, you feed him for a lifetime." Community and business leaders, educators, and the region's economic development organization began pulling together as never before to pool resources to attack the problem from a fundamentally different angle and create innovative programs to spur a "reversal of fortunes" in Kalamazoo.

Now dubbed "Community Capitalism" and gaining national recognition for its successes to date, the economic development strategy rests on a set of initiatives, partnerships, and public-private efforts to revitalize the local economy by tapping into existing resources. Simply

put, the region dug deep into its own pockets to find the money and talent to place a high priority on education, funding for new companies, and opportunities to invest in local companies and programs. A description of some of the key initiatives follows.

SOUTHWEST MICHIGAN INNOVATION CENTER

It wasn't rocket science to see the writing on the wall at Pfizer. Big pharmaceutical companies across America had been consolidating and downsizing and with the mergers and acquisitions at Pfizer, many in Kalamazoo knew that one of its major employers was at risk. Rather than dread the day and be paralyzed by fear, the community took a bold step and built a 53,000-square-foot life

You're Fired to You're the Boss

When long-time Pharmacia/Pfizer executives David Zimmermann and Robert Gadwood got the word that Pfizer decided to move some of its pharmaceutical research operations out of Kalamazoo, they had two choices: pull up stakes and move elsewhere with the company or try to find a way to stay in the community. Thanks to forward thinking by Kalamazoo business leaders, a state-of-the-art business incubator with wet lab space was nearly ready to open.

The scientists jumped on the opportunity, founded a medical chemistry contract research firm they named Kalexsyn (www.kalexsyn.com), and were among the first life science start-ups to move into the Southwest Michigan Innovation Center. In addition to the low-cost space, Kalexsyn benefited from a \$225,000 loan received through Western Michigan University's Biosciences Research and Commercialization Center (BRCC). The fledgling company was also able to obtain free scientific equipment that Pfizer had donated to the university.

Kalexsyn grew rapidly, recording sales of \$2.8 million in 2006. In March 2007, the company broke ground on new headquarters in Western Michigan University's Business Technology and Research Park near where the incubator is located. The new 20,000-square-foot building, outfitted with highly advanced laboratories and technology systems, will allow the firm to increase its staff from 23 to 32 employees.

Kalexsyn Chief Executive Officer David Zimmermann recalled recently, "I was a scientist, not a businessman. But the support we received at a time when our future looked bleak made all the difference in our ability to succeed."

Two other recent graduates of the Southwest Michigan Innovation Center are:

- **PharmOptima** (www.pharmoptima.com/) – This pre-clinical research and discovery company, which provides consulting and laboratory services with a goal of discovering antibiotic treatments for infectious diseases, announced plans to move into its own 10,000-square-foot facility in Portage Commerce Park in February 2007. Founded in 2003 with a staff of 10 people, the company recently hired its 25th employee and expects to expand to 35 employees by late 2007.
- **AureoGen Biosciences** (www.aureogen.com) – Another of the Innovation Center's original tenants, AureoGen was founded in 2003 by Dr. Ake Elhammer and Dr. Jerry Slightom – both former employees of Upjohn and Pharmacia. The company focuses on the development of novel, genetic engineering technologies for the discovery and production of cyclic peptide-based drugs. The company relocated in October 2006 into larger space about five miles from the Innovation Center.

science incubator to provide entrepreneurs with the wet lab space they needed to start companies of their own. When Pfizer announced that it would close its doors and lay off some 1,200 employees in 2003, the Southwest Michigan Innovation Center (www.kazoosmic.com) in Western Michigan University's new Business Technology and Research Park was ready to open. Rather than the announcement being an economic nail in the coffin, displaced scientists had the "bricks and mortar" and support system they needed to start their own companies rather than move elsewhere for employment.

Financed by \$5 million in funds from the state of Michigan and \$7 million from the city of Kalamazoo, Kalamazoo County, and private donors, the completely debt-free Innovation Center has been a resounding success. Some 15 companies have been born and nurtured at the center and all are still thriving today with upwards of 200 employees – many of whom are former Pfizer scientists. Three companies have already graduated and moved into their own facilities nearby (see sidebar on previous page) and several more are expected to graduate in the year ahead.



With a high percentage of the Kalamazoo Promise recipients opting to attend either Western Michigan University (shown here) or Kalamazoo Valley Community College, the region also benefits from the program.

The Michigan Technical Education Center at Kalamazoo Valley Community College (<http://mtec.kvcc.edu/>), which opened in 2001 as a collaborative effort among business, education and public leadership, has also provided valuable incubator space for life science companies that do not need wet lab space. It is now home to eight start-up companies, with several former Pfizer workers retained. It has also graduated one company into its own space.

KALAMAZOO PROMISE

In November 2005, anonymous donors from Kalamazoo's business community announced the Kalamazoo Promise (www.kalamazoopromise.com), a fund that pays 65-100 percent of the tuition of every Kalamazoo public school graduate that enrolls at a

Michigan state college or university. The program – hailed as one of the most innovative economic development tools to ever be implemented in this country – has had a rapid and profound impact on the city.

In the 2006-2007 school year, enrollment in the Kalamazoo public school system increased by 986 students after a long period of decline. New students came from 88 Michigan communities, 32 different states and nine foreign countries. Local realtors began advertising



Home prices have shot up 10 percent since the Kalamazoo Promise was announced. Many realtors now advertise that homes in the Kalamazoo Public School district are "college tuition qualified."

"College Tuition Qualified" and "Education: Key to the Future" on homes inside the public school district. Home values have shot up 10 percent since 2005 and new home sales are up for the first time in 20 years.

In 2006, \$1.2 million of the \$2 million Kalamazoo Promise money used by college-bound students remained in the Kalamazoo community, with 73 percent of the recipients opting to attend either Western

Michigan University or Kalamazoo Valley Community College. Equally important to the city's future is that the percentage of Kalamazoo public school students applying to college has increased by more than 10 percent in four years – from 79.6 percent in 2002 to 89.7 percent in 2006. The percentage of female African-American students attending college also jumped from 60 percent in 2005 to 93 percent in 2006.

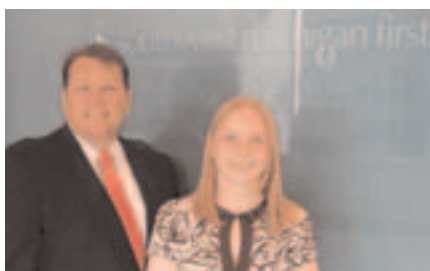
The Kalamazoo Promise, which has garnered worldwide media attention, has spurred numerous communities across America to mimic the program. Southwest Michigan First has consulted with leaders in North Dakota; Newtown, Iowa; El Dorado, Arkansas; and Orange, Texas, about how they might structure and launch their own version of the Promise.

THE MONROE-BROWN INTERNSHIP PROGRAM

Taking the Kalamazoo Promise one step farther, Kalamazoo announced the launch of a powerful new Monroe-Brown Internship Program in November 2006. The program, which bridges the gap between higher education and the local business community, is designed as an intellectual capital retention tool that works to keep the region's most talented students after graduation by connecting them with scholarships, internships, job openings, and networking events throughout the region.

In its inaugural year, 13 Kalamazoo-based businesses, including Stryker Instruments, A.M. Todd, Landscape Forms, CSM Ground, and life science start-ups like ProNAi and ADMETRx, agreed to hire a total of 20

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Now a senior at Kalamazoo Valley Community College, MaryKate Compton was hired by Ron Kitchens at Southwest Michigan First as a summer intern as part of the community's highly successful first year of the Monroe-Brown Internship Program.

interns at a working wage and offer a \$500 bonus to all students who completed the program. With matching funds from the Monroe-Brown Foundation (www.monroebrown.org), participating students from Kalamazoo College, Western Michigan University, and Kalamazoo Valley Community College earned nearly \$9,000 each in scholarship money, bonuses, and hourly wages.

Feedback after the first year has been glowing. Students gain real-world career experience, a valuable regional network, and enough scholarship money in some cases to offset tuition costs. Meanwhile, employers saw the benefits in terms of helping them quickly and affordably build a talented and well-trained workforce.

Bob Brown, president of the Monroe-Brown Foundation, commented, "We wanted to create an internship program that would reward students for staying and growing in Kalamazoo...These are talented individuals

that may have otherwise spent their summers working in other cities, but they have chosen to stay here. We hope they make that decision again after graduation."

SOUTHWEST MICHIGAN FIRST LIFE SCIENCE VENTURE FUND

One of Kalamazoo's most potent economic development recruitment tools is its new Southwest Michigan First Life Science Venture Fund (www.southwestmichiganfirst.com/VentureFund.cfm). At \$50 million, it is believed to be the largest sum of private capital ever to be raised and managed by an economic development organization. What also sets the venture fund apart is that its Scientific Board – made up of top scientific investment advisors from around the world – will only invest in companies that commit to a relocation or expansion in Kalamazoo.

With a focus on funding early-stage life science and medical device companies that fit well in its growing cluster in these knowledge-based industries, Southwest Michigan First has already funded five companies and expects to fund an average of six companies each year. EADevelopments (www.eadevelopments.com), which is developing energy-assisted medical devices such as biopsy needles, was attracted to Kalamazoo from Pittsburgh, Pennsylvania, by the seed capital the fund provided. The company's founder and CEO, Joshua Gerlick, remarked recently, "When our company received funding, we not only received the opportunity to relocate and to grow, but we were also introduced to a community that I know will help us grow and succeed in the future."

MIDLINK BUSINESS PARK

When General Motors closed its 2.2 million-square-foot stamping plant in 1998, Southwest Michigan First swung into gear to make sure that the massive facility did not soon become a "white elephant" like so many other automotive plants that dot the American landscape. The organization worked closely with Los Angeles-based Hackman Capital Partners and public and private partners to transform the dilapidated facility into a start-of-the-art business park.



Instead of letting the former General Motors stamping plant become a white elephant in the community, Southwest Michigan First worked with Hackman Capital Partners to transform the facility into the state-of-the-art Midlink Business Park.

Most dramatic was the move to divide the colossal facility into two separate buildings with a truck bay and loading docks down the middle. Hackman also re-branded the facility as Midlink Business Park (www.midlinkbusinesspark.com), with a more commercial image, with new lighting, paint, and landscaping. The 340-acre business park is now bustling with new tenants, drawn by its strategic location on the I-94 corridor mid-way between Chicago and Detroit, tax incentives provided by Michigan's Renaissance Zone program, and other benefits. Additional land is also available for office, industrial, and retail development.

GIRL SCOUT TRAINING AND PROGRAM CENTER

Going well beyond cookies and campfires, the Girl Scouts of Glowing Embers Council (www.gsgec.org) launched a bold new national urban model when it opened a sparkling new \$4 million Program and Training Center in Kalamazoo in September 2007. Seven years in the making and funded with nearly 1,000 gifts from local foundations, businesses, and individuals, the center expects to reach 6,000 girls annually with up to 200 different programs in everything from math and chemistry to etiquette at a high-end city restaurant.

The center's goal is to introduce girls from rural areas to an urban environment to improve their chances of success if they go to colleges or jobs in the city. "Some girls have never seen a revolving door or an escalator, ridden a city bus or a train, eaten ethnic food or been to a big library or museum," said Jan Barker, CEO of the Glowing Embers Council. "Those girls might struggle when thrust into an urban environment, believing that they are less smart simply because they had no previous exposure to a city. That can shatter self-esteem quickly and lead to girls dropping out of college or leaving a good job."

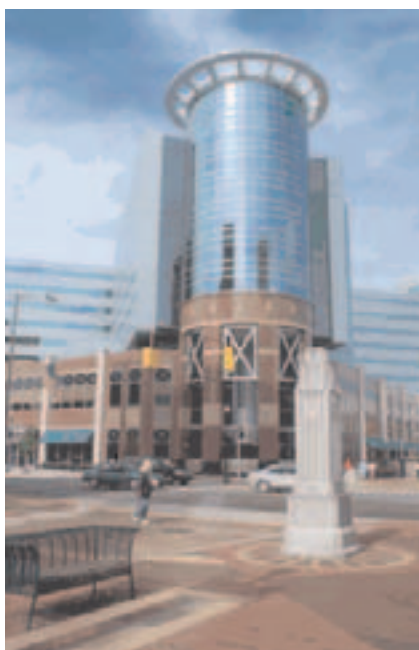
A far cry from the typical school or church basement where most troops meet, the 27,000-square-foot center also provides an attractive location for the community to get involved. Plans call for local chefs, artists, and business executives to lead classes on cooking, art, and goal setting, for example. The center will also offer programs during Christmas vacations and spring breaks for girls that have never been away from home for either. Day camps and after-school programs are in the offing, too.

RADISSON REVITALIZATION

When Pharmacia announced that it would divest itself of all non-pharmaceutical businesses following its merger with the Upjohn Company, Kalamazoo businessman

William D. Johnston knew that the company would rid itself of the Radisson Plaza Hotel and Suites (www.radisson.com/kalamazoomi) in the heart of downtown Kalamazoo. The Greenleaf Companies founder also knew that it would be difficult for an outsider to invest the money or imagination necessary to revitalize the hotel and conference center and turn it into the gold standard that Kalamazoo needed.

Rather than let the epicenter of Kalamazoo's downtown business community languish, Johnston purchased the Radisson from Pharmacia in May 2000 and got to work. He renovated the hotel from top to bottom, inside and out. Today, the 850,000-square-foot complex boasts 341 rooms and sufficient meeting space to make it the fourth largest conference and convention property in Michigan. The hotel's occupancy rate has risen steadily and should finish 2007 at 64 percent – a full five points higher than the state average. The hotel employs 680 people and brings 850,000 people to downtown each year as guests, diners, and conference goers. The four-diamond hotel currently ranks fifth among the 850 Radisson Plaza and Suites globally for its 260 percent increase in business during recent years.



The multimillion-dollar renovation of the Radisson Plaza and Suites was crucial to downtown revitalization efforts in Kalamazoo.

LESSONS LEARNED

With perspective that sometime only the passage of time can bring, Southwest Michigan First can offer the following "lessons learned" as the region has built its Community Capitalism model:

Think Ahead: When Pfizer announced its lay-offs in 2003, the Southwest Michigan Innovation Center was ready to open. Rather than the announcement being another devastating blow to the economy and the community helpless to do anything about it, displaced workers had the wet labs and

office space they needed to get their feet back on the ground and remain in Kalamazoo. Thinking ahead and being proactive rather than reactive, paid off in spades for Kalamazoo and can for many other communities, too.

Be Bold: By taking the ultimate "build it and they will come" leap of faith to invest in the speculative incubator when there was not even a single lease commitment, Kalamazoo was able to retain its valuable scientific talent and avert the "brain drain" that so many other communities experience in the same situation. Bold initiatives rather than band-aid solutions are often what it takes to survive in today's ultra-competitive environment.

Find Partners: Southwest Michigan First could not have accomplished what it did on its own. The Kalamazoo Promise was made possible by the beneficence of anonymous donors with faith in the city's

future. To take the Promise one step further, the economic development organization partnered with a local foundation dedicated to furthering higher education to launch the Monroe-Brown Internship Program. Almost every community or region has pockets of wealth or organizations that can be tapped into for the greater good. Be creative about finding partners.

Provide Capital: No doubt about it: money talks. The Southwest Michigan First Life Science Venture Fund has attracted companies to Kalamazoo that might otherwise have gone elsewhere. It may be difficult for some communities to raise \$50 million in private capital, but a much smaller seed fund will pay good dividends for a region's future if invested wisely in companies with good growth potential.

Spread the Word: When the Kalamazoo Promise was announced, Southwest Michigan First immediately recognized a golden opportunity to promote the highly unusual economic development program well beyond the region. It hired a New York City public relations firm to launch an aggressive media relations campaign to get the word out. The program made front-page news in *The Wall Street Journal*, was featured on ABC News and CNN, and grabbed headlines in *The New York Times*, *The Washington Post*, *The Chicago Tribune* and a number of

other national newspapers and magazines. Most recently, Katie Couric traveled to Kalamazoo and did a five-minute segment on the Kalamazoo Promise for CBS Nightly News. Kalamazoo's appeal as a business location was no longer a best-kept secret and the city's turnaround got another strong shot in the arm.

With the steady drumbeat of positive press, Kalamazoo attracted the attention of the editors at *Fast Company* magazine and the city became the first ever to be named to the publication's prestigious "Fast 50" list in 2007. Kalamazoo's signature business model of Community Capitalism also got its first mention by name. A business book on Community Capitalism and lessons from Kalamazoo and beyond is now in the works.

CONCLUSION

As John F. Kennedy once said, "Change is the law of life. And those who look only to the past or the present are certain to miss the future." In today's fiercely competitive, global battle for business, communities that are stuck in the old model for economic development will wither and die. Those that embrace change and initiate their own version of Community Capitalism – in whatever form it might take – are on the road to relevancy and being able to compete for the next century. 🌐



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