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# Executive Summary

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Over the past decade, the state of Michigan has experienced an unprecedented economic decline, in part due to the collapse of the domestic automobile industry. Major efforts have been undertaken in recent years to revive the state's economy through issuance of tax credits and tax breaks to lure new companies and in turn, jobs, to the state. However, these efforts have been only marginally successful creating fewer jobs than hoped for or expected.

Michigan's current economic development strategy primarily focuses on attracting large companies. However, while employment in large, mature companies has been on the decline, employment in small, growing companies is rising. This paper posits that it is time for the state to embrace a broader economic development strategy—one that nurtures and supports small, growing businesses that already exist within the state and have the desire and capacity to grow rapidly. Known as "economic gardening," this strategy provides tools and strategies to these young, growth-oriented companies, and we propose that it become a central element of Michigan's economic development philosophy and strategy. This shift will be challenging to achieve, yet is important to undertake. We should note that in this framework for implementation of an economic gardening strategy, we do not address the topic areas of taxes, regulation, or access to capital, despite the fact that they are widely understood to be important to virtually all business owners. The reason is that many of the tools for aiding in these areas fit equally well with traditional economic development strategies and economic gardening.

*Economic gardening entails cultivating and nurturing local growth-oriented companies; it is a change in philosophy, not just a program.*

To be clear, this shift means a change in philosophy, not merely adding new programs. Such a change is extraordinarily difficult to achieve, but it is critical that it happen immediately. The specific services outlined in the Blueprint are only illustrative of the fundamental refocusing that economic gardening would entail.

The Michigan-based Edward Lowe Foundation has played a leading role in shaping the economic gardening philosophy and stimulating its development in several states. Our state is fortunate it can draw on this important resource as it incorporates economic gardening into its economic development strategy

## The Case for Economic Gardening

The core of the needed economic development change is to embrace economic gardening as an important addition to the state's current attraction or "hunting" strategy. In economic development, as in the animal kingdom, hunting involves stalking individual prey and making a kill. It means trying to recruit or retain large companies that could choose to locate elsewhere. The tools used to "make the kill" in economic hunting have become less successful; our spears

have become dull. Economic gardening, by contrast, entails cultivating and nurturing local growth-oriented companies by giving them the tools they need to succeed so that they can yield a harvest of new jobs. The economic-gardening model articulates an approach that is considerably different from more conventional strategies in that it:

- Builds on the experiences and insights of experts across the nation who are working at the cutting edge of public-sector business development policies and practices.
- Relies more on providing knowledge and expertise to companies and less on providing tax dollars.
- Focuses on small companies that have the capacity and intent to grow.
- Emphasizes a market-based role for the public sector, rather than one that focuses principally on providing services.
- Assumes that business owners are smart enough to decide which services are likely to have value to them and that they are willing to pay for services that have value.
- Acknowledges that the economic strategy to provide targeted support to skilled entrepreneurs is aligned with quality-of-life and place-making strategies.

*Economic gardening is not a new concept; it has been in practice on smaller scales in various regions and locales for years.*

Economic gardening is not a new concept; it has been in practice on smaller scales in various regions and locales for years. The birthplace of economic gardening was Littleton, Colorado, where economic developers have been offering local businesses a variety of tools that are necessary in growing their businesses. The co-creator, Christian Gibbons, identified three basic elements of Littleton's strategy:

- Tactical and strategic information
- Nurturing connections to trade associations, think tanks, academic institutions, and similar companies
- Quality of life and intellectual infrastructure

Tangible examples of services or tools provided by economic developers to help grow local businesses include, geographic information systems (GIS) services, databases that can develop marketing lists and industry trends and answer custom business questions, and training and seminars dealing with business, management, and customer strategies.

The states of Georgia, Florida, and Wyoming have also taken an economic gardening approach to their economic development strategies. All three of these states provide a variety of tools and resources to businesses throughout their states, so Michigan can draw on their ideas and continue to innovate.

Implementing an economic gardening strategy in Michigan will not only reap the potential benefit of growing the state's economy, but there may also be other important benefits, such as:

- Utilizing and supporting homegrown entrepreneurial talent, existing knowledge resources, programs, and amenities
- Supporting and refocusing existing local resources
- Building an ongoing infrastructure and culture of entrepreneurialism
- Creating better leverage on investments of tax dollars
- Providing resources that Michigan second-stage business leaders value: industry-specific, external information that can be learned on a self-directed basis
- Becoming the first state in the nation to fully integrate economic gardening into the core of its economic development strategy
- Helping to recruit talent and investment
- Keeping our young people in Michigan
- Becoming a leading contributor to development of a national economic gardening community

## **An Economic Gardening Strategy for Michigan**

In this proposed economic gardening strategy the State’s role, most likely through the new administration’s Michigan Economic Development Corporation (MEDC), will be stimulating the growth of high-potential firms by state, local, and private service providers in a way that allows each partner to do what they do most effectively. This new Michigan Economic Gardening Partnership will capitalize on the strengths of the state’s impressive and diverse existing assets. The MEDC can be the entity that leads, manages, and promotes Michigan’s economic gardening strategy, incorporating the economic gardening philosophy and goals into every aspect of its operation. Thus, a substantial fraction of the MEDC budget would support economic gardening. The MEDC also acts as a champion and market-maker, attracting a large enough market to make it affordable for the private sector to provide their expertise at discounted rates that growing companies can afford and bringing all the parties to the table with the goal of brokering the best deal for all involved. Local entities will utilize their knowledge of the local small business community to identify and communicate with companies who have the capacity and intention of creating new jobs through growth.

The service delivery framework includes the following set of principles that would guide development of economic gardening in Michigan:

1. Research-based services developed to improve the likelihood of successful growth by the targeted companies.
2. Private delivery by seasoned providers motivated to excellence as the key to maintaining their professional reputation.
3. Market-making role for the public sector, along with the Economic Gardening Partnership, to identify companies and sectors to match with appropriate providers.

4. Fee-based services alternative allows the cost of private providers to be supported financially by those benefitting most directly.
5. Self-selection by companies who determine that the services offered have value to aid in their growth trajectory.
6. Market responsiveness means that services will be entrepreneurial—offered as long as the companies deem them valuable, no longer. New services are developed in response to ongoing customer feedback.

Services and guidelines are developed by the state as part of the Michigan Economic Gardening Partnership, with input from customers and local partners to ensure that resources and services offered are ones that second-stage business owners value and that will positively impact their growth trajectory. As time goes on, services not deemed helpful or relevant can be dropped and new ones added to meet current needs. There are no “winners” and “losers” in regards to which small businesses will participate in this program; instead, businesses will self-select to opt in to

*There are no “winners” and “losers” in regards to which small businesses will participate in this program.*

the program by deciding if they would like to purchase the services that are offered at a deeply discounted rate. The firms that deem these services to be of value and use will enroll in the program and purchase the services. Companies that will be targeted for this program are second-stage firms, that is, those that have sales in the range of \$750,000 to \$50 million, 10 to 100 employees, and the specific intent and capacity to grow. According to the Edward Lowe Foundation, approximately 1 to 3 percent of firms fit those criteria.<sup>1</sup> In Michigan that would be approximately 2,300 to 6,900 companies.

While a variety of tools and services have historically been offered as part of economic gardening programs, in Michigan two possible service offerings will be tested initially, along with a potential marketing and delivery system. The two services will be company analysis and customized market research. The Small Business Association of Michigan has already experimented with providing customized market research in two Michigan counties, with the program director reporting a positive reaction,

“Preliminary findings from the work completed so far indicate that providing growth-oriented companies (‘intent to grow’) with high-level market research is a good way to enhance their ‘capacity’ for growth. A Regional Economic Gardening Support Service allows the high cost for market research to be spread across multiple cost centers, thus lowering the costs for individual projects.”<sup>2</sup> One benefit is that we can leverage current publically owned research resources through universities and public libraries, such as market research databases. Company analysis services have been identified by small, high-growth firms as useful in identifying barriers encountered during the growth process and mapping out an

*The two services offered to targeted Michigan small businesses will be a company analysis and customized market research.*

<sup>1</sup> Edward Lowe Foundation, <<http://www.edwardlowe.org/index.elf?page=about&function=mission>>.

<sup>2</sup> Mark Clevey, memo, addressed to Jeffrey Padden, June 29, 2010, Summary of SBAM RBEG Projects.

overall strategy for growth. These two services will be offered by experienced private consultants at discounted rates.

A key to the success of this program lies in its marketing. The State will be expected to provide overall marketing support for the program including a Web site, press releases, and other promotional materials. It is estimated that these services will be delivered to 500 to 600 companies per year after startup, with the number growing over time.

The three cost categories for the economic gardening strategy are State costs, local costs, and private-provider costs. The State will fund its staff costs, and local entities would be paid a modest fee per customer to support their new costs. Discounted private provider costs are expected to ultimately be paid by the participating companies.

## **Options for Implementation**

With many partners involved in this economic gardening strategy, it is expected that there will need to be strong leadership at the state level, particularly from the governor's office, the Legislature, and the MEDC. The governor's office will play the role of announcing and supporting the strategy at its onset and appointing a chief executive for the MEDC that fully embraces the economic gardening strategy. The Legislature will become involved if there is legislation needed to support this approach. The MEDC, working closely with relevant state agency partners, will act in the brokering and marketing roles. All of these entities will be critical in communicating the strategy to targeted businesses and the public at large.

## **Assessing Success: Research**

One of the most important aspects of this strategy will be to track its success from the very beginning of implementation. The evaluation of its success will be tracked in four ways: tracking the progress of jobs created, investment, and sales growth by participating companies; encouraging program input and feedback from participating companies; conducting a public tracking survey of the entrepreneurial culture and environment; and measuring trends in entrepreneurial activity.



# Background

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Throughout this first decade of the new millennium, Michigan has experienced an unprecedented economic decline. After a century of prosperity centered on automobile manufacturing, the domestic auto industry collapsed and with it Michigan's economic core. Efforts were undertaken throughout the decade to revive that industry, but no credible observers believe that the auto

*Efforts to stimulate economic growth through tax credits have been less successful than hoped.*

industry in Michigan will regain its peak level of employment. Nevertheless, specific tax breaks and a whole new business tax structure were aimed in that direction.<sup>3</sup> While manufacturing remains important to our economic future, efforts to attract or even retain

manufacturing firms consistently fell short of hoped-for levels of success. A recent analysis of tax credits issued by the Michigan Economic Growth Authority (MEGA) shows that, on average, only 294 jobs were created of each 1,000 jobs expected.<sup>4</sup> Most would agree, however, that the MEGA process, which does not pay tax credits until jobs are actually created, avoids many of the pitfalls of programs in other states. In fact, a detailed estimate by the W.E. Upjohn Institute for Employment Research shows that, while MEGA is modest in scale, it is a cost-effective means of using tax credits to stimulate job creation and has resulted in net job creation.<sup>5</sup> Clearly, though, these efforts to stimulate economic growth through tax credits have been less successful than hoped.

Over the past 15 years, employment in large, mature companies in Michigan has declined while employment in smaller, younger companies has grown. By looking at net change in employment separately for companies within Michigan and those that moved in or out, a more vivid picture emerges. Michigan firms with more than 500 employees had a net loss of nearly 388,000 jobs through expansions and contractions. Undoubtedly, outsourcing by large companies contributed

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<sup>3</sup> Timothy J. Bartik and George Erickcek, "The Employment and Fiscal Effects of Michigan's MEGA Tax Credit Program," W.E. Upjohn Institute for Employment Research, Kalamazoo, Mich., April 2010, 7, <<http://www.upjohninst.org/publications/wp/10-164.pdf>>. Based on MEDC data, the authors report that, "Over the life of the program, about 49 percent of the credits have been in the motor vehicle and motor vehicle-parts industries, and 31 percent in other manufacturing industries."

<sup>4</sup> Michael D. LaFaive and James M. Hohman, "The Michigan Economic Development Corporation: A Review and Analysis," The Mackinac Center for Public Policy, August 31, 2009, <<http://www.mackinac.org/10933>>.

<sup>5</sup> Bartik and Erickcek, "The Employment and Fiscal Effects."

to the growth of some smaller firms, so some jobs shifted from large firms to smaller ones, but it is beyond the scope of this paper to quantify that effect. It is clear, however, that a great number of jobs that had been present in large manufacturing firms simply disappeared, as indicated by the decline in the net number of jobs in manufacturing and related industries. Michigan's current economic strategy did not fare well, either: 16,000 jobs were gained from firms that moved in, but 21,000 were lost through those that moved out.<sup>6</sup>

The public expects the State of Michigan to provide help to business owners and to those considering launching a business, but it is short on understanding what to do or how to do it. Often, it is suggested that, while providing support, "government should not pick winners and losers," which implies that all comers should be treated equally. For small businesses, this might mean that all would receive the same level of support or that none would receive any help at all. The numbers, though, make the former impossible and political reality rules out the latter.

*The public expects the State of Michigan to provide help to business owners and to those considering launching a business.*

There are currently over 230,000 business establishments in Michigan that have between 1 and 99 employees.<sup>7</sup> In addition, there are about 640,000 self-employed individuals.<sup>8</sup> That is a total of 870,000 small businesses. If the government were to provide only a modest level of support, say \$1,000 worth of help (cash, technical assistance, etc.), to each of them, the cost would be \$870 million per year and the return would be negligible. Clearly that is not a feasible strategy;

*The SBTDCs should play an important role in a revamped economic development strategy.*

the entire budget of the Michigan Economic Development Corporation (MEDC) is approximately \$212 million.

Given such staggering potential costs, it is tempting to say that government should simply exit the business development business. This is a view deeply held and actively espoused by the Mackinac Center for Public Policy, an influential

<sup>6</sup> Edward Lowe Foundation, YourEconomy.org, <<http://youreconomy.org/>>.

<sup>7</sup> U.S. Census Bureau, 2007 County Business Patterns, August 28, 2009, <[http://factfinder.census.gov/servlet/IBQTable?\\_bm=y&-ds\\_name=CB0700A2&-geo\\_id=04000US26&-search\\_results=01000US&-\\_lang=en](http://factfinder.census.gov/servlet/IBQTable?_bm=y&-ds_name=CB0700A2&-geo_id=04000US26&-search_results=01000US&-_lang=en)>.

<sup>8</sup> U.S. Census Bureau, 2008 Nonemployer Statistics, 2008.

conservative think tank in Midland, Michigan. In comments to Crain's Detroit Business, Michael LaFaive, Director of Fiscal Policy for the Mackinac Center for Public Policy, said, "The MEDC is an expensive bureaucracy and 'arguably the least necessary entity in state government.'"<sup>9</sup> We do not think that such a laissez faire approach resonates with either public expectations or the best available economic analysis; there is a need for government to play an active, constructive role. Thus, rather than to follow either an all or nothing path, we suggest that the State take a more metered approach.

The public sector currently supports start-ups and small first-stage firms through the Small Business and Technology Development Center (SBTDC) network and the U.S. Small Business Administration. While there are outstanding and important exceptions, the network's 2009 annual report indicates that many of the companies they support are local-market enterprises that do not become significant job creators.<sup>10</sup> The SBTDC plays a valuable role for its customers, and the public investment in that work should be continued. As the odds for economic impact improve, however, more public investment of various kinds can be justified. The SBTDCs should play an important role in a revamped economic development strategy in Michigan, since they already serve many companies (15,808 in 2009),<sup>11</sup> and have contacts with small businesses across the state.

While its objectives are laudable and well-intentioned, the MEDC primarily takes a mostly conventional approach to attracting new companies to Michigan and conducting retention visits with current employers.<sup>12</sup> The attraction

*Michigan's strategy has not had sufficient breadth or depth to cope with the transition from the economy of the past to the economy of the future.*

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<sup>9</sup> Amy Lane, "State Debates MEDC's Value," Crain's Detroit Business, May 5, 2003, <<http://www.crainsdetroit.com/article/20030505/SUB/305050863>>.

<sup>10</sup> Michigan Small Business and Technology Development Center, "Who We Are," <<http://misbtcd.org/who-we-are/>>.

<sup>11</sup> Ibid. The intensity of these engagements is modest, with 32,740 hours of counseling provided to 15,808 customers, or an average of about two hours per customer. The engagements we will propose in this paper are about 20 times more intensive.

<sup>12</sup> Michigan Economic Development Corporation, "Special Advertising Feature," *Inc. Magazine*, July/August 2010. The MEDC lists a variety of assets and programs that comprise Michigan's economic advantages. Mostly, it focuses on financing tools and location decisions. In describing "tools of the entrepreneurial trade," it describes a number of important and valuable programs that could make major contributions to an economic gardening strategy. It has not, however, articulated a strategic focus on the smaller, high-growth firms that are the subject of this Blueprint.

strategy focuses almost exclusively on incentives and the retention visits serve mostly as an early warning system for companies that may be considering moving out of state or laying off workers. Additional tools can better support companies with growth potential to become more competitive or to grow successfully more quickly. Thus, the economic development strategy of the State of Michigan has simply not had the breadth or depth of approaches necessary to cope with the transition from the economy of the past to the economy of the future.

Another vestige of our century of auto-related success is that Michigan no longer has a strong culture of entrepreneurship. Those who open a business are often seen not as economic pioneers but as outsiders unable to succeed in the corporate world. The hope is that through strengthening a culture that embraces entrepreneurialism as not only a “norm” but something to be lauded, the culture and the feeling of the state will shift to a more positive tone for small businesses. There

*There is potential for great synergy between efforts to strengthen Michigan’s entrepreneurial culture and to create more attractive places for people to work and live in Michigan.*

is potential for great synergy between efforts to strengthen Michigan’s entrepreneurial culture and to create more attractive places for people to work and live in Michigan. There is a growing school of thought that suggests that intentional “place-making” or creating walkable downtowns with strong arts, cultural, and

entertainment offerings can attract well-educated and creative young professionals who in turn can contribute to economic vitality. Those young professionals, however, need jobs in order to stay in a community that attracts them. This apparent paradox must be resolved in order to anchor the young people Michigan needs to retain. The broader strategy described below addresses this and the other limitations of Michigan’s economic development strategy.<sup>13</sup>

## **Broadening the Economic Development Strategy**

Clearly, the time has come for the government and people of Michigan to embrace a broader strategy for economic development. While some of the current approaches merit retention, we

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<sup>13</sup> Ibid. The MEDC sees Michigan’s natural and cultural assets as quite relevant to the economy. The relevance that the agency articulates, however, is focused entirely on the location decision by business owners, not as integral to resolving the paradox described here.

suggest here that new strategies and tools be added to Michigan's economic development portfolio.

It may appear that the options for an effective public-sector role in supporting economic growth are not promising. We have asserted that: (1) business attraction as a primary tool has not been as successful as we would hope, (2) supporting every small business is not economically feasible and pays only minimal returns, and (3) exiting altogether the economic development business is neither appropriate nor politically feasible. There is, however, economic gardening as a fourth way that capitalizes on the strengths of government while avoiding many of its inherent limitations and weaknesses.

The strategy suggested here is about positioning the public sector to help increase the odds that small firms that intend to grow will do so successfully. It would build directly on the data that show the importance of high-growth small firms in creating jobs and the services that can help them grow successfully. And, it would not attempt to pick winners and losers, but instead would allow business owners to self-select based on their assessment of the likely value of the services. While the services would be marketed to those small companies that intend to grow, they would not be closed to anyone.

Perhaps most important is that the shift described here is one of changing philosophy, not merely adding new programs. The specific services outlined below are only illustrative of the fundamental refocusing that economic gardening would entail. To succeed, this philosophy would need to permeate the governor's office; the MEDC; the Department of Energy, Labor, and Economic Growth; Treasury; and other executive agencies.

Such a change is extraordinarily difficult to achieve, but it is critical that it happen immediately. The status quo has great momentum and many vested in its continuation. Thus, we will need effective allies to achieve the transformation quickly. Michigan is very fortunate that the Edward Lowe Foundation, based in our state, has played a leading role in shaping the economic gardening philosophy and stimulating its development in several states. Its credibility, knowledge, and commitment make it a formidable resource in an effort to reshape the state's approach to development. Overall, collaboration with the Foundation is likely to dramatically strengthen a Michigan economic gardening strategy.



# The Case for Economic Gardening

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The core of the needed economic development evolution is to embrace not just hunting for business but also economic gardening to grow our own companies and jobs. In economic development, as in the animal kingdom, hunting involves stalking individual prey and making a kill. It means trying to recruit or retain large companies that could choose to locate elsewhere. The tools used to “make the kill” have, as noted above, become less successful; our spears have become dull. We have accelerated the chase, but our competitors are also running faster and so

*The core of this broader strategy for economic development in Michigan is to embrace gardening along with hunting.*

is our prey. Economic gardening, by contrast, entails cultivating and nurturing local growth-oriented companies by giving them the tools they need to succeed so that they can yield a harvest of new jobs.

As Small Business Association of Michigan Chair Cynthia Kay put it, “Economic gardening means growing our own small businesses in Michigan from the ground up . . . . It’s important because most job growth comes from our own small businesses, not big businesses—neither the ones that we have here in the state nor the ones that are lured to locate here by expensive tax breaks.”<sup>14</sup> This proposed economic gardening strategy is research-based and seeks to implement a model in which small, high-growth businesses in Michigan will be given the opportunity to procure much-needed services from experienced, skilled consulting organizations.

We should be clear, however, that this paper does not propose to do away with the business attraction model that has been the core of our economic development strategy for so long. Instead, including economic gardening, as well as attraction efforts, in the toolbox for the state’s economic development portfolio would be beneficial. Using those strategies in conjunction with one another can only serve to support the state’s economic future. We should also note that in this framework, we do not address the topic areas of taxes, regulation, or access to capital, despite the fact that they are widely understood to be important elements of any business

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<sup>14</sup> Cynthia Kay (SBAM Chair), comment made at SBAM’s Annual Meeting & Networking Luncheon, Kellogg Hotel & Conference Center, June 24, 2010.

strategy. The reason for this choice is that many improvements in these areas apply equally well with traditional economic development strategies and economic gardening.

## **Current Economic Gardening Efforts in the United States**

There are several places in the United States that are currently employing an economic gardening strategy as their main economic development tool. The City of Littleton, Colorado was the birthplace of the economic gardening movement, and it provided a number of tools to small businesses to aid in their growth. The economic gardening best practices that evolved in Littleton were ultimately associated with three critical themes: infrastructure, building and supporting the development of community assets essential to commerce and overall quality of life; connectivity, improving the interaction and exchange among business owners and critical resource providers; and market information, access to competitive intelligence on markets, customers, and competitors.

Following the City of Littleton's example, the state of Florida, through the University of Central Florida (UCF), has undertaken a similar model of offering services to its second-stage businesses in six regions throughout the state to aid in their growth. Along with other services, UCF is offering information resources similar to those in Littleton, as well as decision-making tools (e.g., strategy analysis, capital referrals). UCF develops the tools, and they are distributed to businesses via technical assistance teams that work in the six regions.<sup>15</sup>

Implemented on a statewide level, the state of Wyoming employs an economic gardening strategy that includes a statewide center for economic gardening tools, the Wyoming Market Research Center. Wyoming offers a variety of tools to their small businesses:

1. Basic market research
2. Marketing lists
3. Business-to-business contacts
4. Competitive intelligence
5. Demographics and psychographics
6. GIS analysis and mapping

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<sup>15</sup> GrowFL, "Cultivating Growth Companies" (2010). <<http://www.growfl.com/>>

7. Site selection assistance
8. Customer profiling
9. Marketing material evaluation
10. Original research

The tools that Wyoming offers are available to businesses at no cost. The most updated information available reports that the size of the economic gardening program has increased from serving 57 businesses in 2003 to 286 businesses in 2007.<sup>16</sup> While it is true that Wyoming has implemented this program on the state level, it should be mentioned that it is still operating at a relatively small scale. Michigan has over 10 times as many firms as Wyoming, so a proportional program in our state would be serving more than 3,000 firms.<sup>17</sup>

The state of Georgia implemented a Littleton-like economic gardening model throughout many regions within the state. The model started out as many interrelated economic development programs and morphed into an economic gardening program. Georgia understood that it would be challenging to implement a small, regional program on a statewide level, so it set out very specific parameters of *who* the program was intended for and the *goals* of the program.<sup>18</sup>

It is important to note that these and other policies, strategies, and initiatives characterized as “economic gardening” vary widely. They are experiments that differ in their content, scale, delivery systems, pricing strategies, and marketing approaches; this is not surprising for an innovation that only in recent years has moved beyond its roots in Littleton, Colorado. The field is still in a highly creative stage, which means that those who are conducting pilot tests or demonstrations are blazing the trails they are traveling.

Based on our national research regarding economic gardening, it has become clear that there are a number of common themes that permeate the experimental work and that the economic gardening model differs from conventional strategies in several important ways. These themes and differences are that economic gardening:

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<sup>16</sup> Economic Gardening Part Two (2009). <<http://blog.edcsouthwestcalifornia.com/blogpost-15751/Economic-Gardening.html>>

<sup>17</sup> U.S. Small Business Administration, Office of Advocacy, based on data from the U.S. Census Bureau, Statistics of U.S. Businesses, <<http://www.census.gov/econ/susb/>>. Analysis by Public Policy Associates, Inc.

<sup>18</sup> Steve Quello and Graham Toft, “The Small Business Economy for Data Year 2005: A Report to the President,” U.S. Small Business Administration, Washington, D.C., Chapter 6, “Economic Gardening: Next Generation Applications for a Balanced Portfolio Approach to Economic Growth,” December 2006, 157-193, <[http://www.sba.gov/advo/research/sbe\\_06\\_ch06.pdf](http://www.sba.gov/advo/research/sbe_06_ch06.pdf)>.

- Builds on the experiences and insights of experts across the nation who are working at the cutting edge of public-sector business development policies and practices.
- Relies more on providing knowledge and expertise to companies and less on providing tax dollars.
- Focuses on small companies that have the capacity and intent to grow.
- Emphasizes a market-based role for the public sector, rather than one that focuses principally on providing services.
- Assumes that business owners are smart enough to decide which services are likely to have value to them and that they are willing to invest in such services.
- Acknowledges that the economic strategy to provide targeted support to skilled entrepreneurs is aligned with quality-of-life and place-making strategies.

For Michigan, the developmental work and diversity of approaches mean that the state can draw on many ideas that have emerged and to some extent have been tested in the field. While Michigan should learn from these previous efforts, its work on economic gardening should also inform the field. In a sense, there is a budding community of economic gardening research and development. The Edward Lowe Foundation, based in Michigan, has cultivated the emergence of that community, and Michigan can and should become a leading contributor to it.

## **Data on Economic Contributions of High-Growth Companies**

Small businesses have for decades been seen as a major engine for economic growth; during some periods, such businesses have been cited as accounting for all net job growth in the state.<sup>19</sup> Michigan has, by the most conservative measure, about 230,000 small businesses, and a subset of them account for a large share of job growth; in fact, between 2001 and 2008, most reported either no change or declines in employment.<sup>20</sup> According to Dane Stangler of the Kauffman Foundation, “Buried within the universe of companies are those firms that occasionally break away from the pack and create an extraordinary number of jobs . . . . Just 1 percent of

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<sup>19</sup> Dane Stangler and Robert E. Litan, “Where Will the Jobs Come From?,” Ewing Marion Kauffman Foundation, November 2009, <[http://www.kauffman.org/uploadedFiles/where\\_will\\_the\\_jobs\\_come\\_from.pdf](http://www.kauffman.org/uploadedFiles/where_will_the_jobs_come_from.pdf)>.

<sup>20</sup> Public Policy Associates, Incorporated, “Small Business Barometer 2008-IV Wave 58: Final Report,” December 2008.

companies . . . generate 40 percent of jobs in any given year.”<sup>21</sup> Most of the 1 percent, he points out, start out small and young. Michigan data are consistent with this analysis.

It is clear that not all small companies grow. Many business owners are content with a steady-state business model, once their company is able to provide a reliable and adequate income. Others operate businesses in local markets, such as independent dry cleaners or restaurants that do not support larger enterprises.

The Kauffman analysis makes it clear that the real engine of successful economies is high-growth firms; therefore, a community that can increase the number of such firms is far more likely to prosper than one that does not. For Littleton, Colorado, this led to an epiphany: what matters are small companies that will become larger. Says Christian Gibbons, Director of Business/Industry Affairs for Littleton, “. . . [W]e got out of the small versus large debate. The real issue was about rate of growth.” Since the number of firms that truly drive growth is small, cultivating and nurturing them is far more feasible than attempting to aid every small company. Since this notion runs counter to decades of conventional wisdom and popular economic mythology, it is obvious that public policies aimed at economic development through the cultivation of small business must change, too.

*The Kauffman analysis makes it clear that the real engine of successful economies is high-growth firms, a small subset of all businesses.*

Thus, the economic gardening model articulates an approach that is considerably different from past efforts in that it:

1. Builds on the experiences and insights of experts across the nation who are working at the cutting edge of public-sector business development policies and practices.
2. Relies more on providing knowledge and expertise as valued services to companies and less on providing tax dollars.
3. Focuses on small companies that have grown rapidly or intend to do so.

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<sup>21</sup> Dane Stangler, “High-Growth Firms and the Future of the American Economy,” Ewing Marion Kauffman Foundation, 2010, 5.

4. Emphasizes a market-based role for the public sector, rather than one that focuses principally on providing services.
5. Assumes that business owners are smart enough to decide which services are likely to have value to them and that they are willing to pay for services that have value.

It is very clear that Michigan's current economic development strategy does not reflect this analysis of how economies grow. The public demands that government "do something," and the current approach lets public officials say they are. The total investment in that strategy, however, is not justified by the results. The opportunity to broaden our portfolio of tactics to add the tools of economic gardening will never be more palpable or urgent.

## Potential Benefits to Michigan

The elements of an economic gardening strategy for the state of Michigan will be described in a later section of this paper, "A Michigan Economic Gardening Strategy," beginning on page 19.

However, we posit that if proper attention and resources are dedicated to this strategy and it is implemented effectively, numerous potential benefits to the state will materialize.

*Economic gardening utilizes and supports homegrown entrepreneurial talent and existing knowledge resources.*

First, economic gardening utilizes and supports homegrown entrepreneurial talent and existing knowledge resources. By providing growing businesses with the services, networks, and support they need, we will be building the base of our new economy with businesses that are already in existence and growing in Michigan. We know that we have existing businesses and industries in the state that are growing; we need to take advantage of these resources and nurture their growth. Moreover, this strategy has the potential to harness the energy that the public and State are putting into encouraging our citizens to "buy local." This movement springs from small but strong grassroots campaigns to support Michigan businesses and industries. If the State makes a public commitment to develop our own homegrown, in-state businesses, the public response is likely to be quite supportive.

Along those same lines, an economic gardening strategy supports and refocuses our existing local resources. Our current practice of luring outside businesses to the state revolves around

using state resources to court these outside players. With economic gardening, part of the resources harvested in Michigan would be put to work on *Michigan companies*. This represents another level of “buying local”: state and private resources that are “locally grown” will “feed” local businesses.

Another potential benefit is the infrastructure and culture change that will emerge from this strategy. Michigan’s economy, for better or worse, is rooted in the auto industry, which shaped

*Another potential benefit is the infrastructure and culture change that will emerge from this strategy.*

the state’s economic structure into one that relies on large businesses to succeed. A business attraction mentality can easily lead to the perceived notion that bigger is better; that we need just a few particular industries to get the state back on track. Thus far, however, that has not appeared to be

true. No industries have emerged to fill the massive gap that the auto industry has left behind. It is time for the state to address the culture that dictates that mega-corporations will eventually solve all of our problems and the resulting infrastructure that supports mainly such businesses. An economic gardening strategy, if successful, will build upon the groundwork that has been laid for small businesses to be successful and shift our business culture to one of entrepreneurialism. Perhaps success in this transition would be best signaled by this change: college graduates and mid-career migrants from the corporate world who launch their own firms would be seen as local folk heroes and role models. Cynthia Kay puts it even more powerfully. She envisions a future in which, “. . . a young person gets a job at a big company and everyone asks them: ‘What’s wrong with you? Why haven’t you started your small business yet?’”

Along the same line, it stands to reason that if a culture of entrepreneurialism is established and grows with the state, Michigan may become more attractive to young professionals. As noted previously, economic gardening can be a catalyst that unifies efforts around entrepreneurialism and place. It will be synergistic with current new economy initiatives that include strategies focused on creating attractive welcoming places with great social, natural, entrepreneurial, creative, and intellectual capital.

As businesses grow, they provide employment that attracts and anchors people who need housing, as well as shopping, entertainment, arts and culture, and many other amenities that

contribute to economic vitality. In an entrepreneurial culture, the people creating and growing those businesses will be from and of our communities, which makes them far more likely to remain than business owners who were attracted by the latest tax incentive. Microsoft is in Redmond, Washington, not because of tax incentives, but because Bill Gates is from and of that community.

Another potential benefit of the economic gardening strategy is that it may better leverage investments of state tax dollars. One illustration of this benefit is a comparison with the film tax credits that are being offered to films being produced in Michigan. To entice movie production in Michigan, the State provides a tax credit of up to 42 percent of the film's production costs.<sup>22</sup> These credits, while successful at luring film production companies to make movies in the state, may

*An economic gardening strategy can serve as the basis of providing industry-specific, external information to second-stage companies.*

not be as successful as previously hoped when their financial contributions to the local economy are evaluated. A recent report by the Senate Fiscal Agency reports that \$37.5 million in tax credits were awarded to the film industry during the 2008-2009 fiscal year; however, the report estimates that only about \$4 million in additional tax revenue was sparked as a result of the film industry.<sup>23</sup> A significant number of tax dollars have been dedicated to this industry thus far; perhaps investing a small fraction of such resources in local industries and businesses would yield a better return on investment of state tax dollars.

Through a study conducted by Public Policy Associates, Incorporated (PPA) in June 2009,<sup>24</sup> second-stage business owners reported that many are quite open to acquiring outside resources to support their efforts to grow. An economic gardening strategy can serve as the

*These are services that business owners themselves have identified as useful to their continued growth and success.*

<sup>22</sup> Dan Bobkoff, Niala Boodhoo, and Kate Davidson, "Changing Gears: The Film Factory," Michigan Radio, September 20, 2010, <<http://www.publicbroadcasting.net/michigan/news.newsmain/article/0/0/1702530/news/Changing.Gears.The.Film.Factory>>.

<sup>23</sup> David Zin, "Film Incentives in Michigan," Senate Fiscal Agency, Lansing, Mich., September 2010, <<http://www.senate.michigan.gov/sfa/Publications/Issues/FilmIncentives/FilmIncentives.pdf>>.

<sup>24</sup> Public Policy Associates, Incorporated, "Second-Stage Business Research," Lansing, Mich., June 2009.

basis of providing such resources to second-stage companies. The strategy outlined in the next section of this paper illustrates one aspect of economic gardening by describing two specific services (a company analysis and customized market research) to second-stage business owners that they will be able to utilize for a reduced fee at their own pace. These are services that *business owners themselves* have identified both through the PPA research and testing by the Edward Lowe Foundation as useful to their continued growth and success. It can only benefit Michigan to be able to tell the business community that the State is being responsive to the needs it has expressed.

A related benefit is that, by organizing the market for services designed to help firms grow successfully, new capacity and capability will emerge to meet the needs of this market. In other words, the service provider community will become larger, stronger, and more skilled as they work with substantial numbers of companies. This can create a perception of Michigan as a place that not only values fast-growing companies but has the private-sector resources to help them do so successfully.

*Michigan has the potential to be a leader in economic development at the state level.*

Finally, a potential benefit that may arise from undertaking an economic gardening strategy is that Michigan would be seen as a leader in research-based economic gardening.

While an economic gardening strategy has been in place in different locales across the country for years, if it is implemented as proposed, Michigan would be the first state in the nation to fully integrate economic gardening into the core of its economic development strategy and to root its ongoing development firmly in data that indicate what works, what does not, and how to improve. Michigan has the potential to be a leader in economic development at the state level. This could result in positive national publicity for the state that could help retain and attract people who wish to be part of such a movement.

## Limits to What We Know

As previously stated, this paper lays out the blueprint for an expanded economic development strategy: the service-delivery framework, the strategy's customers, assets to the strategy, roles of principal players, elements of the strategy; and financing of the strategy. While we present a

framework of an economic development strategy via this paper, it will become clear that there will still be many details to be developed. The purpose of this paper is not to examine every detail, but to propose a well-conceived strategy that can contribute to meeting the needs of the state. Thus, there are some limitations to this blueprint.

First, it is unclear as to how many companies will ultimately be participants in the economic gardening strategy. As noted in the Customer Base section of this paper, companies that will be targeted for these services are second-stage firms, that is, those that have sales in the range of \$750,000 to \$50 million, 10 to 100 employees, and the specific intent and capacity to grow. According to the Edward Lowe Foundation, approximately 1 to 3 percent of firms fit those criteria.<sup>25</sup> In Michigan that would be approximately 2,300 to 6,900 companies. Although our market research has indicated that there is considerable interest among second-stage business owners in the products that this strategy will offer, it is not yet known how many of these businesses will choose to use them.

Another limitation that may be encountered is that some services offered to businesses may ultimately be more valuable than others. The services that will be initially offered are those that are understood to be needed based upon developmental work by the Edward Lowe Foundation and data collected by the June 2009 PPA study of second-stage business owners. However, in reality, there may be other services that business owners may find more valuable; along the same line, highly valued services may vary by region throughout the state, that is, a service seen as necessary in Northern Michigan may not be in high demand in Southeast Michigan. This recognition supports the notion that a pilot test of the economic gardening strategy would be sensible prior to a full-scale rollout. Continued assessment of the value and necessity of the available services, marketing approach, and delivery system will be critical to this strategy's success.

While the evidence for the role of high-growth small firms in economic growth is clear, the link between economic gardening and acceleration of such firms is not. For that reason, we suggest that the strategic direction described in this paper be thoroughly documented and evaluated to determine its effectiveness. If it has the expected effects, that research will allow the approach to

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<sup>25</sup> Edward Lowe Foundation, <<http://www.edwardlowe.org/index.elf?page=about&function=mission>>.

serve as a model for the nation. If not, it will support further decisions regarding how to improve the strategy.

Finally, there is still a question as to how the State's role in this strategy can be crafted to support a large-scale rollout. Clearly, the initial offerings of the economic gardening toolbox cannot be available to every second-stage business in the state. However, the hope is that in time they will be. To that end, as the State moves forward with this strategy it will need to consider an implementation strategy that would support scaling it up to meet market demand.



# A Michigan Economic Gardening Strategy

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*A key to Michigan's future lies in its ability to support and stimulate the growth of high-potential companies. Doing so will entail a shift in the state's philosophy of economic development and a commitment to operationalizing that change throughout state government. The specific services described below are illustrative of these changes, but not an exhaustive description of them.*

Through a Michigan Economic Gardening Partnership, the state will capitalize on key roles that State government, local business support entities, and private service providers can each play

*This economic direction for Michigan focuses on strengthening small firms that are positioned for rapid growth.*

most effectively. The local entities utilize their knowledge of the local small business community to identify and communicate with companies who have the capacity and intention of creating new jobs through growth. The State creates a large enough market to make it affordable for the private sector to provide their

expertise at discounted rates that growing companies can afford. The State also acts as a champion and market-maker, bringing all the parties to the table with the goal of brokering the best deal for all involved.

Services and guidelines are developed by the state, with input from customers and local partners to ensure that resources and services offered are ones that second-stage business owners value and that will positively impact their growth trajectory. As time goes on, services not deemed helpful or relevant can be dropped and new ones added to meet current needs.

This new economic direction for Michigan focuses on strengthening firms that are positioned for rapid growth. It does not preselect industries or firms. Instead, the firms select themselves based on the value that business owners see in the offered services.<sup>26</sup> This approach assumes that many of the firms that can power a robust economic future are or will be here already and that helping them grow successfully is a path

*This strategy does not preselect industries or firms; they select themselves based on the value they see.*

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<sup>26</sup> During the pilot test, firms within the target market will be recruited proactively. It is unlikely that fees will be charged for the services at that point, since the services will be in the developmental stage.

toward that future. A Michigan economic garden will nurture these existing companies, but will also stimulate more individuals to launch their own growth-oriented firms, thus creating a stronger culture of entrepreneurialism within the state.

Economic gardening broadens the focus from reducing costs through tax breaks, subsidized training, and similar devices to improving competitiveness through increasing market knowledge, management skills, and access to technology. Michigan's economic development strategy currently appears centered on compensating for deficits—real or perceived. Are our taxes too high? Are our regulations too cumbersome? Is our workforce inadequately trained? Political reality continues to dictate that we will continue to attempt to address these issues, as we have done for the past quarter century; many would point out, for example, that in a bidding war between the states over tax breaks for business attraction, it is foolhardy to disarm unilaterally. Economic gardening allows Michigan to focus more intensively on strengthening the assets of its growing businesses; it is quite different from a deficit-based strategy.

As noted above, the approach proposed here adds a new gardening philosophy and new tools to Michigan's current business attraction strategy. For those currently engaged in economic development in communities across the state, these new tools will make their work relevant to an additional cohort of businesses that have the potential to add significant economic activity to their regions. It also positions others who work in business development to access very high-value services for their clients.

The sections below present details on how economic gardening services would be delivered: what they would look like; who the customers would be; how existing Michigan assets could partner to develop, promote, and deliver the services; what the elements of the gardening services would be; and, importantly, the financing issues of the strategy.

## **Service Delivery Framework**

It bears noting once again that the service delivery framework described below is simply illustrative of one important aspect of economic gardening. As Michigan adopts this new philosophy and approach, it will also need to align the operations of several departments of state

government to it. The service delivery framework includes a set of principles, a description of the customer base, and a summary of Michigan's current assets that can be incorporated into economic gardening.

## **Principles**

The economic gardening strategy will be built on a set of six principles that together comprise a framework that will guide the entire effort. These principles, which are articulated below, drive all decisions about the exact shape and character of the strategy.

1. *Research-based services.* The specific services to be delivered through the economic gardening strategy will be based on market research that provides clues about how to improve the likelihood of rapid, successful growth among targeted companies. Thus, rather than being driven by the latest fad or whim, they will be rooted in the best evidence available from Michigan and across the nation about what works and how to deliver it effectively. The experiences of other jurisdictions that have experimented with gardening strategies will be scrutinized carefully, as will previous research conducted in Michigan. Going forward, additional market research will be commissioned as appropriate to drive development of new services and refinements of those already offered.
2. *Private delivery.* While the public sector will play a key role in organizing the economic gardening strategy, private-sector providers will deliver all services. The advantages of this are self-evident: private service providers are far more likely than public agencies to be trusted by leaders of growing companies and must maintain their reputation by providing excellent service to survive in the marketplace. These providers will be experienced, competent firms that aim to deliver exactly what they promise, since their credibility affects their future prospects. It will also be far easier to change providers in case some do not live up to their promises.
3. *Public market-making role.* While the services are delivered privately, the state government, as part of a Michigan Economic Gardening Partnership, will identify companies that might benefit from gardening services and private providers who can deliver those services and will match them together. They will make a market for a cluster of economic gardening services where none has existed previously.

4. *Fee-based services.* A common practice for public-sector services is to assume that the right price is zero. Some or all gardening services will be fee-based, with fees set to cover the costs of private providers and to contribute to the costs of local partners. The state will absorb the cost of developing the services and playing the market-making role, with the reasonable assumption that the private and public benefits that result from the services will support a cost-sharing model of private and public investment.
5. *Self-selection.* While the gardening services will be carefully crafted to provide maximum value to small, high-growth firms, they will be available to all. Instead of attempting to pick winners and losers, it would allow business owners to self-select based on their assessment of the likely value of the services. While the services would be marketed to those small companies that intend to grow, they would not be closed to anyone. It is highly unlikely that a firm with no intention to grow or one that already employs hundreds of workers would choose to buy services not designed to be useful to them, but it will be their choice, not a matter of eligibility or arbitrary selection. The assumption that those firms that fit the target would in fact choose to participate will be carefully tested during the pilot phase and later rollout.
6. *Market responsiveness.* Michigan's economic gardening strategy will launch with the services that are described in detail below. The customer response to these offerings will be monitored and assessed in real time to allow refinements to be added as warranted. Additional services will be rolled out based on market demand and development of appropriate delivery capacity. Overall, the strategy will stay as close to a private-sector model as possible, recognizing that some differences are unavoidable and appropriate.

*While the gardening services will be carefully crafted to provide maximum value to small, high-growth firms, they will be available to all.*

## Customer Base

Every new venture must assess the size of its potential market, and the economic gardening venture is no exception. While customers can self-select, the economic gardening services and

*The target market for the economic gardening strategy is roughly 2,300 to 6,900 high-growth companies.*

marketing strategy will be aimed at companies that have real potential to make a substantial and increasing contribution to Michigan's economic vitality.

According to the growing body of economic evidence described above, a small fraction of businesses grow rapidly and make a significant contribution to a state's economy. Many of them are second-stage companies, that is, businesses that have sales in the range of \$750,000 to \$50 million, 10 to 100 employees, and, perhaps most important, leaders with a specific intent and capacity to grow. While other services, such as Small Business Technology Development Centers (SBTDCs) and some chambers of commerce, provide assistance mostly to start-up and first-stage firms, those companies are not the target market of economic gardening. Of course, some of these newer firms may later become users and/or may act as providers.

A conservative estimate is that 1 to 3 percent of companies have these characteristics. In Michigan, that translates to roughly 2,300 to 6,900 firms. Thus, the economic gardening strategy will seek to identify companies within this target and market a set of services to them that can accelerate their growth or increase the odds that they will grow successfully.

## Current Assets

Michigan has an impressive infrastructure that must be incorporated into the Michigan Economic Gardening Partnership. This infrastructure includes the Michigan Economic Development Corporation (MEDC), private-sector management consultants, business accelerators, economic developers, and the SBTDC network. It also

*Michigan has an impressive infrastructure that must be incorporated into the economic gardening strategy.*

encompasses a world-renowned system of higher education that includes both public and private institutions—community colleges and universities, business organizations, public libraries across the state, and philanthropies such as the Edward Lowe Foundation. The Michigan State Housing

Development Authority (MSHDA) is unusual among its counterpart agencies in other states in that it sees entrepreneurship and economic gardening as intimately related to its focus on creating attractive places across the state. Clearly, these entities represent broad and deep capabilities that could contribute to the success of an economic gardening strategy. Specific roles for several of these potential partners are described below.

*Market-making.* The MEDC has been Michigan’s principal state-level economic development organization. Over the years, however, it has not been asked to embrace an economic gardening approach. Implementation of a broader approach, therefore, suggests that the role of the MEDC could change to encompass new and different responsibilities and actions. It may be possible to redeploy the assets of the organization to carry out a modified mission. It can be the entity that leads, manages, and promotes Michigan’s economic gardening strategy. As such, the MEDC

*The MEDC would incorporate the economic gardening philosophy and goals into every aspect of its operation.*

would incorporate the economic gardening philosophy and goals into every aspect of its operation. For example, MEDC’s cadre of business development managers—the sales people of the organization—would become an important

marketing channel for economic gardening services. The same would be the case for all other MEDC functions: economic gardening would become as much a part of its core as is business attraction. Thus, a substantial fraction of the MEDC budget would support economic gardening.

One completely new role for the MEDC would be as the market-maker for the types of high-value services described in this paper, working through statewide delivery systems built around the Michigan Economic Gardening Partnership. It would require equipping the MEDC staff with the skills and expertise to provide a different mix of services. This role would entail:

1. Product development

- a. *Oversee research regarding the market for economic gardening services.* This would include research about similar efforts nationally and internationally, as well as specific ongoing research about the needs of targeted companies in Michigan and how those needs can be met.

- b. *Decide, in conjunction with an advisory board, what services will be provided.* The advisory board will consist of outside experts with strong knowledge about effective support for growth-oriented companies. Largely driven by the results of the research, an advisory board comprised of representatives of the Partnership, owners of current and former second-stage companies, and others would provide insight about how needs can best be met through modifications of existing services and development of new ones.
  - c. *Develop services.* The MEDC would use the market research and insights from the advisory board to develop new services. This would include the initial service offered at the launch of the gardening strategy and others that are justified by market research and demand.
  - d. *Improve services.* The effectiveness of services will be judged by customer satisfaction, growth in demand, and impact on business growth. Data regarding this measure will be collected continuously, and services will be adjusted based on the findings.
  - e. *Create credibility.* In order to create credibility with a target market that is likely to be skeptical of the value of high-quality services offered through a public-sector program, each private provider will be required to offer a money-back guarantee. The MEDC will look for additional means of convincing businesses in the target market that economic gardening services have value and are worth trying.
2. Brokering
- a. *Define specific content for services.* The nature of the engagement between private-sector providers and the business customers will be outlined by the MEDC. This will allow the services to be marketed with a consistent message and delivered with consistent results.
  - b. *Determine processes for participation by private-sector providers, business customers, and local partners.* By designing the networks of providers and partners carefully, the quality and consistency of services to customers can be ensured.
  - c. *Recruit private-sector service providers through competitive processes to deliver the services.* This would include screening the providers to ensure that they can deliver exceptionally high-quality services and eliciting discounts from them in return for access to a market otherwise very difficult to reach.

### 3. Metrics

- a. *Set goals for program success in terms of quality, quantity, and impact* By establishing standards at the outset, the success of the services can be assessed objectively.
- b. *Monitor and review continuously.* It is essential that the focus be on tangible results, without embellishment, so that the MEDC and policymakers can make reasoned decisions about what to continue, what to cut, and what to change.

### 4. Promotion/marketing channel development

- a. *Create demand for service through broad marketing campaigns.* While, as noted below, retail sales will be handled at the regional or local levels, broad awareness and brand marketing will be organized by the MEDC. Since the number of targeted customers is modest, mass media would not be used. Instead, the marketing campaigns will attempt to reach the 2,300 to 6,900 potential customers through targeted media. These ongoing campaigns will set the stage for the local sales efforts.
- b. *Develop/support local marketing and sales channels.* While the services to be developed and offered by the MEDC will provide high value to customers, research indicates that they will not sell themselves. Thus, the MEDC will need to work through existing entities to create marketing channels that can reach a substantial fraction of the target market and achieve market penetration of 10 to 15 percent per year. These local channels will be developed through a competitive process and will be supported with marketing materials, outreach and sales assistance, and creation of a learning community. In addition to a lead marketing partner in each region of the state, it will be important to build constructive relationships with accountants and lawyers, many of whom currently serve as advisors to firms that intend to grow. These relationships can be encouraged through linkages with the Michigan Association of Certified Public Accountants and the Michigan Bar Association, but they must ultimately be cultivated by local partners at the local level.

*Service delivery.* A central tenet of the economic gardening strategy is that private consultants will deliver the services to business customers. Consultants will be selected through a competitive process, as described above, in which the bidders will compete on the basis of their experience and expertise, as well as the depth of the discounts they are willing to offer in return

for access to the market created by the MEDC and the local partners. The role the private consultants will play includes:

1. *Delivery of top-notch service to participating companies.* While the scope of services will be consistent, each private consultant will bring unique expertise and experience to each engagement.
2. *Committing to availability to provide service in their selected markets.* Consultants will have the option of providing services statewide or within regions. The matching decisions would respect the service areas specified by the consultants.
3. *Offer an unconditional money-back guarantee for services provided.* As noted above, this strategy is intended to overcome the skepticism that companies may feel regarding a government-sponsored service. It also demonstrates the confidence that service providers and the Partnership have in the services.

*A central tenet of the economic gardening strategy is that private consultants will deliver the services to business customers.*

A limited number of providers will be chosen to serve each geographic area in order to enhance the program's attraction for highly capable providers. There will be a strong preference for companies with a Michigan base, but recruitment of the most capable firms for service delivery will be paramount.

*Local sales and oversight.* Many of the infrastructure entities listed above could act as local partners with the MEDC in the economic gardening strategy. Just as the MEDC currently partners with local economic development entities across the state for traditional economic development activities, it could do so with a range of entities to carry out several essential functions that are best handled at the local level. For professional economic developers, this can be a positive evolution of their role that better equips them to meet the needs of their customers. These functions include:

1. *Assisting in the identification of consultants.* Many local entities are aware of or work with providers who may be qualified to deliver services. Local partners could identify such providers and urge them to compete for economic gardening contracts.

2. *Delivering retail sales and marketing.* Since many of the prospective partners already work with individual companies, it may be mutually advantageous for them to make relevant customers aware of the gardening services. This would equip the local partners with additional services that may benefit their current clients and dramatically extend the reach of the services beyond what the MEDC could achieve alone.
3. *Matching companies with consultants.* Once a company agrees to acquire gardening services, a specific consultant must be matched with that company. The local partners, in cooperation with the MEDC gardening staff, would provide the match. This would be based on the industry of the company and the consultant and the specific issues facing the company.
4. *Providing market intelligence.* Because of their relationships with companies in their areas, local partners can provide insights that would be difficult to gain otherwise.

Within this framework, it is possible to build an economic gardening strategy in a variety of ways, as has been demonstrated in several states. The following section provides an example of what some elements of a Michigan economic gardening strategy could be and how they would be developed and fielded. Again, the description is illustrative, not exhaustive. It is intended to demonstrate how the principles described above could be operationalized using new and available assets to serve a critically important customer base. As Michigan goes forward, it will learn from the experience of other states and local governments; it will also take full advantage of the knowledge that has been accumulated by the Edward Lowe Foundation. Conversely, the state will contribute to advancement of the economic gardening field by documenting and sharing its experiences.

# Possible Elements of an Economic Gardening Strategy

The mechanics of an economic gardening strategy must be thought through carefully before services can be delivered to companies. In this section, several of these mechanical elements are summarized.

## Initial Services

An economic gardening strategy can include any number of services, but when launching a new enterprise, it is wise to limit the initial product offerings to a small number so that procedures can

*Specific services at launch for Michigan's economic gardening strategy are based on experiences around the nation and on research in Michigan.*

be tested at a modest scale. These initial offerings will be tested, along with the marketing and delivery systems, as part of a pilot test that will involve perhaps 100 to 150 companies. As systems are proven and staff gain competence and confidence, additional services can be added as warranted by market conditions. Specific

services at launch for Michigan's economic gardening strategy are based on experiences around the nation, many of which have been supported by the Edward Lowe Foundation, and on research conducted by Public Policy Associates, Incorporated in 2009. They include:

1. *Company analysis.*<sup>27</sup> At the outset, an engagement team connects briefly and efficiently to each company to gain a better understanding of the critical issues currently at play. Those critical issues are often the symptoms of key growing pains that are going unnoticed or untreated because of the pace of business activity. The team will quickly provide insight regarding the quality of the tools that might address the issues identified.

The team will focus on four key strategic issues: Core Strategy, Market Dynamics, Marketing Leads, and Management Teams.

- Core Strategy – Dealing with changes in strategic direction, the business model, and opportunity development.

<sup>27</sup> Mark Lange, "Economic Gardening: Speed and Insight Make the Difference," The Edward Lowe Foundation, n.d. This entire section draws heavily on the resource cited here.

- Market Dynamics – Involving the unique relationship between the company, its customer, and its industry.
- Marketing Leads – Identifying and finding markets and customers to match the company as it evolves.
- Management Team – Issues around the changing role of the entrepreneur and his or her team as the company grows.

Both the team and the process will be designed to look and act like the entrepreneurial companies they serve. They will employ cutting-edge tools and business analysis concepts that are relevant, responsive, and adaptive.

Each engagement will be unique, not following a set pattern. The team will “catch up” with the entrepreneur in terms of company, product, and industry knowledge before applying their expertise to the specific needs that have been revealed.

2. *Customized market research.* A centerpiece of the Littleton work and work in states like Florida, Georgia, and Wyoming is providing growth-oriented firms with high-quality market research. Such research requires access to a variety of costly proprietary data sources, and they are simply out of reach for small companies. Experienced consultants work with companies to help them access, analyze, and use the intelligence they gain about their current and potential markets. This process is more systematic, focused, and intensive than what most business owners could carry out alone or with in-house staff.

SBAM has experimented with delivery of such services in two Michigan counties. Although it is too early to gauge results in terms of job growth, the project director reports that, “Preliminary findings from the work completed so far indicate that providing growth-oriented companies (‘intent to grow’) with high-level market research is a good way to enhance their ‘capacity’ for growth. A Regional Economic Gardening Support Service allows the high cost for market research to be spread across multiple cost centers, thus lowering the costs for individual projects. It also allows a project to secure sponsored

funding for a regional effort versus having to find funding to subsidize individual market research projects.”<sup>28</sup>

This service would include an engagement with an experienced marketing consultant for 40 to 50 hours of professional time. The time would be spent conducting primary and secondary research to support a thorough analysis of the strengths and weaknesses of the current markets in which the client company operates and a listing of potential new customers and channel partners. Finally, the report will include recommendations for specific actions to be taken by the company to implement the report.

## Process for Companies

The local partner would typically be the first contact between the gardening service and the customer. When a company is targeted as a potential customer, the local contact meets with its leadership to outline the program’s benefits. If the company and local contact determine that the company is a good fit for the program, they complete a brief application that provides the basis for the work by the engagement team. Next, the engagement team leader meets with the company to determine whether there is a good fit between the two. If there is, then an agreement is signed between the company and the State.

As the process unfolds, the engagement team gathers the needed information from the company and other sources.

The team then analyzes the data and develops a report that includes findings and recommendations. The report is then presented in a face-to-face meeting with the customer.

*When a company is targeted as a potential customer, the local contact meets with its leadership to outline the program’s benefits.*

## Pricing

Pricing of the services reflects the notion that any public investment in private businesses must be somehow related to the prospect for public benefit. This drives the decision on how the costs of the services would be shared between the public sector and the private users of the services. If a small company uses the services and provides more jobs or grows more quickly than it would

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<sup>28</sup> Mark Clevey, memo, addressed to Jeffrey Padden, June 29, 2010, Summary of SBAM RBEG Projects.

have otherwise, it is clear that the public benefits from the availability of more jobs, more tax revenues, and more wealth. Such growth may also strengthen the overall economy, which can lead to an upward cycle of prosperity. There are also private benefits. The owners of the company will likely earn more income and benefit from owning a more valuable asset. Since both the public and private sectors benefit from the results of the services proposed here, it is sensible that both should invest in them.

In principle, this cost-sharing should be in rough proportion to the public and private benefits. It is difficult, however, to estimate that ratio, since the results will not occur for some time. The path of growth is uncertain under the best of conditions. Some companies will grow more than others, some will provide more high-wage jobs, and so forth. In addition, there are other factors that affect the price that business customers would pay. Pricing of public services to businesses must take into account the effect of various price points on the perceived value of the service; if it is underpriced, some prospective customers may believe it is “cheap,” not just inexpensive. Also, in Michigan’s current fiscal environment, the ability of government to invest even in activities likely to have a long-term benefit is limited. In sum, the price should reflect the value to the public and private sectors, be attractive to prospective customers, and be feasible for government.

For the economic gardening services, the split between private investment and public investment will be fairly simple. The State will absorb the costs of the MEDC staff assigned to lead the initiative, and customers will pay the discounted costs of the consultants. The costs of the local efforts would be partly offset by a per-customer fee that the companies would pay through the consultants. .

*A strong focus on choosing quality providers and a process that is customer friendly are important components of the marketing process.*

Private providers who will participate in the engagement teams and other services will bid on the opportunity to participate. It is expected that fees to provide the standard services will be

reduced by an average of 40 percent.<sup>29</sup> The advantage to private providers that would elicit such discounts is the access to clients with dramatically reduced marketing costs.

## Marketing Strategy

Marketing the gardening strategy effectively is key to its success. Companies in the 2009 Public Policy Associates, Incorporated research indicated that quality of the service is the most important determinant of their level of interest, so a strong focus on choosing quality providers and a process that is customer friendly are important components of the marketing process.

The State will provide overall marketing support with a Web site, social media, press releases, and promotional materials to support the local staff who will be the primary contacts with companies. Since the local staff are closest to the potential customers and are probably already working with many of them in other ways, they have credibility and knowledge of companies that will be best suited and most interested in participating.

## Scale

In order to have meaningful economic impact, the gardening services must touch a substantial fraction of the targeted companies. As noted in the above section on Customer Base, it is estimated that the services will be delivered to 500 to 600 companies per year. This represents 10 to 15 percent of the target market. In order to achieve this ambitious scale, the gardening efforts will take advantage of state-level economies of scale and local knowledge. Thus, it will be a combination of a centralized and decentralized system, with the right entities playing the right roles. To play the State role effectively at this scale, a dedicated staff would be required. The rate at which the program can be ramped up will depend on the timing of hiring capable staff, creating strong local partnerships, and finding highly qualified private providers with the capacity to serve these companies, in addition to developing an appropriate marketing message that is appealing to the target companies.

*The rate at which the program can be ramped up will depend on hiring capable staff, creating strong local partnerships, and finding highly qualified private providers*

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<sup>29</sup> In some of the economic gardening work supported by the Edward Lowe Foundation, consultants have discounted their standard fees by 40 percent to \$105.

# Financing

In the simplest of terms, there are three cost categories for the gardening strategy: State costs, local costs, and private-provider costs. The State cost for staff and local partners during the pilot phase, and a modest marketing budget will need to be incorporated into the current MEDC budget or financed through new appropriations. In addition, the repurposing of many MEDC operations to incorporate the gardening mission and strategy will mean that funds will be repurposed, as well. This does not require new appropriations or funding streams, but may require adjustments in the MEDC's authorizing legislation.

For the local partners, the marginal cost is modest. Most would be incorporating their gardening roles into work they already do and are paid for from public sources. Still, some costs would be new, so local entities would be paid a fee for each customer they recruit to use an economic gardening service.

Ultimately, fees to private providers would likely cover 100 percent of the costs of private consultants and of the local fees. Needless to say, this funding model is very different than most services organized by state governments.

# Options for Implementation

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With as many partners as will be involved in the economic gardening strategy, there will need to be strong leadership on the state level to ensure that this program is seen as legitimate and wholly supported by the state. Implementation with strong support from the top will require careful coordination of and cooperation among multiple departments of state government and other public and private agencies and organizations.

## Governor's Office

The governor-elect's transition team and administration will play a key role in unveiling the strategy and providing leadership at the onset and implementation of this strategy. It is critical that there is buy-in from the governor-elect so that the strategy will be supported and promoted as a positive step forward in the state's economic development undertakings. We envision the governor-elect's transition team planning for implementation and the governor's administration carrying out that plan. In Florida, Governor Charlie Crist strongly and publicly endorsed economic gardening, which undoubtedly contributed strongly to the legislative appropriation that ensued.<sup>30</sup>

The governor-elect and his transition team will be briefed on this blueprint and asked to make its implementation a high priority. We hope to work closely with the transition team to ensure that the implementation strategy is supported by the governor's office. One important task will be to work with the transition team to organize and prepare for the new role for the Michigan Economic Development Corporation (MEDC) to support the strategy and dedicate a small staff to perform the MEDC's role as previously mentioned. Critical to that step is to appoint a chief executive officer (CEO) for the agency that fully embraces economic gardening.

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<sup>30</sup> Office of Governor Charlie Crist, "Economic Gardening Stimulus Plan Targeting Florida's Small Businesses," n.d., <[http://www.flgov.com/otted\\_econstimplan](http://www.flgov.com/otted_econstimplan)>.

After the incoming governor has taken office, he will be asked to designate a point person to lead implementation of the economic gardening strategy. Key leaders in his administration will be briefed on the strategy and asked to make economic gardening a central message in the State of the State address and include resources for it in the executive budget recommendation to the Legislature. During the briefing, the governor's office will be presented with other options for what the governor's role could be within the economic gardening strategy.

## Legislature

It will be important to involve the Legislature in the implementation process for the economic gardening strategy. The Legislature will be relied upon to appropriate resources to the MEDC and other relevant state agencies as well as to provide leadership on the implementation process itself. The first task will be to brief incoming leaders in both houses and of both parties. Next will be one-on-one briefings of committee chairs and minority vice-chairs. We envision key committees to include:

- Senate Appropriations Committee
- Senate Committee on Economic Development & Regulatory Reform
- Senate Commerce & Tourism Committee
- House Appropriations Committee
- House Commerce Committee
- House Committee on New Economy & Quality of Life
- Other relevant committees

Members of those committees and other key legislators will be briefed in small group settings. All legislators will receive written communications about economic gardening.

If it is necessary, options for legislation will be presented to key legislators. Some examples of this might be if there needs to be legislative action to amend the authorizing statute of the MEDC or crafting of specific appropriations boilerplate language.

# **The Michigan Economic Development Corporation**

As the MEDC will serve as a key partner in the economic gardening strategy, successful collaboration with them from the beginning of the implementation process will be critical. Thus, the MEDC will be consulted about its preferred role in the economic gardening strategy. It will be important for the CEO of the MEDC to be fully engaged in the strategy from the outset, from briefing key leaders in the MEDC on the economic gardening strategy framework to, later on in the implementation process, ensuring that the MEDC's resource needs are met. The MEDC can also play a crucial role in encouraging its network of economic development professionals to embrace and participate in the gardening strategy.

## **Communication of Implementation**

There are a few key communication activities that should take place in order to ensure that this strategy will be fully understood at the beginning of the implementation process. The first communication task will be for the governor's office to hold a press conference announcing that the State will be undertaking the economic gardening strategy. If possible, it would be helpful if members of the Michigan Economic Gardening Partnership—which would include representatives from the MEDC, the Small Business Association of Michigan, universities and community colleges, the Small Business and Technology Development Centers, the Edward Lowe Foundation, other economic developers, and other business groups—were standing with the governor during the press conference to show their support for the strategy. Preparation for a media announcement would include development of appropriate branding, a press release, and a press kit regarding the economic gardening strategy.

A powerful communication tool for the Governor is issuance of a Special Message to the Legislature. Through this vehicle, the Governor can speak at more length than through the State of the State address on an important topic such as economic gardening, and he can use it to set a legislative agenda for action on it.

Finally, business writers and editors will be visited by key partners in the strategy to educate them about the framework and goals of the strategy. It will be important to disseminate

information about the strategy to the press and other influential business writers and editors in order to get positive public relations coverage.

# Assessing Success: Research

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Perhaps one of the most important elements of the strategy will be to measure its progress. Appropriate evaluation of the outcomes of the strategy will be essential in not only the scale-up of the strategy, but also in the continued support by key stakeholders and public officials. We recommend that the effectiveness of the strategy be measured from the beginning. At the outset, this can include: tracking the progress of participating companies, encouraging program input from participating companies, conducting a public tracking survey of the entrepreneurial culture and environment, and measuring trends in entrepreneurial activity.

Over the longer term, the growth patterns of participating and similar but nonparticipating companies should be compared to determine whether use of economic gardening tools results in faster, more sustainable growth than is the case without it. Tracking the development of companies participating in the services offered through the economic gardening strategy will most likely be the most meaningful measure of how this initiative is progressing. It will be best if a group of nonparticipating companies can be tracked as well during this time to use as a comparison group, but if that is not possible, merely tracking the progress of the companies that do participate will provide great information to everyone involved in the strategy. The four main areas that will be tracked are:

*Appropriate evaluation of the outcomes of the strategy will be essential in not only the scale-up of the strategy, but also in the continued support by key stakeholders and public officials.*

- Customer satisfaction
- Sales
- Jobs created
- Investment

Satisfaction of participating companies with the program overall will be tracked to ensure that companies are receiving the type and quality of services that were promised in a timely manner. Variations within satisfaction could trigger a shift in either the providers or the structure of the program. Trends in sales, jobs, and investment will give key partners an indication of whether

this program has been a positive influence on the health and well-being of the company's financial status.

Another success assessment will be to check in annually or possibly bi-annually with participating companies and service providers to get formal feedback from them concerning services that are being provided. Companies and service providers alike will be asked to identify services that they find unnecessary, services that are vital and worth keeping, and any additional services that they would find essential to their business operation and continued growth. Soliciting this information from both the provider and user sides will afford a more comprehensive view of what is happening at the ground level in this program. It will also serve to carefully monitor service providers and ensure that there is a level of quality control built into the process.

*Companies and service providers alike will be asked to identify services that they find unnecessary, services that are vital and worth keeping, and any additional services they would value.*

It will also be vitally important to ask each customer to assess the quality of the service providers with whom they work to ensure that the highest possible quality is maintained in the pool of providers. With direct customer feedback of this kind, the process for recruiting and continuing contracts of providers can be continuously refined.

As previously stated, one of the potential benefits of implementing an economic gardening strategy will be that the state may shift from a culture that revolves around large businesses to one that is focused on entrepreneurialism and expanding the positive environment for entrepreneurs. To this end, we propose a public tracking survey of Michigan's entrepreneurial culture and environment. Not only will the public be queried on the state's culture, but they will also be asked to respond to questions concerning sense of place and environment for growing businesses.

Finally, we propose to measure trends in the overall entrepreneurial activity within the state over a number of years. An existing benchmark that can be used to assess progress is the Michigan Entrepreneurial Score Card. This publication "... ranks and rates the entrepreneurial activity of

all fifty states,<sup>31</sup> and it has been published annually since 2005. Some traditional measures will also be used, such as the number of business starts and closures, so that Michigan can be compared with other states. More important, however, is to use more sophisticated indicators of the contribution of high-growth firms to Michigan's economic health. This means examining the net number of jobs created by high-growth firms that are the target of the economic gardening strategy. It is hoped that, in addition to stronger performance by the direct customers of the gardening tools, other firms would benefit from the increasing expertise of the private-sector service providers. By tracking these indicators of entrepreneurial activity over a number of years, we will be able to detect patterns that may emerge. The data will also be used to continually analyze and adjust the gardening strategy.

At the bottom line, research—not ideology or self-interest—must drive decisions about Michigan's economic development strategy and the role gardening plays in it. If we constantly assess what is working, how well, and at what cost, we can make informed choices about what tools to expand, what to contract, and what to eliminate. That constant refinement can only benefit the Michigan economy and people.

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<sup>31</sup> Small Business Foundation of Michigan, *The Michigan Entrepreneurship Score Card 2009-2010: Toward an entrepreneurial economy*, 2010, 7.