

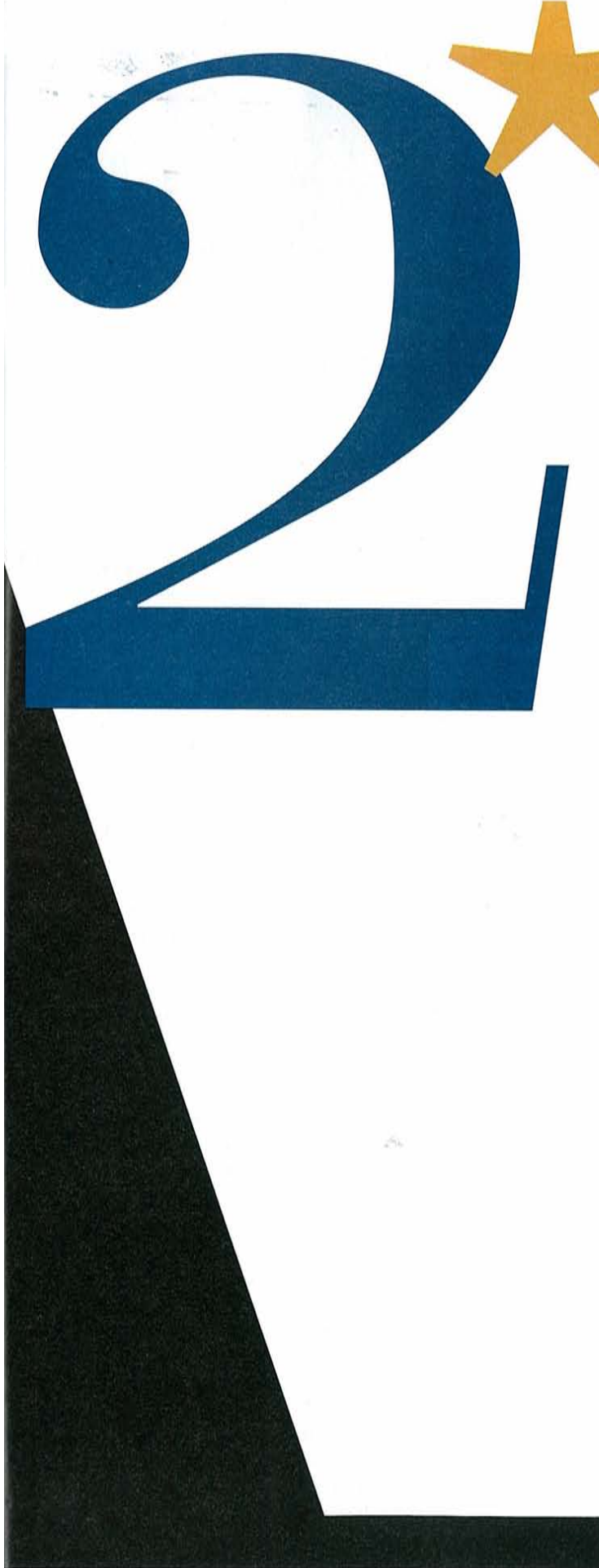


In the wake of Pfizer's distressing departure from Ann Arbor, a well-placed entrepreneurial Spark lit a fire under the resilient little college town and helped avoid an economic catastrophe.

★ **Recession-Proof?**

For most communities, news that its largest private employer was shutting down — leaving 2,100 people looking for jobs, as much as \$4.7 million in community philanthropy gone, and a 2-million-square-foot state-of-the-art facility sitting vacant — would've been met with shock, disappointment, and panic. And for about 15 minutes, that's exactly what happened at Ann Arbor Spark, the city's not-for-profit economic-development office, in late January 2007. Sitting in a staff meeting, the group heard the news that Pfizer Inc. was shuttering its Ann Arbor research-and-development facility as part of the company's worldwide restructuring. ▶

BY FARA WARNER
PHOTOS BY SCOTT STEWART



Shaking off the disappointment, Michael Finney, Spark's president and CEO for just over a year, began drawing up a plan to turn the dismal news into something good — maybe even great. Ideas soon filled a conference room whiteboard, including what Finney called SWATs, or “strategic working action teams.” The teams, which focused on issues such as talent retention and business development, would be composed of Ann Arbor business people, its government organizations, and its universities to help the community make it through the Pfizer loss.

Finney's quick action and optimism was replicated throughout Ann Arbor, by many accounts, as everyone from the mayor to Main Street's small-business owners considered how Pfizer's actions could affect them.

“I thought about my client list. I had two clients from Pfizer out of a thousand,” says Heather Dupuis, co-owner of Viefit, a boutique fitness center in downtown Ann Arbor. “I may have been isolated from it because of that, but still it made me pause.” Then she went back to finalizing plans to double the boutique's size. She recently expanded a spinning studio and added a juice bar to keep pace with the needs of her customers, who she says travel extensively and expect the same amenities in their hometown that they see in big cities.

Those who would have to deal intimately with the closure — business leaders, government officials, and Pfizer employees — also went back to business. The business of what they had set out to do at the turn of the 21st century: make the Ann Arbor region a place that tops every list for where to start or grow a business.

“In the early 2000s, we looked at Austin, Madison, San Diego, Boston — all the places that people wanted to be, and we wondered what set us apart from them,” says Kenneth Nisbet, executive director of the University of Michigan's office for technology transfer. “It wasn't scientific, and it was somewhat crude, but we looked at what created that entrepreneurial [culture]. We added up those rankings to give us a context of how they did it. We looked at those factors that are all required to build a vibrant economic center with a great quality of life.”

For most of the 113,206 residents of Ann Arbor, and indeed for those looking in from the outside, such painstaking scrutiny may have seemed unnecessary. After all, Ann Arbor often ranks at the top of “most livable cities” or “best place to raise a family” in yearly surveys.

Ann Arbor prides itself on being recession-proof — at least in comparison to the many other communities in Michigan that have been hit hard by manufacturing plant closings. It's also home to a world-class university, the University of Michigan, with its nationally ranked schools in law, medicine, and social work. Its downtown — unlike other Michigan small towns — is vibrant with locally owned stores, packed restaurants, and nationally recognized music venues like The Ark and Hill Auditorium for performing arts. Zingerman's Deli, with its corollary businesses of a bake house and a creamery, offers food that most people expect from such cities as New York and San Francisco.

All of that helped Ann Arborites believe their town was



insulated from the state's deep economic problems brought on by the continued contraction of the automotive and other manufacturing-heavy industries. In general, Ann Arbor had followed national economic trends — not state trends — in part because of the presence of the University of Michigan and stable (or so was thought) employers like Pfizer. For example, while the state suffered from a 7 percent unemployment rate in December—the worst in the nation — Ann Arbor's unemployment came in closer to the national average — just under 5 percent.

But under that seemingly prosperous surface, there was a deep sense among a growing number of people that Ann Arbor was actually failing. Failing, that is, to live up to what it could be: a world-class economic center within a vibrant, livable city.

Such feelings were held by business owners and would-be entrepreneurs who found early-stage funding difficult — if not impossible — to come by in the city and in southeast Michigan. Large, yet innovative companies sometimes passed over Michigan — and Ann Arbor — to base their businesses in cities with more dynamic business environments, a more creative workforce, and less burdensome taxes.

It also was apparent to Mary Sue Coleman, president of the University of Michigan, who arrived in 2002 to replace Lee Bollinger. From the beginning of her tenure, she spoke often about the need for the university and city to work together to create a strong business environment that benefited both. And it was apparent to local government officials like Mayor John Hieftje and Roger Fraser, the city's administrator. "We were resting on our laurels," Fraser says.

So in 2005, before there was much notice that an economic catastrophe was in the making, business, government, and university officials joined forces to figure out what Ann Arbor needed to do — not just better than the rest of Michigan, but better than the rest of the country for business.

Early-stage funding and people — or lack of them — came out on top in the rough rubric that Nisbet and his colleagues sketched out as the two main reasons that Ann Arbor was failing to bring companies in or helping new companies grow out of technology and talent that came from the city's higher-education facilities. Those include, besides the University of Michigan, Concordia University in Ann Arbor, and Eastern Michigan University and Washtenaw

Community College in nearby Ypsilanti.

"Michigan has money," Nisbet says. "We have wealthy individuals and big companies. But we didn't have the short-term early-stage money that we needed. Inside the university, we knew we needed to re-invest and we needed seed capital."

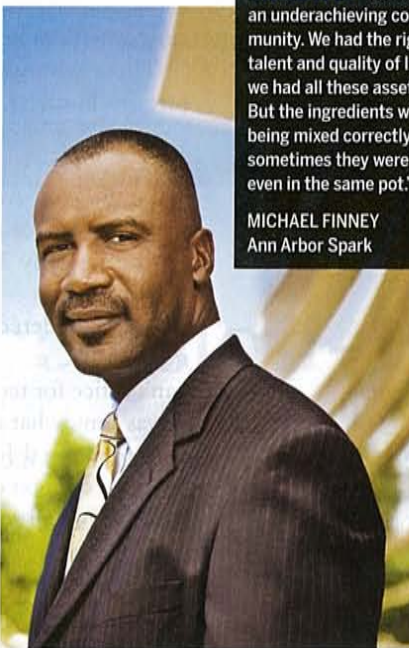
The university brings in massive amounts of research funding — \$823 million in fiscal year 2007, which is nearly double the amount of a decade ago. But what was needed was funding and mechanisms that could take the university's research and turn it into real companies and real products.

Talent was another big issue. Business executives looking for creative, entrepreneurial workers say they sometimes have a tough time finding those types of people among the workforce in Ann Arbor. Recent graduates often leave the area in search of more innovative companies to work for. The remaining workers, while highly educated, sometimes had spent years inside traditional enterprises such as the auto companies, where the focus wasn't on innovation or creative thinking, but on following corporate dictates.

"Michigan has a great opportunity to be a leader in the nation, but we need to change our mindsets," says Jesse Bernstein, president and CEO of the Ann Arbor Area Chamber of Commerce. "We don't go into jobs to get a gold watch anymore. We have to change what we do constantly. Instead of thinking that we're going to depend on one big battleship, we need to have a lot of PT boats."

The discussions led to the creation of Ann Arbor Spark, which was launched in May of 2005 to attract startups and innovative companies to the area by offering a central clearinghouse for business networking, financing, and entrepreneurial training. A few months later, Spark combined forces with the much more traditional Washtenaw Development Council. That, along with a board of directors made up of Ann Arbor's business leaders, turned Ann Arbor Spark into the de facto economic-development hub for Ann Arbor and the surrounding region. It had the somewhat daunting task of making Ann Arbor competitive with North Carolina's Research Triangle, Austin, or even — as a stretch goal — as northern California's Silicon Valley or Cambridge, Mass.

"We've been an underachieving community," says Finney,



MIXING IT UP "We've been an underachieving community. We had the right talent and quality of living; we had all these assets. But the ingredients weren't being mixed correctly, and sometimes they weren't even in the same pot."

MICHAEL FINNEY
Ann Arbor Spark



who was hired as the first employee for the combined group. "We had the right talent and quality of living; we had all these assets. But the ingredients weren't being mixed correctly, and sometimes they weren't even in the same pot."

Then in 2006, President Coleman hired former Princeton University executive Stephen Forrest as vice president of research with a mandate to increase science and other research at the university and encourage far more technology transfer to make the university a regional economic engine on par with Harvard or Stanford.

The two then joined Spark; today, President Coleman sits on its board of directors, and Forrest serves on its executive committee, along with a dozen other business, education, and government officials, including city administrator Fraser.

By the end of 2006, Finney and his team were having a phenomenal first year. "We were really on a roll. We had the Toyota Tech Center, [with] ... 600 to 700 people," he says. "We had Hyundai and Google. We had some cool little companies getting traction here." All told, in about a year, Spark helped bring 2,800 jobs and \$600 million to the greater Ann Arbor region, Finney says.

The Google win was particularly important for Ann Arbor, in terms of the national recognition that it was a cool place to do business. Google set up headquarters for its AdWords division (which links the company's search engine to ad revenue) in the center of Ann Arbor's downtown, with a large multicolored version of its brand name on a mid-rise building. In the next three to four years, Google expects to employ about 1,000 people, albeit primarily in customer service and sales — not engineering positions that typically pay higher. Google also received \$38 million in state tax credits.

"Google strives to find the best talent for its team and we don't assume that everyone will want to live in Mountain View, Calif.," wrote Grady Burnett, head of online sales and operations at Google's Ann Arbor location, in an e-mail interview. "Ann Arbor, the state of Michigan, and the surrounding area are filled with strong institutions that align to become quite a draw," he says. "A centrally located division makes good business sense for us. Google AdWords is

serving customers throughout North America, so it was important for the company to have a division in the Eastern time zone to facilitate customer care in this part of the country and on the East Coast."

Less than a month after Finney closed the books on a stellar 2006, Pfizer pulled the plug on 2,100 jobs and Finney was at his whiteboard finding the positive in losing one of the world's pharmaceutical giants.

He wasn't alone. In fact, there was a sense about town that Pfizer's closing could actually be a good thing for the community in the long run.

City Council member Stephen Rapundalo was one of the optimists, despite having lost his job during a previous Pfizer downsizing. Rapundalo was laid off from Pfizer two years prior in a reorganization that sent a few tremors through the community. He knew firsthand what it was like to be without the support of a company: scary, but invigorating. The same could be said of a community that had leaned on one company for too long.

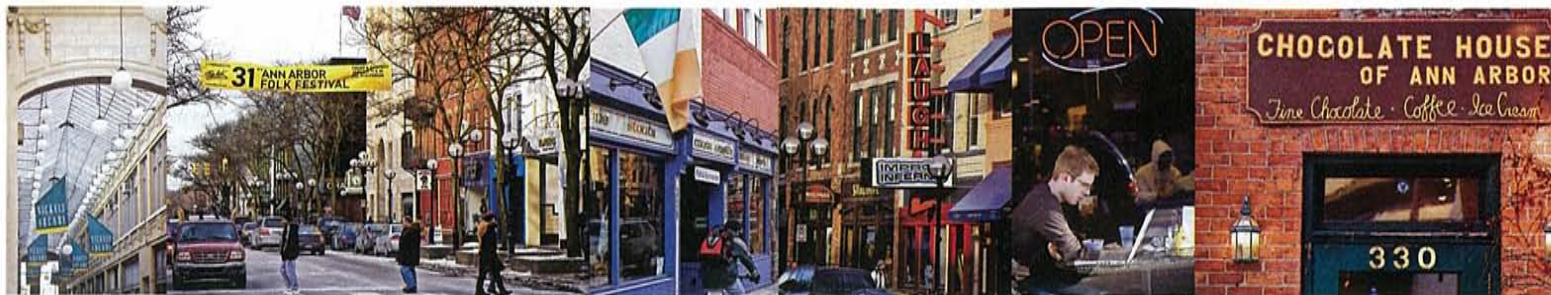
Rapundalo believed that Pfizer's closing could take the lid off of the creativity and innovation he'd seen percolating in the region.

When he left Pfizer, Rapundalo says he and others looked to Kalamazoo for help because it had weathered the closure of a Pfizer plant two years earlier. Kalamazoo, like Ann Arbor, was determined that it would find a silver lining in the closure. By the time Rapundalo headed out there for meetings and networking events, Kalamazoo had become the place in southeast Michigan for life sciences and biotech startups.

"There was recognition that we have talent, intellectual property, and the foundation for entrepreneurial talent here in Ann Arbor," Rapundalo says from his offices at MichBio, the state's trade association for life-science companies, where he serves as executive director. While the region has the capacity, he adds, it has failed to sufficiently harness it. "We need diversification from a single life-sciences company to a portfolio of companies." Pfizer's closure crystallized for many in Ann Arbor that it was still far from being a hotbed for business innovation and creativity that would draw both big, innovation-driven companies as well as creative startups.

"I see this as the rare opportunity to build a broad base of





businesses," says U-M's Forrest. "Pfizer was an isolated company doing highly proprietary work. There was literally a fence between them and us." (A black iron fence separates Pfizer's soon-to-be-empty campus and the university's north campus facilities.) Forrest adds that the university and Pfizer have many joint projects but the level of engagement is limited.

What Forrest would prefer to see in the future is a business community filled with companies that have "revolving doors." "Those are companies that develop a pool of talent, and they sometimes leave and go on to do great work elsewhere," he says. "That makes a place vibrant."

At Pfizer, the doors swung inward; employees did their work and went home. With the closure, Pfizer's doors

swung outward, releasing hundreds of scientists, mathematicians, researchers, and highly trained business executives.

One of Finney's first "SWAT" teams was designed to keep those people in Ann Arbor or do its best to find them high-quality jobs. Within a week, a number of online systems had been set up allowing Pfizer employees to send résumés to local and out-of-state companies.

The SWAT team also counseled ex-Pfizer employees with ideas for their own companies. The university offered fast-track programs to retain some of the employees as educators. Another SWAT team focused on community philanthropy to counter the loss of contributions from Pfizer and its employees, which totaled \$4.7 million in 2006. Other teams

Tech Soup

TECHNOLOGICAL IDEAS AND INNOVATIONS ABOUND IN ANN ARBOR, BUT MORE TARGETED FUNDING IS NEEDED BY CANDACE STUART

Economists often liken a technology cluster to a soup or stew that combines a few key ingredients with local flavorings. If successful, a hub feeds the regional economy with thriving high-tech companies, supporting industries, and most importantly, lucrative jobs that provide taxable incomes and raise the overall standard of living. The recipe may vary from place to place, but they all start with the economic equivalent of a rich broth: ideas and innovations.

Ann Arbor, as home to the University of Michigan, has those two ingredients in abundance. The National Science Foundation ranked U-M fourth in the nation for research funding in its most recent analysis. The university tied for sixth place in a list of top patenting universities released by the U.S. Patent and Trademark Office in 2006. In Michigan, only the Detroit Three auto companies and three of their suppliers produced more utility patents. Those numbers point to a university that is not only attracting the money needed to conduct cutting-edge scientific and engineering research, but that is also converting its knowledge into novel products and processes.

With its abundance of resources, Ann Arbor, says executive director of U-M's technology transfer office Kenneth Nisbet, is "more developed than

other parts of Michigan and ... other parts of the Midwest." Nisbet cites the doubling of invention disclosures filed by researchers in the last decade as one good example. In 1996, the university recorded more than 100 of the disclosure forms used to document a university member's invention. In 2006, it posted 288. The office also boosted the number of license agreements, proving that industry finds value in its inventions.

But Ann Arbor alone may not be enough to revive a state burdened by a shrinking auto industry, high unemployment, a constrained budget, mortgage failures, and overall economic ennui. Neighboring Michigan State University in East Lansing and Wayne State University in Detroit also produce quality research that reflects their respective character. The three universities have begun to collaborate, combining their complementary strengths and working with industry to produce, retain, and attract high-tech businesses and employees.

"We (the three research universities) have the unique capacity to deliver on behalf of the people of Michigan these opportunities for shifting the economy, helping the state diversify, and doing it rapidly," said WSU president Irvin Reid last October at a conference where he, U-M President Mary Sue Coleman, and MSU President Lou

Anna Simon discussed the Michigan University Research Corridor. The three leaders formed the alliance in late 2006. In January of this year, the alliance began offering grants of up to \$900,000 for research on alternative energy by research teams formed from at least two of the institutions.

While Michigan appears to be bountiful in ideas and innovations, it's challenged in other areas that economists argue are needed to build a hub: capital and business growth. Michigan received only \$105.4 million in venture capital in 2007; California, by contrast, attracted \$13.8 billion. The universities' advancements in certain fields such as biotech may not translate into new companies and jobs if the intellectual property is licensed out of state, or if Michigan-born startups are acquired or lured away to better-capitalized states.

That's true for all regions that compete in an international arena, Nisbet argues. Today's soup must incorporate the realities of a global economy. "There won't be another auto industry where Michigan will have an edge," he predicts. Instead, he sees potential in geographically diversified industries that specialize in technologies such as alternative energy and medical diagnostics. "Those will be developed," he says, "but with partners from around the world." **db**



Hail to the Victors

The University of Michigan (FY 2007)

Research expenditures: \$823 million
License and option agreements: 91 Startups: 7
Invention disclosures: 329 Patents issued: 87
Patents applications filed: 144 License income: \$12.8 million
Undergraduate student enrollment: (fall 2007) 26,083
Graduate student enrollment: (fall 2007) 14,959
Full-time faculty: (fall 2007) 4,345

SOURCES: U-M OFFICE OF INTELLECTUAL PROPERTY,
U-M NEWS SERVICE, WWW.UMICH.EDU



Steady As She Goes

Residential Real Estate Market

	Listings	Sales	Avg. Sales Price
2007	16,193	3,967	\$250,286
2006	17,573	4,515	\$258,934
2005	16,123	5,157	\$266,633
2004	13,218	5,454	\$262,822
2003	12,007	4,946	\$258,926

SOURCE: ANN ARBOR AREA BOARD OF REALTORS

addressed the Pfizer site and what would happen to it (U-M is considering signing a lease for 200,000 square feet in the Pfizer building to assist startup businesses).

Finney and others believe Ann Arbor is already stronger, despite having gone through what many considered an economic catastrophe. Spark's numbers show that about 300 ex-Pfizer employees have decided to stay on in Ann Arbor. It has helped 23 Pfizer-related startups get off the ground in the last year.

Plus, the same restructuring announcement that created bad press for Pfizer proved beneficial for Ann Arbor. "We got tremendous visibility," Finney says, noting that 200 companies contacted Spark about making connections with Pfizer employees. "Five companies have located here that weren't even considering Ann Arbor before the news on Pfizer was announced."

The competitive job market in California prompted Metabasis Therapeutics, a biopharmaceutical company based in San Diego, to open an office in Ann Arbor and staff it with seven former Pfizer workers. "Some of our folks knew some of their folks and said they had incredible talent," says Constance Bienfait, Metabasis' vice president of investor relations and communications.

By the time 2007 was over, Finney says Spark counted 2,300 jobs coming online. That includes 600 jobs from Aernova S.A., a Spanish aerospace engineering firm, and 300 from Proquest, a digital-information provider. "These are high-value jobs," Finney says. "They aren't low-wage jobs."

Another important benefit is that the Pfizer announcement unified businesses, the city, university, the region, and the state. "Spark was there and the crisis showed that we could take the lead when the community's largest private employer left," Finney says.

Now Ann Arbor will have to prove that it can keep the pressure on even without a crisis — and not default to leaning too heavily on any one type of business or industry. "You need to balance a culture of startups with the large

bellwether companies that can be farms for brilliant minds," says Tom Beck, president of the Ann Arbor interactive marketing agency Enlighten. "You don't want just what comes out of the university as startups."

Indeed, the resiliency and vibrancy of a community comes from having a broad swath of business and talent that doesn't have to fit into one specific mold.

While much of Ann Arbor's economic momentum has focused on technology and life sciences, entrepreneurs such as Zingerman's co-founder Ari Weinzweig are pushing the boundaries of what a deli can do. "We started in 1982, and those weren't good economic times either," Weinzweig says. But from its start as a small deli, Zingerman's has grown into an enterprise devoted to the idea of the creation of businesses. To date, Zingerman's Community of

Businesses has spawned a mail-order enterprise, a bakehouse, a creamery, a full-service restaurant, a cake-decorating firm, a baking school, a coffee company, and a training and consulting business. The deli now makes up only 30 percent of the company's revenue, Weinzweig says.

Ann Arbor plays an important role

in the creation of those businesses and the way Zingerman's does business itself, he says. While Zingerman's orders food from around the world, he says the city is a cornerstone of what makes Zingerman's what it is.

In its 2020 vision plan,

the company talks about "the local *terroir*," a phrase drawn from wine-making that means wines take on the characteristics of the soil they grow in. The same is true of companies, Weinzweig believes. "Everything we do, we do here (in the Ann Arbor region)," he says. By 2020, Zingerman's plans to have 12 to 18 new enterprises grow out of its Community of Businesses.

By then, it's possible that Ann Arbor will have fulfilled one of the personal goals held by the Chamber of Commerce's Jesse Bernstein: "We can be a model for what a strong community is in the future," he says. "There's a diversity of industries and a critical mass of talent. People come here not because your company moves you here; you come here because you know you can always earn a living and live well in Ann Arbor." db



OPEN SPACE "I see this as the rare opportunity to build a broad base of businesses. Pfizer was an isolated company doing highly proprietary work. There was literally a fence between them and us."

STEPHEN FORREST
University of Michigan

