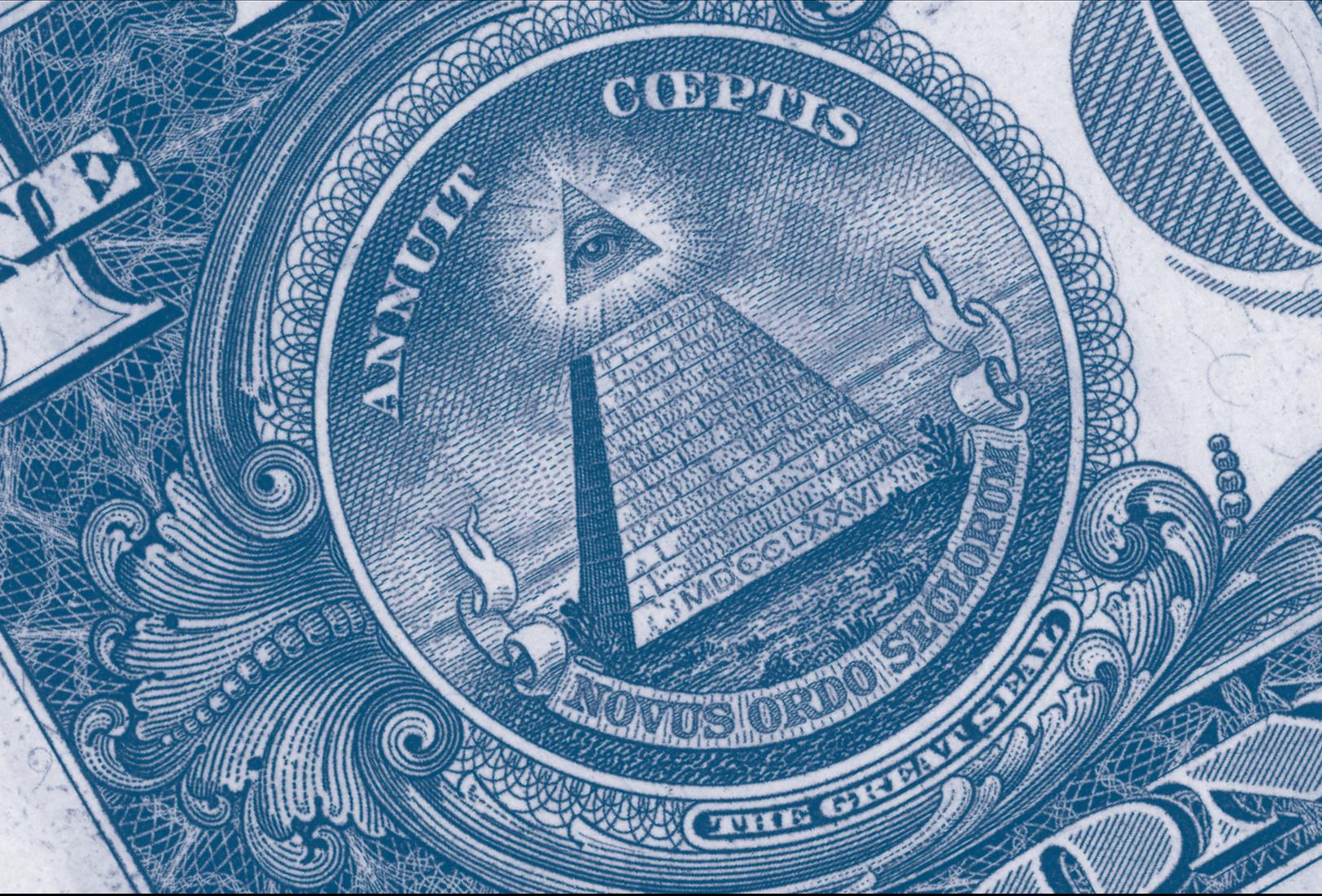


# Seidman Business Review

Seidman College of Business at Grand Valley State University, Grand Rapids, Michigan



Vol. XVI  
Winter 2010



## ***Find out:***

What is in store for the West Michigan Economy in 2010

How different sectors of Commercial Real Estate will perform in 2010

What Purchasing Managers are doing about new orders, production, and prices

How you can help innovate in West Michigan

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*Seidman Business Review* is an annual publication  
of Grand Valley State University's Seidman College of  
Business, Grand Rapids, Michigan.

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## From the Dean ...

As Max Dupree, former chairman of Herman Miller, once noted, "... the first responsibility of leadership is to define reality ...." The Seidman College of Business shares that philosophy in its quest to provide cutting-edge business-education leadership, for both its students and its business community. Unfortunately, despite glimmers of success and optimism and mounds of discipline, determination, and business acumen, one reality for the Michigan economy is quite bleak. Indeed, even West Michigan's economy is feeling the "bleeding-over" effects of the strained U.S., Michigan, and global economies.

Fortunately, on the other hand, reality cuts in both directions. Consequently, this iteration of the *Business Review* reports the harsh realities of higher unemployment, lower confidence indexes, increased commercial real estate vacancy rates, and the tight credit market for small and mid-sized businesses, while emphasizing the encouraging projections for 2010, including an increase in the confidence index, modest economic growth, and increases in production, purchasing, and commercial real estate transactions.

As usual, the *Review's* expert commentators provide West Michigan economic and commercial real estate forecasts for 2010, a supply-management purchasing index review and projections, and a performance review of West Michigan's regional stocks. They also share special perspectives on innovation and social entrepreneurship and key articles addressing business and economic trends, including healthcare benefits plans, export opportunities with China, and the link between unemployment and property crimes in West Michigan. We hope you find this issue as informative as ever.

After defining reality, leadership must promote appropriate—usually innovative—action. As President Abraham Lincoln once observed, "The dogmas of the *quiet past* are inadequate to the *stormy present*. As our case is new we must think anew, and act anew ... and then we shall save our Country." ... and our State! Together we must persist and innovate to weather the current economic storm ....

Do have a happy and productive new year!



H. James Williams  
Dean, Seidman College of Business

## Seidman Business Review Winter 2010 Contents

### WEST MICHIGAN MARKET ANALYSIS

#### 2 Grand Rapids Economic Forecast 2010

**Hari Singh, Ph.D., and Nancy Boese, M.B.A.**

The West Michigan economy has been in a process of consolidation. We are at the end of the Great Recession of 2007–09. How is business confidence for 2010? What are the projections for employment and sales for 2010? Find out what Grand Rapids area executives think.

#### 5 Commercial Real Estate Outlook for 2010

**Gary Albrecht, Grubb & Ellis | Paramount**

The commercial real estate market in Grand Rapids faces many challenges and opportunities. The retail, office, industrial, and investment markets are in different phases of the market cycle. Find out how different sectors of commercial real estate are fairing in tough economic times.

#### 9 West Michigan Supply Management: A Year in Review

**Brian G. Long, Ph.D., C.P.M., Director, Supply Management Research**

The manufacturing sector is witnessing structural changes and consolidation. Is a turnaround in the works? Find out what purchase managers are saying about new orders, production, and prices.

#### 12 West Michigan Stock Returns

**Gregg Dimkoff, Ph.D.**

The stock market had a relatively good year in 2009. However, market volatility is quite significant. How did regional stocks perform compared to the national market indices?

### INNOVATION

#### 14 Creating Opportunity through Innovation in West Michigan

**Paul M. Lane, Ph.D.**

**John P. Farris Ph.D., Padnos College of Engineering and Computing**

Do you realize that sometimes life's inconveniences spur you to create something new? But you also have to tap into a new trend and understand the interface with technology. What kinds of innovation do we have in West Michigan? Innovation may be easier than you think.

#### 16 A Vision of Hope

**Michael McCarthy, Business Major; Melissa Bobowski, Liberal Arts Major  
Maris Stella Swift, Ph.D.**

Do you know someone who has a rare disease that does not attract enough research funding to find a cure? What are the procedures for FDA trials and constraints for commercialization? This human interest story depicts one person's struggle and hope for medical innovation.

### BUSINESS AND ECONOMIC TRENDS

#### 20 Informed Employees—A Key Component to Benefit Plan Success

**Jeff Rubleski, M.B.A., Director of Sales Strategy, Blue Cross Blue Shield of Michigan, Adjunct Instructor of Finance**

Employers realize that good health benefits are necessary to attract and retain qualified workers. However, there is considerable pressure to control these costs and keep them manageable. Offering employees a menu of options and making them more informed about their choices and behavior could be a win for both workers and employers.

#### 23 Michigan Has New Opportunities in China

**Jianlin Feng, Ph.D., Beijing Fost Economic Consulting Company  
Wei Sun, Ph.D.**

Forecasts of the West Michigan economy have consistently revealed that even in tough economic times, exports to other countries have grown at a robust rate. However, only a small portion of firms take advantage of these opportunities. Find out what kind of growing markets in China could be the ultimate destination for your products. It is time to take advantage of the expanding opportunities in Asia.

#### 26 Unemployment and Property Crime in West Michigan

**Laudo M. Ogura, Ph.D.**

**Brian C. Boyce, Economics Major**

Can tough economic times increase crime? Economic theory suggests that when persons are unemployed there may be more propensity to commit crimes. Find out if this true for West Michigan.

# Grand Rapids Economic Forecast 2010

Hari Singh, Ph.D., and Nancy Boese, M.B.A.<sup>1</sup>  
Seidman College of Business

- Business confidence index is poised to rise above 50% for the first time in 2 years
- Employment is expected to increase marginally by one half of one percent in 2010
- Overall nominal sales are expected to grow by almost 1% for 2010
- Exports continue to be a bright spot; expected growth is 8% during 2010
- All indicators signal a turnaround and modest growth in 2010

## Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties) was conducted in November 2009. A survey was mailed to the CEOs of approximately one thousand organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the area. Eventually, 247 organizations responded. Due to the small sample size, the survey should be interpreted with caution.

A few methodological considerations should be noted. Although we discuss the survey results in terms of averages, the data are represented in a histogram format to show the entire distribution of responses. The employment, sales, and export numbers are more volatile as *raw averages* (when calculated without adjusting for outliers—responses beyond one standard deviation). Since the average of a small sample is significantly influenced by

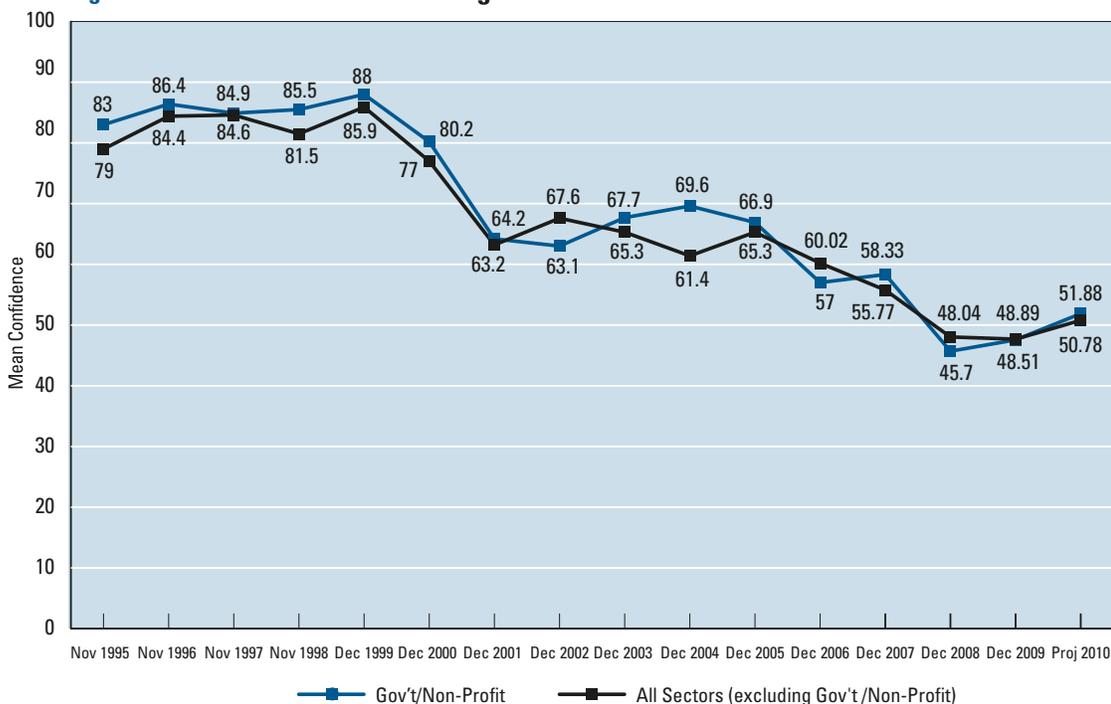
extreme numbers, we use the averages without the outliers to provide more reliable results. The histograms, however, depict all the available observations to show the broad picture. Note that the total numbers in the histograms figures do not add up to exactly 247 because a few respondents did not provide their employment or sales data.

## Confidence Index

A major goal of our survey is to historically track the overall business confidence of the Grand Rapids metropolitan area by a Confidence Index. The confidence index respondents use a scale from zero percent (no confidence at all) to one hundred percent (complete confidence). The current results need to be interpreted in a larger historical context. During our surveys of the region for the last fifteen years, when the economy has been growing steadily at a robust rate, the confidence index has depicted a high level of confidence, generally around 80% for the private sector. In response to the question: **How confident are you in the regional economy?** Here are the average responses for the private sector and the government/non-profit sector over the last 15 years (Figure 1).

Consider the private sector confidence index. Since the 2001 recession, the confidence index has been in the vicinity of the sixties and the high fifties. However, the confidence index in November 2008 was 48.04%. For the first time in 14 years, the confidence index had slipped below the 50% benchmark. In November 2009 the confidence index was 48.89%, only slightly

Figure 1 West Michigan Confidence Index 2010



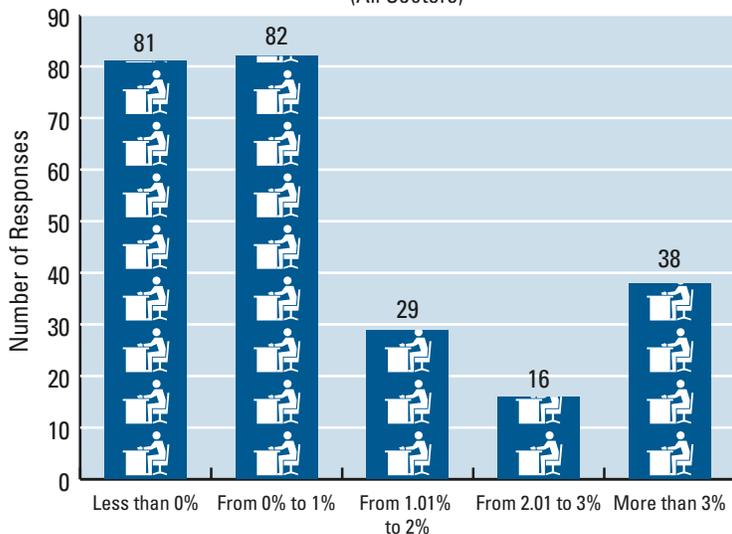
<sup>1</sup> Hari Singh is a Professor of Economics in the Seidman College of Business at Grand Valley State University. Nancy Boese is the Business Tools Specialist of The Small Business & Technology Development Center (MI-SBTC). We were aided by invaluable research support from Rennie Ramlal graduate research assistant in the Economics Department.

higher than the last year. It is projected to be marginally higher at 50.78% for 2010. The government and nonprofit sector has similar numbers (45.7% for 2008, 48.51% for 2009, and 51.88% projected for 2010).

West Michigan had not recovered completely from the 2001 recession when the Great Recession of 2007 further depressed economic activity. Although we are beginning to come out of the Great Recession, expectations are still depressed, but the overall outlook is beginning to take a positive turn. For the first time in the last two years the projected confidence is rising above the 50% benchmark. There is some sense that the worst is over and the regional economy will begin its long consolidation process.

Factors that continue to depress expectations for 2010 include the continued tightening of credit to small business and the high unemployment rates. Consumer and business confidence will consolidate slowly as the national economy improves. The structural problems in Michigan and the ongoing consolidation in manufacturing will continue to depress expectations significantly compared to the national profile.

**Respondents' Anticipated Change in Employment for 2010**  
(All Sectors)



**Figure 2**

**Employment**

Due to the restructuring in the manufacturing sector, the regional labor market in West Michigan had been repairing at a very slow pace since the recession of 2001. Grand Rapids MSA has lost 31,900 jobs in manufacturing in the last nine years. On the other hand, it has gained 3,600 jobs in education and 13,900 jobs in the health sector. Consequently, 55% of the job loss in manufacturing has been recouped by education and health sectors.

The respondents answer the following question: **What percent change do you expect in employment for the four counties in 2010?** In answer to this question, the projected change in employment for 2009 for the private sector was a decline of almost one percent (the average was -0.94%). The actual decline in employment

in West Michigan for the last year has been quite close to last year's expectation.

For 2010, private employment is projected at 0.14% without outliers. However, with outliers the projected growth in employment is 0.74%. The actual employment growth is likely to be somewhere between these two estimates, approximately one half of one percent. The distribution of the responses in Figure 2 indicates there is considerable volatility.

Thirty-six percent of the respondents indicated they will hire workers in 2010. Almost all of them stated they would hire permanent workers. Hiring of temporary workers is also going up. The overall employment situation should begin to improve in 2010.

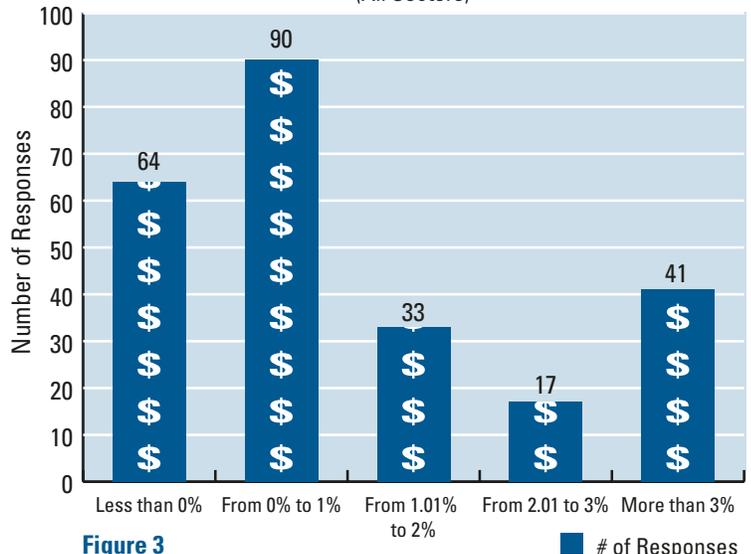
**Sales**

For sales, the respondents answer the following question: **What percent change in sales do you project for the four counties in 2010?** In times of robust economic growth, sales have grown at an annual rate of 5%. Sales projections made by respondents for last year was an average of -0.54%. This is not surprising given that the economy was deep in a recession last year.

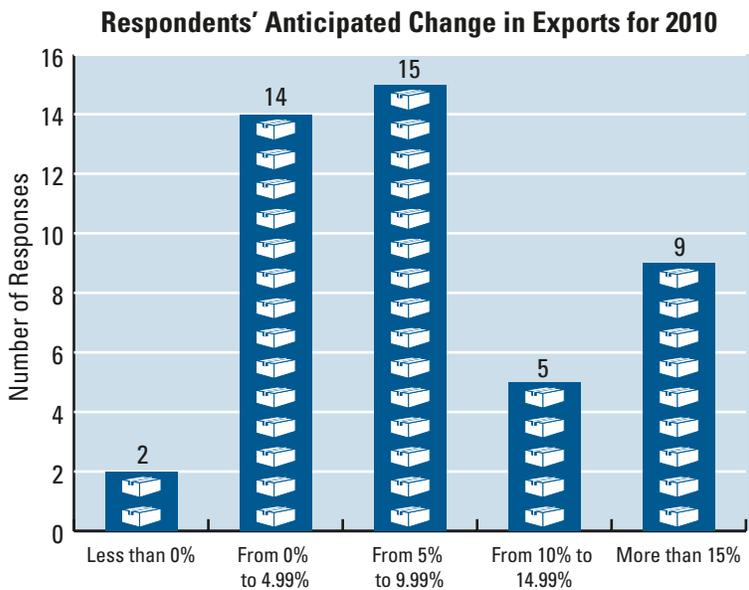
In line with other data, there is some improvement in sales. Sales in the private sector are projected to grow at about three quarters of one percent (0.77%) for 2010. The shopping season has not been too disappointing. A look at Figure 3 indicates that the distribution of sales are clustered a little bit beyond zero, but 64 respondents are still expecting sales to fall. Consequently, the sales data have considerable volatility. The best that can be said is that the turnaround in sales has begun and should improve slowly in 2010.

Note that our sales numbers are for the nominal sales of all goods/services produced in the West Michigan economy. Consequently, the increase could be in prices and/or quantities.

**Respondents' Anticipated Change in Sales for 2010**  
(All Sectors)



**Figure 3**



**Figure 4** # of Responses

### Export Growth

During good times in the late 1990s, the expected growth in exports generally averaged higher than 5%. Last year, exports were expected to grow at 6.14%. Given the fluctuation in exchange rates and a worldwide recession, it is not surprising that expectations for growth in exports are volatile. Overall, exports continue to show a robust growth pattern; the average projected growth for 2010 is 8.68% (Figure 4). Compared to the domestic outlook, export growth is a bright spot for the regional economy. Part of the export growth will be propelled by the low value of the dollar and the resumed high growth rates in Asia, particularly China and India. However, since the expected growth of exports is based on a much smaller sample of only 45 respondents, it should be viewed with caution.

The expectations for achieving a robust regional growth rate of 5% in the near future do not appear to be good (Figure 5). Forty-five percent of the respondents do not expect good times to return until after 2011. Roughly the same number, 49%, expect the good times to return within one or two years. Only a small minority (6%) expect that the economy will turn around by July 2010.

These results are consistent with Dr. Brian Long's *West Michigan Supply Management* survey of purchasing managers (N.A.P.M.) that shows a turnaround in production and employment in late 2009 (See page 9 in this publication).

What is the final word on the national and regional economy? At the national level, the economy turned the corner in the

fall of 2009. The Federal Reserve Bank is likely to keep interest rates low, at least for the next six months. However, the impact of lower interest rates has been limited. This is because tight credit conditions for consumers and businesses continue. Banks have become more risk averse about lending. The housing crisis that began this recession will continue to be a significant drag on the economy.

Nationwide, employment will continue to improve in 2010. However, the improvement in the labor market will be slow. Right now it is reflected in more hiring of temporary workers and the lengthening of the average work week. Full-time hiring will only increase slowly as businesses become progressively more confident about the future. The economy will expand in 2010, but the growth in real Gross Domestic Product will be modest. There will be considerable variation in GDP growth rates each quarter. Overall, nationwide GDP may grow between 2% and 3% for the entire twelve months of 2010.

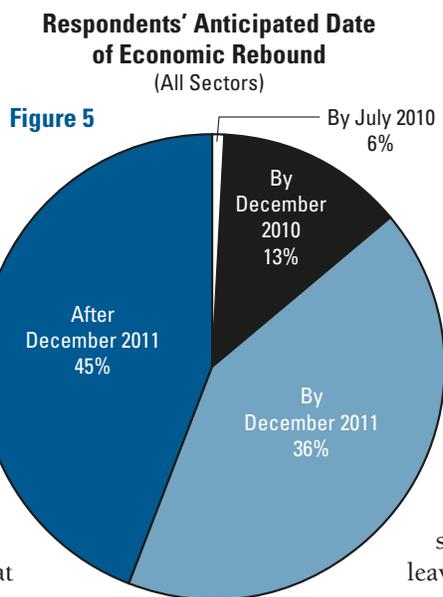
At the regional level, the worst is over and we will see gradual improvement in the economic numbers. Overall, confidence is projected to increase, rising above the 50% benchmark. Employment will grow modestly, by approximately 0.5%. Nominal sales will increase by almost 1%. In spite of its volatility, exports have always been a bright spot during the Great Recession and are projected to rebound even more next year to approximately 8%.

West Michigan will continue to find a foothold by diversifying away from manufacturing into specialized services such as health care, professional services, and education. In spite of difficult times, the state needs to ensure that it will create a highly qualified work force for the future. State resources need to be leveraged for strategic positioning in growth sectors of the future. Besides health care and homeland security, state policies need to promote more renewable/alternative energy production options within the state.

Ultimately, a large part of Michigan's future will depend on its skilled workforce. The single best indicator of Michigan's success in the long run will be how our young skilled workers vote by their feet. If we witness that a significant number of Michigan graduates leave the state, it would, indeed, be a bad omen. However, if we are able to increase our focus on education/training and retain our skilled labor force, we will have weathered this turbulent decade without a serious setback.

### Acknowledgments

We are very grateful to all the organizations that participated in the survey. ■



**Figure 5**

# West Michigan-Grand Rapids Commercial Real Estate Review and Forecast

Gary Albrecht, Research Analyst  
Grubb & Ellis|Paramount Commerce

## Grand Rapids Industrial Forecast

The Grand Rapids industrial market started 2009 much differently than 2008 ended. The vacancy rate increased from 7.6 percent year end 2008 to 8.3 percent during the first quarter of 2009. While the vacancy rate increased significantly during the first and second quarters, the year-end vacancy rate was 9.0 percent. As the year progressed, the rate at which vacancy increased slowed. While vacancy rates are expected to increase to 10.0 percent, Grubb & Ellis|Paramount Commerce is optimistic that 2010 will be the peak of industrial vacancy for this market cycle.

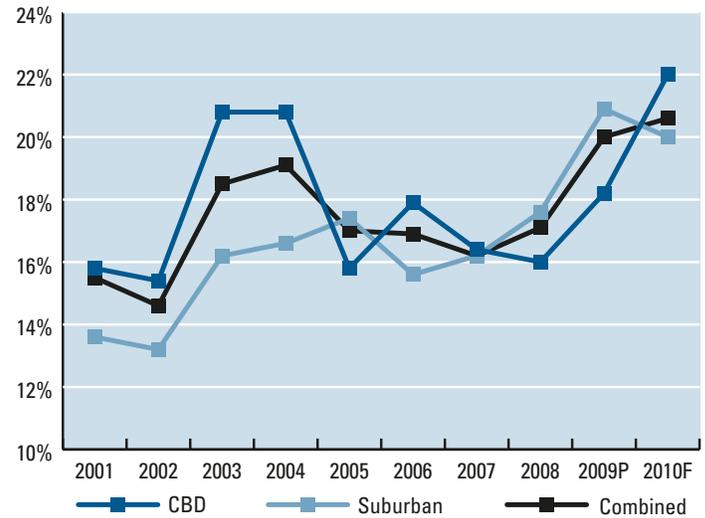
As forecasted, new speculative construction in 2009 was nonexistent. This was primarily due to the large inventory of excess space brought back on market, as there were nearly 2 million square feet of negative absorption in 2009. Until vacancy rates decrease to a healthier level, new construction, outside of owner-built and expansions, will be nonexistent in 2010 and beyond.

The Grand Rapids industrial leasing market had decreased rental rates and increased concessions and shorter-term leases. Short-term tenants continue to secure lease rates that are more typically in line with first-year rates of long-term leases. While deal velocity fell somewhat, average deal size and lease value fell dramatically in 2009. Deal size decreased not only because of companies closing their doors, but also because some companies were able to tighten their business models and reduce their footprint. The industrial market has historically had flat asking rental rates over the last few years; however, for the first time, Grubb & Ellis|Paramount Commerce expects asking rents to decrease by 5 to 10 percent in 2010. In addition, effective rental rates will continue to decline as landlords offer lower lease rates with more concessions by way of free rent.

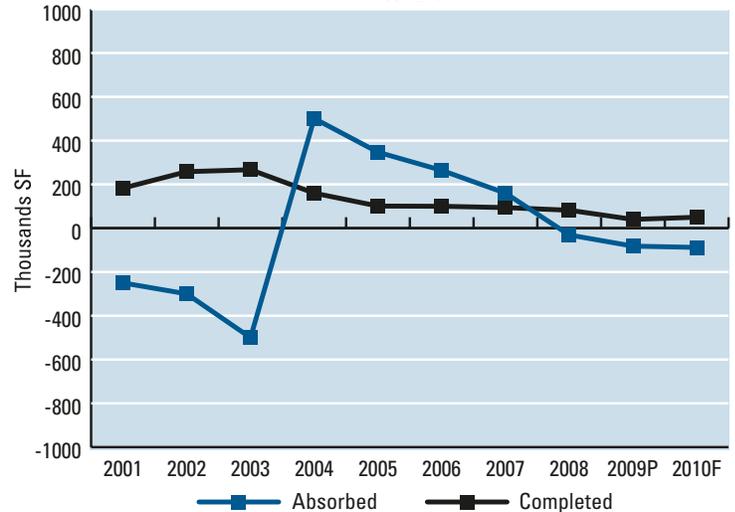
Leasing activity was the more viable option for users in 2009 due to the severe lack of purchase financing, but the industrial market did have multiple user sales of over 50,000 square feet. However, there were nearly 1.5 million more square feet sold in 2008 than in 2009. Sellers remained motivated to strike a deal. However, difficulty obtaining financing kept viable buyers on the sidelines. In 2010, historic buying opportunities will continue to be available to users, but their challenge will continue to be gaining the confidence to make major capital investments and secure the financing. Grubb & Ellis|Paramount Commerce expects that sale velocity will increase throughout the year as business confidence increases and lenders are willing to take more risk, while distressed sellers will continue to move problem properties off their books.

While the troubles of the domestic automakers have mainly taken their toll already, the Grand Rapids industrial market will have its single largest industrial building become vacant

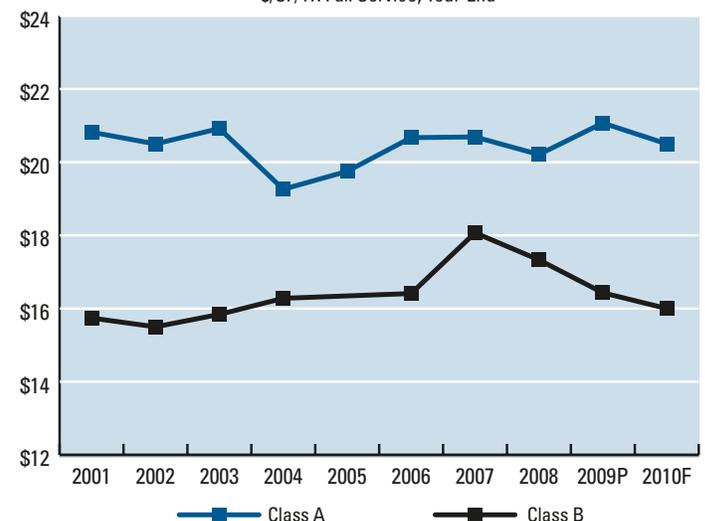
Vacancy Rates  
Year End

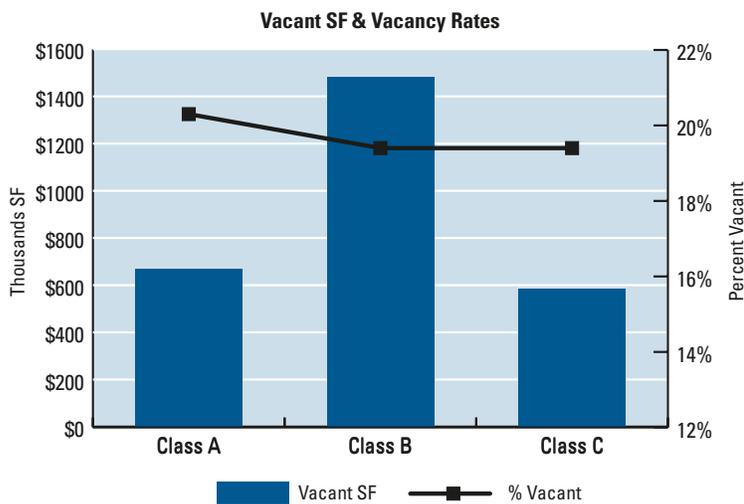


Absorption vs. Completions  
Year End



Asking Rental Rates  
\$/SF/YR Full Service, Year-End





sometime during 2010. The two-plus million square-foot General Motors stamping plant in Wyoming remains open but hardly utilized. It is unclear what General Motors has planned for the building. This single vacancy would add 185 basis points to the overall market vacancy rate.

Although not in our market, the announcement that a new LG Chem battery plant will likely come to the eastern Holland market could significantly impact the community. With West Michigan's diverse and highly skilled supply base currently being underutilized, the benefit to the Grand Rapids market would be broad based and greatly contribute to reestablishing healthy fundamentals in the industrial real estate market.

In summary, vacancy rates will continue to increase but at a slower pace when compared to 2009. New speculative construction will remain nonexistent as users will not be able to beat the lease rates at existing buildings; developers will shore up their existing portfolios; and lenders will continue to refuse to back speculative development. Effective rental rates and sales values will decrease until enough users and buyers in the market begin to feel that they may be missing the bottom of the market and act on a sense of urgency. The Grand Rapids industrial market certainly was not immune to the economic crisis that plagued the world, especially considering its close proximity to the beleaguered domestic automakers. However, the West Michigan industrial market, while battered, remained resilient in 2009, and we will look back at the end of 2010 as the year that began the recovery.

**Grand Rapids Retail**

West Michigan's diverse economy and the new medical construction projects have helped limit the pinch compared to the rest of the state and some parts of the nation. This is mainly attributable to the area's conservatism, which led to only a small amount of overbuilding during the early-to-mid 2000s. As a result, West Michigan is in a much better position to regain momentum than other markets that overbuilt. However, Grubb & Ellis|Paramount Commerce does not expect momentum to gain strength until at least the

second half of 2010. It is interesting to note that the retail sector felt the impact of the economic crisis in 2009 more than other sectors.

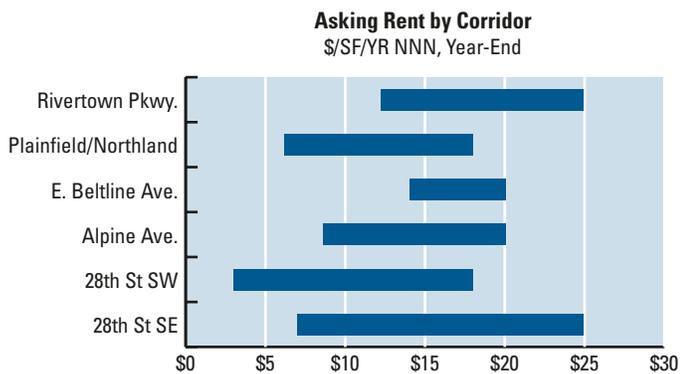
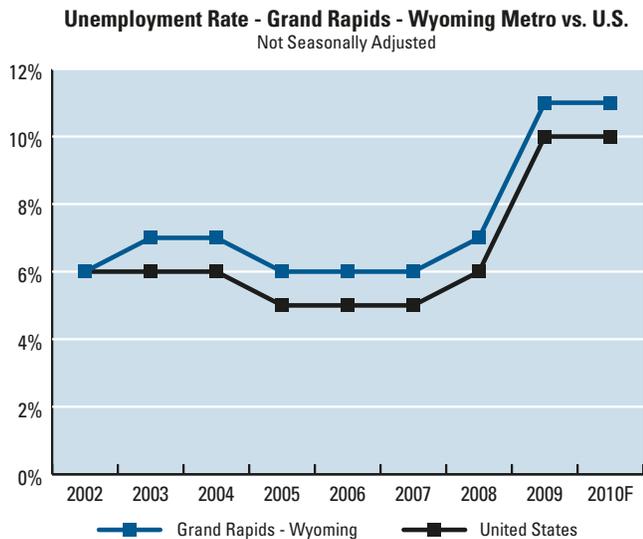
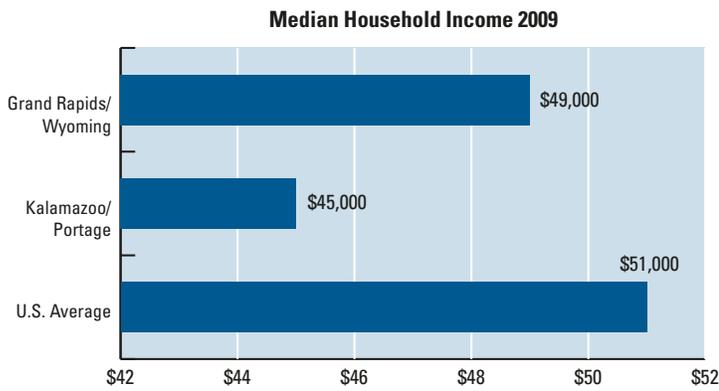
The economic crisis put restraints on consumer spending during 2009 and forced many retailers to go into survival mode. Overall, vacancy rates increased from 8.7 percent in 2008 to 12.7 percent in 2009. A significant portion of this increase was attributable to several big box retailers (Circuit City, Linens 'n Things) closing their doors. In addition, the 12.7 percent includes the area's three regional malls. If the three malls are removed from the statistics, the vacancy rate increases to 14.7 percent.

As forecasted, landlords were more flexible in their negotiations. In previous years, landlords provided a "white box" and tenants were responsible for their build-outs. In 2009, in order to attract tenants, landlords had to provide extensive build-out allowances, significant rent reductions, and/or free rent. Some of the high profile centers had to cut their asking prices even more significantly to attract tenants. Across all property types, average asking rental rates declined from \$11.49 per square foot to \$10.66 per square foot. This downward trend can be expected in 2010 until inventory levels decrease.

As anticipated, deal velocity slowed significantly during 2009. The cautiousness of the economy discouraged national retailers to expand in this market. It also hampered the smaller, start-up retailers from getting into the market. In addition to the decrease in deal velocity, values decreased throughout 2009. In 2010, Grubb & Ellis|Paramount Commerce expects deal velocity to increase, while values will continue to decrease. Furthermore, retail land remains untouched. Inventory levels are at historic highs and, until those levels come down, we can expect retail land to remain largely undeveloped.

The 28th Street SE corridor has historically been Grand Rapids' strongest retail market. The vacancy rate increased from 9.0 percent year-end 2008 to 11.3 percent year-end 2009. This was mainly attributable to the 40,000 square feet vacated by Circuit City. One large vacancy at Centerpointe Mall was filled by Jo-Ann Fabrics Superstore in early 2009.

The 28th Street SW corridor had significant vacancy rate increases in 2009 which was mainly attributed to the closings of Jack Loeks Theaters and Classic Chevrolet. The vacancy rate increased from 12.8 percent in 2008 to 25.7 percent in 2009. If those two vacancies are removed from the statistics, the vacancy rate significantly declines to 16.9 percent. The vacancy rate will continue to increase in this corridor as many tenants are now able to move to the higher profile 28th Street SE corridor for similar rental rates. Several ideas have been discussed for the redevelopment of the former Jack Loeks Theater site; however, it cannot be expected to gain momentum in 2010. If redeveloped, the area would gain the increased consumer traffic counts it needs.



The Alpine Avenue corridor, much like the 28th Street SE corridor, is one of the strongest retail sectors in Grand Rapids. Likewise, the closing of Circuit City increased the vacancy rate from 5.8 percent in 2008 to 9.3 percent in 2009. The proposed retail development on the north side of Art Van Furniture did not gain momentum in 2009, and Grubb & Ellis|Paramount Commerce expects it to remain quiet in 2010. Overall, the Alpine Avenue corridor will stay flat with slight increases in vacancy rates and flat asking rental rates.

The biggest potential development for West Michigan, the proposed lifestyle center at East Beltline Avenue NE and 3-Mile Road, has been quiet. Construction was expected to

begin in 2010; however, it could be pushed back into 2011 or later. Partial development of a competing site has started at Knapp Avenue with the construction of a new D&W grocery store. No further development at this site is firm in 2010.

The economic crisis has also slowed tenant growth in the M-6/South Beltline corridor. The medical development has positioned the area well for future growth, but it can be expected to remain quiet for 2010 also.

Retailers expressing interest in expansion are the discount retailers and grocery chains such as Save A-Lot, Aldi, Family Dollar, and Spartan Stores. In addition, Grubb & Ellis|Paramount expects to see the “mom’s and pop’s” getting back into the market in 2010. The first and second quarters of 2010 will be slow; however, the activity should pick up during the second half of 2010. While it has been projected that there will be 6,000 to 9,000 retail stores closing nationwide in 2010, we do not expect to see any big box retailers closing their doors locally due to the fact that the big box stores did not overbuild in the West Michigan area. Attrition is to be expected, which creates new opportunities for existing and new retailers to enter the market.

The uncertainty hanging over Detroit’s automotive industry seems to have subsided. While there will still be adjustments in the automotive industry in 2010, Grubb & Ellis|Paramount Commerce believes that we will not see the closing of additional local car dealerships. It remains to be seen how current vacant sites will be utilized because it is unlikely that they will become automotive again.

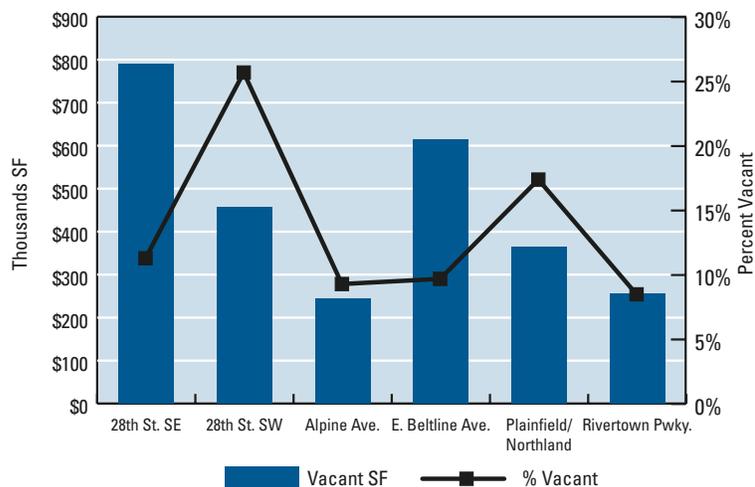
In summary, the West Michigan retail market appears to have weathered the storm. While values have dropped and will continue to drop, the deals velocity will increase in 2010. Very little new construction will occur until current inventory levels are reduced and banks become more willing to lend. Asking rental rates will continue to decline, and landlords will need to become creative in ways to attract and retain tenants.

### Grand Rapids Office

It is no secret that the Grand Rapids office market was affected by the economic crisis in 2009, as was the entire country. While there is still uncertainty for 2010, Grubb & Ellis|Paramount Commerce expects deal velocity to increase, while values will remain at near historic lows.

The overall vacancy rate increased from 17.1 percent at year end 2008 to 19.6 percent year end 2009. In 2009, downtown vacancy rates were 18.1 percent compared to 16.0 percent in 2008. The Grand Rapids downtown market continues to have one of the lower vacancy rates in the market because there is still demand for Class A office space. Class A asking rental rates were \$21.51 per square foot in 2009, which was up from \$21.21 per square foot in 2008. However, downtown Class B asking rental rates decreased from \$18.86 per square foot in 2008 to \$18.32 per square foot in 2009.

**Vacant SF & Vacancy Rates**



As forecasted, many downtown landlords have reduced free rent and tenant improvements during 2009. Typically, this would drive down effective rental rates but there are more tenants taking the space 'as is.' Landlords did not provide tenant improvement dollars or build-out allowances, but instead, agreed to a lower initial contract rate which has driven effective rates down on average of three to four dollars. This trend is expected to continue in 2010 until the economic crisis improves.

The suburban office ended 2009 with a vacancy rate of 20.3 percent compared to 17.9 percent year end 2008. Class A asking rental rates were \$20.93 per square foot in 2009, which was up slightly (from \$19.94 per square foot) in 2008. Comparable to downtown asking rental rates, the suburban Class B asking rental rates also decreased from \$15.96 per square foot in 2008 to \$15.69 per square foot in 2009.

Foreclosures impacted the Grand Rapids office market and will continue to impact the market into 2010, which will affect values on leasing and sale pricing. Free rent and concessions will be reduced again in 2010, and more tenants will take space 'as is' saving them dollars on their contract rates. However, one tactic seen in other markets and across other specialties that the Grand Rapids market has not yet had are cost-only rents. Landlords will rent space to tenants for cost which fills buildings but dramatically affects values.

Vacancy rates have also been affected by tenants that are reducing their footprints in their existing spaces. It is becoming more common to house employees in their client's office space or give employees flexible office hours. In addition, the square footage per person in today's business model has had significant decreases. Open floor plans and fewer private offices are allowing tenants to reduce the footprint. In turn, this has slowed the uptick and has effectively eliminated new speculative construction. New construction will be nearly non-existent until inventory levels come back down. Grubb & Ellis|Paramount Commerce expects this trend to continue in 2010.

Additionally, landlords will search for even greater cooperation with their lenders, as it will be a struggle to maintain rent rolls and occupancy with attractive rental rates and tenant improvement packages. This will directly affect values on the property, and landlords will want to ensure that these steps do not force re-appraisals of their buildings, which would place them in an even more difficult position with their lenders.

Deal velocity has not decreased as significantly as has deal volume. Tenants are in a great position to renegotiate leases early at lower rates and less square footage. It can be expected that tenants will be in a great position through at least the first half of 2010 to renegotiate early until the economy turns upward.

There is uncertainty regarding what the first quarter of 2010 will bring to the Grand Rapids office market. However, Grubb & Ellis|Paramount Commerce expects that deal velocity will increase compared to 2009, but values and volume will remain at or near the bottom. Flat to slightly negative absorption can be expected in the Grand Rapids office market. Asking rental rates will decrease slightly; however, effective rental rates may actually increase during the second half of 2010.

### Grand Rapids Investment

West Michigan has mirrored the rest of the country and faced significant headwinds at the local level in 2009. However, due to its diverse economic base, skilled work force, and high levels of entrepreneurship, West Michigan has become the most stable environment in Michigan, and signs for a modest rebound in 2010 abound.

As forecasted, real estate investment activity again declined in 2009; sales volume was down 78 percent compared to 2008 and 93 percent compared to 2007. Investment activity peaked in October 2007; and, since then, average prices across the nation have fallen by 40.6 percent. While not as dramatic, West Michigan has also seen average sales prices decline for a second year in a row.

The single biggest challenge real estate investors faced in 2009 was tight credit. The financing challenge is national in scope, with particular challenges for Michigan as banks have overlooked bright spots like West Michigan in favor of avoiding Michigan altogether. Locating financing for new transactions and even renewals on existing projects is a major barrier for the market to begin a strong comeback. Unfortunately it appears 2010 will involve similar challenges. Positively, interest rates remain low by historic standards, and there are local banks and financial institutions that will still make loans on quality product with strong borrowers bringing equity to a transaction.

Financing challenges, combined with caution as the market reached equilibrium, left sales volume only a fraction of what it was just two years ago. While investors remain cautious,

*Continued on page 19*

# West Michigan Supply Management: A Year in Review

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**A** year of recovery. Indeed, when the economic history of Grand Rapids is written, 2009 will be characterized as the year that we began to dig out of one of the deepest recessions in recent memory. Although the Michigan recession probably began sometime in late 2005, the West Michigan economy was able to avoid most of the impact of the impending economic downturn until late in the summer of 2008. For the industrial segment of the economy, the period of September to December of 2008 recorded some very sharp drops, culminating in the weakest business conditions in the 20-year history of this survey.

Against this backdrop, we entered 2009 uncertain if business conditions could possibly get worse. Fortunately, our January statistics moderated, and the rate of decline began to ease. This moderation continued into February, although the Employment Index hit a record low. March moderated even more, and we began to believe that the worst may be over. Although most of the statistics remained negative, New Orders for April turned positive for the first time in months. This trend strengthened in May, and by June, several of our statistics were positive. For Greater Grand Rapids, we will probably mark June of 2009 as the first month of a long recovery.

Despite the recovery of other industries, automobile sales continued to decline through the first half of 2009. Dealer lots were overflowing. In July, with the effort of Michigan lawmakers in Washington, congress passed the CARS (Car Allowance Rebate System) program, better know as “Cash for Clunkers.” Although the program was supposed to start on July 1, it took the NHTSA three weeks to get the 136-page rule book written and the web-based computer approval system in place.

The framers of CARS vastly underestimated the impact that a \$3,500 to \$4,500 incentive would have on the car market. The initial \$1 billion was used up in just six days, and the program was extended by another \$2 billion. Many local dealers had their lots stripped of all vehicles eligible under the program. The auto manufacturers responded by bumping up the production schedules just to get cars back on the dealer lots. Clearly, this was great news for Michigan, and especially good news for our local auto parts suppliers.

History will probably show that the Cash for Clunkers program marked the turnaround in the worst auto market since the Great Depression. For many buyers, it gave the nudge they needed to trade for a newer, more fuel efficient vehicle. In the weeks that followed, the tight consumer financing that had inhibited sales began to ease. By the end of the year, sales had stabilized, and several manufacturers began posting modest gains.

## About the Survey

The monthly survey of business conditions, published under the title of “Current Business Trends,” first debuted in Kalamazoo in February of 1979 and was expanded to Grand Rapids in 1988. At present, the survey encompasses 45 purchasing managers from ISM-Greater Grand Rapids.

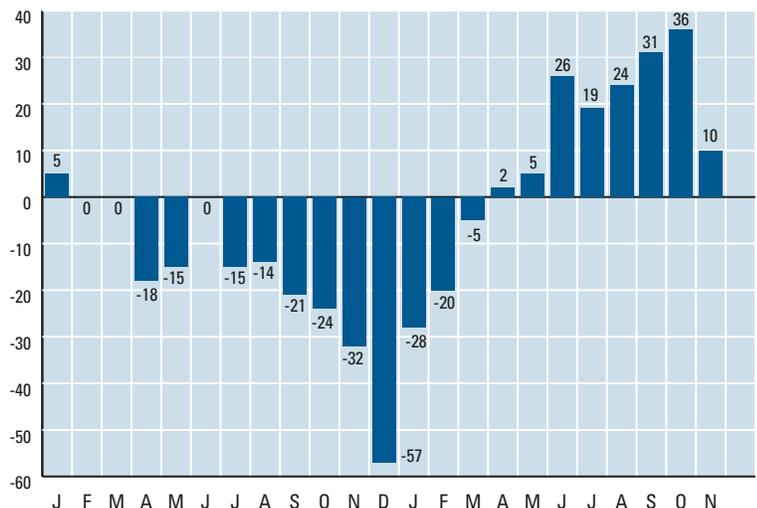
Patterned after the nationwide survey conducted by the Institute for Supply Management, the strength of the survey is its simplicity. Each month, the respondents are asked to rate eight factors as “SAME” or stable, “UP” or improving/rising, or “DOWN” as in declining/falling.

## New Orders

This index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. This results in billions of dollars being added to the economy. Conversely, billions of dollars are pulled from the economy when the index turns negative. Depending on the firm, a significant portion of this money ends up being spent in the local community.

We ended 2008 with an index of -57, the lowest level for the index in the 20-year history of the Grand Rapids survey. Although the index remained negative for the first three months of 2009, each month saw the severity of the decline lessen. In April, the index returned to positive and stayed positive for the remainder of the year. As Figure 1 illustrates, the index grew steadily stronger through the summer months. In November, the index remained positive, but

**Figure 1: 2008–2009 NEW ORDERS**  
Percent “Up” vs. “Down”



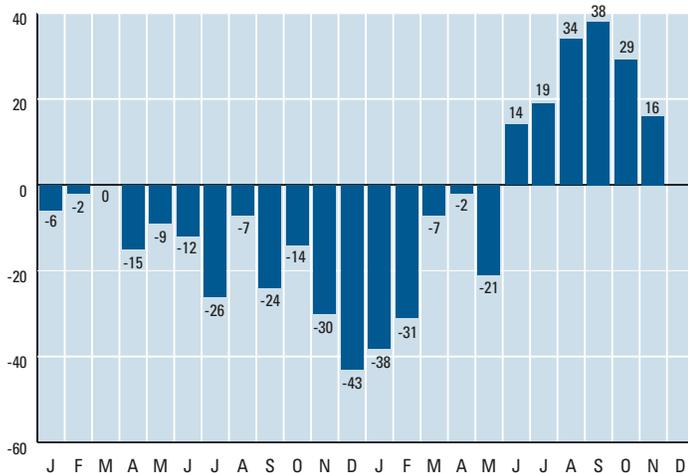
was not quite as strong as it had been for the previous five months. However, growth is growth, and the zig-zag nature of these reports over the past five years says that we should expect some variation for a month or two.

### Production

Just as most years, the production schedules varied widely between different types of manufacturing firms. Although automotive is usually weaker in the summer months, the so-called “Cash for Clunkers” program drained the dealers’ lots in late July, resulting in many auto firms immediately boosting production to meet demand.

As new business increased in our local firms in late 2009, production schedules were ramped up to meet the new demand. As noted by Figure 2, most of the year was blessed with steady improvement, although at least some of the September and October strength can be attributed to artificial boost from the “Cash for Clunkers” program. Although many firms were having at least some difficulty adjusting to market demand, a wave of cautious optimism began to emerge.

**Figure 2: 2008–2009 PRODUCTION**  
Percent “Up” vs. “Down”

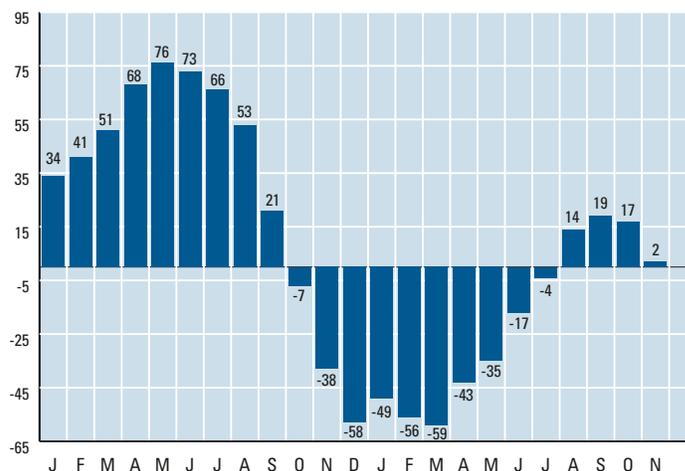


### Industrial Inflation

For most industrial buyers, 2008 will be remembered as a year of the wildest price swings in history. As implied by the 2008 portion of Figure 3, major commodities such as plastic resins, steel, oil, copper, and motor fuel went from near-term record highs to record lows in a matter of a few months. Price drops were so severe that 2008 ended with commodity deflation rather than the commodity inflation experienced in the summer. Worldwide, trillions of dollars were lost as commodity prices plummeted, and trillions of dollars were pulled out of the world economy.

Industrial prices remained low for the first half of 2009. The runaway inventory speculation in 2008, especially for many key industrial commodities, resulted in huge inventories that were then liquidated until prices fell well below the original cost of production. Fortunately, we have no local mining operations for any of these commodities, because mines were being closed all over the world.

**Figure 3: 2008–2009 PRICES**  
Percent Reporting “Up” vs. “Down”



In late spring, the economic recovery began to take hold for countries outside of the United States. Ordinarily, rising prices would not be a good sign. But the fact that the world markets for many commodities were returning to normal was now a good indicator that the world was pulling out of the recession. As of late 2009, mining operations around the world are starting to reopen, and the supply chains of the world markets continue returning to normal.

Compounding the problem of commodity speculation was the problem of liquidation of production materials by Grand Rapids firms as well as firms all over the world. For the first time in over twenty years, management abandoned the religion of JIT (Just In Time) inventory in early 2008, probably in response to the panic created by runaway pricing for some commodities. For instance, the 2008 price for zinc was five times the 2004 price. We spent late 2008 and most of the first half of 2009 liquidating these inventories which resulted in many suppliers receiving very few orders for this time period. This culminated in enough layoffs to raise the national unemployment rate to 10.2%.

By June, inventory liquidation had slowed considerably, and orders for new materials began to pick up. In August and September, our index of inventories flipped back to positive for the first time in many months, indicating that firms collectively had exhausted their materials inventories. They further assumed that the economic crisis had passed, an assumption that has now been proven correct.

Although Figure 4 shows that 2009 prices were higher for August, September, and October, the rates of the increases were relatively tame, except for steel.

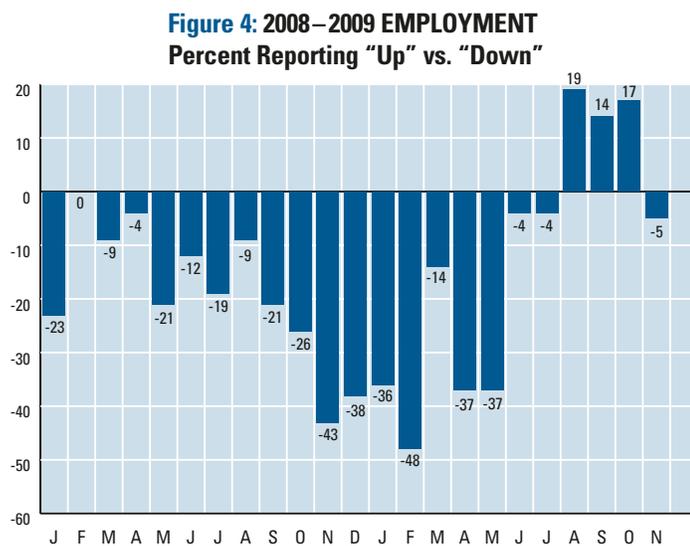
With the falling dollar, many economists are worried about inflation returning. Whereas there is no evidence of this happening soon, almost no inventory exists to meet a crisis. Hence, the threat to the supply of any major commodity will result in prices escalating very rapidly. If several commodities are involved, inflation will return for those as well as many other commodities.

## Employment

Employment index measures the expansion and contraction of the firm's entire workforce, including office and production personnel. Unfortunately, one of the rules of economics is that employment is almost always a laggard in any economic recovery. Hence, when the index turned positive in August, it created the hope that the worst may well be behind us. When the index remained positive in September and October, it seemed to confirm that the industrial economy in the Greater Grand Rapids area was on the road to recovery.

Conversations with firms in the survey confirmed that much of the improvement in the index was generated by laid-off workers being called back to work, rather than new hires. In addition, firms that had cut back to four-day weeks in order to avoid layoffs resumed their normal schedules. With the widespread use and availability of temporary workers, at least some of the increased demand for labor is now being met with contract workers. However, good contract workers, even though they are not covered by the firm's benefit package, are expensive over the long term. In today's job market, many of the temps will be offered permanent employment when it becomes obvious that they will be needed over a longer term.

Rather than hire new workers, some firms are also asking (or demanding) their existing workforce to work overtime. Several area firms are now working 50- and 60-hour weeks, and waiting to make sure that the recovery for their industry and specifically their firms is sustainable. As business confidence grows, normal hiring will resume.



## Looking Ahead to 2010

The outlook for the industrial economy in 2010 is positive, although some segments of the overall economy, namely housing, construction, and office furniture will continue restrained economic growth at the local level. Here are some reasons that we can expect 2010 to be a good, but not exuberant, year.

First, the prices of the major commodities have stabilized. This has restored normality to the markets for these commodities, as well as the financial markets that support

them. The overwhelming majority of our local firms report that the prices they must pay for goods and services are relatively stable. Our local index of commodity inventories has now turned positive, clearly indicating that the hedge inventories built a year ago when prices were skyrocketing are now back to normal.

Second, the so-called BRIC countries (Brazil, Russia, India, and China) appear to have generally recovered from the worldwide recession and are again on the move. China's recovery is important to our own economy, because they are our third largest customer. Even though the Chinese accumulated large quantities of many basic commodities like copper, tin, lead, and aluminum, they consider these inventories to be assets which they will undoubtedly use in the future. Several local firms sell a large portion of their output overseas, so the economic recovery of the rest of the world is good news.

Third, the New Orders Index, which is our best look at the future, remains positive. Keep in mind that incoming new orders are often placed weeks or even months before any money is actually paid. If this recovery is sustainable, we should see some substantial increases after the holiday season when the back-to-work mentality of January takes hold.

One inhibiting factor will continue to be the housing market. It took many years to create the sub-prime catastrophe that finally engulfed us, and it will take months or even years for the financial institutions to sort it all out. Many more homes will fall into bankruptcy throughout most of 2010, throwing additional supply on the market.

On the other side, mortgage rates are now near record lows, and many creditworthy customers are taking advantage of the near-record low mortgage rates and dramatically lower housing prices. These are buying opportunities that may not recur again for many years. On the net, this should result in the slow improvement in real estate sales throughout 2010. Unlike other parts of the country, we are not plagued with huge tracts of unsold houses. However, even in our local market, we are far from seeing the end of the fallout from the subprime housing collapse.

For office furniture, part of the problem rests with the sharp decline in commercial construction. New buildings are often furnished with new furniture, and the lower rates of new office construction have hurt the market.

Another part of the problem for office furniture business has been the malaise of the current recession. The purchase of new office furniture is obviously one of those decisions that can easily be deferred. As business confidence improves and as firms begin hiring new people, the market for office furniture should slowly improve.

Finally, it is good to remember the general strength of the economy on the west side of the state. Much of the growth in recent years has been on the west side of Michigan, and this trend will almost certainly continue. Barring unforeseen events, we expect to see modest expansion for the Greater Grand Rapids economy throughout most of 2010. ■

# West Michigan Stock Returns

Gregg Dimkoff, Ph.D., Department of Finance  
Seidman College of Business

## West Michigan Stock Prices Rebound

Prices of West Michigan publicly traded stocks sprang back in 2009 after enduring a terrible 2008. The index of local stocks rose 33.3% last year after plummeting 48.3% the previous year. Table 1, Stock Market Returns, shows how the West Michigan Index performed over the past three years relative to the Dow Jones Industrials, the S&P 500, and the NASDAQ Composite Indexes.

The public is most familiar with the Dow Jones Industrial Index. Its daily, and even hourly, performance is reported on TV, radio, and Internet sites throughout each trading day. Because it consists of only 30 stocks—those of the country's largest corporations, comparing its performance with West Michigan's relatively small companies is not especially appropriate. Using the closely followed S&P 500 Index instead is a step in the right direction, but still, its component companies are huge compared with most West Michigan publicly traded firms.

The most similar index, therefore, is the NASDAQ Composite Index. It consists of thousands of companies, including most publicly traded companies headquartered in West Michigan. Table I shows the NASDAQ Index rose 43.9% last year versus an increase in the West Michigan Index of 33.3%. There's an easy explanation for the difference: banks. A third of the West Michigan Index stocks are banks, a proportion far exceeding that of the NASDAQ Index. It's no secret that local banks are struggling just to survive. The blame can be put on the Michigan economy, and there isn't anything local banks can do to change that except hope for a quick end to the recession.

	2009	2008	2007
West Michigan Index	33.3%	-48.3%	+ 6.7%
Dow Jones Industrial Average	18.8	-33.8	+ 6.4
S&P 500 Index	23.5	-38.5	+ 3.5
NASDAQ Composite Index	43.9	-40.5	+ 9.8

<sup>1</sup>The West Michigan Index consists of 15 publicly traded companies headquartered in West Michigan. Each company's return is weighted by the number of shares of common stock outstanding, the same procedure used in the S&P 500 Index and the NASDAQ Composite Index. In contrast, the DJIA's Index uses a simple unweighted average return.

By the end of 2009, the stock prices of nine local companies were higher than at the beginning of the year. Table 2 ranks the performance of individual West Michigan stocks from best to worst. Gentex Corporation led the gainers, posting a return exceeding 102.2% for the year. At the other extreme, Community Shores Bank and Independent Bank saw their stock prices drop by 60% and 66.7%, respectively.

The performance of each of the above companies is described on the chart on the next page.

## Gentex

Gentex's stock set the pace in 2009, rising more than 102% during the year. The company's stock surged in the third quarter after it announced third quarter earnings jumped 58% due to strong sales from its vehicle headlight and camera systems. Following the announcement, several stock analysts raised their ratings for Gentex stock, and its stock responded by setting several new 52-week highs as 2009 drew to a close. The buzz created by Boeing's introduction of its 787 Dreamliner—equipped with Gentex's self-dimming cabin windows—may also be contributing to Gentex's stock rise.

## X-Rite

The return generated by X-Rite's stock rebounded after an extremely bad year in 2008. You may recall that the company's stock lost over 87% of its value that year, plunging to \$1.49 per share by the end of 2008. It rose slowly throughout the year, reaching \$2.10 by December 31. Even though that equates to a 46% return, that is small solace to long-term investors who bought the shares for \$11.62 two years ago. There may be reason for optimism. X-Rite generated an operating profit in the third quarter, reduced its net operating loss compared with a year earlier, and is generating cash flow from operations. If these trends continue throughout 2010, there is a good chance the company's stock will continue to rise.

## Universal Forest Products

Universal Forest Products returned to profitability in the third quarter by aggressive cost cutting and scaling back operations to more closely match the drop in demand for lumber products. It also raised its dividend significantly, signaling management's confidence in the future. In response, several analysts raised their stock ratings, and the company's shares provided a nearly 37% return for the year.

## Wolverine World Wide

Analysts following Wolverine's stock expressed two concerns about the company early last year: a strengthening U.S. dollar would hurt Wolverine's earnings, and the global recession would lead to lower sales. In fact, sales did fall, but the U.S. dollar continued to weaken. At the same time, supplier costs fell, and the company cut costs. Its 3rd quarter earnings exceeded analysts' estimates; several analysts raised their ratings of Wolverine's stock, and the company's stock has been rising since.

## Herman Miller and Steelcase

Both companies struggled throughout 2009, fighting the effects of the global recession, resulting in corporate

downsizing and bankruptcies, a high rate of office vacancies, and lower sales for both companies. Steelcase has managed to operate close to its breakeven point, while Herman Miller is earning a modest profit. The stocks of both companies rebounded during the year, not due to a great outlook, but instead, reflecting an adjustment to the overly pessimistic expectations of investors earlier in the year. Still, the outlook for both companies isn't rosy, and won't be rosy until the economy strengthens considerably.

### Perrigo

There seems to be nothing but good news about Perrigo and its generic over-the-counter medicines. Its stock began the year at over \$32 per share, sunk to around \$20 when the stock market bottomed during the first week of March, and has nearly doubled since then. Both sales and earnings are strong (3rd quarter profits rose 61% compared to a year earlier) thanks in part to a severe cold and flu season. The company reports that 1,000 people take a Perrigo medicine pill every second.

### Meritage Hospitality Group

Meritage Hospitality Group is the nation's only publicly traded Wendy's and O'Charley's restaurant franchisee and operator of over 70 restaurants. Its stock rose only \$0.25 per share during the year, but that was a 25% return. The company enjoyed outstanding results during its 3rd quarter: Sales rose nearly 40%, while profits tripled. Yet two factors constrain the company's price. Its financial performance has been highly variable over the years, making investors hesitant to buy its shares until the company establishes a longer trend of great financial results. Second, with only around five million shares outstanding, its shares are thinly traded and listed only on the over-the-counter pink sheets. Many potential investors won't, or cannot, buy shares in a company with those limitations.

### Spartan Stores

Spartan Stores was the only company in the West Michigan Index to experience a price increase during 2008. Last year was a different story. Its stock fell nearly 40% as the recession caused Spartan's customers to buy less expensive groceries. Both sales and earnings fell. A common misconception is that the grocery industry is immune from recessions since people have to eat no matter how the economy performs. Spartan's results are proof that this popular belief is false. Until the economy strengthens significantly, Spartan's lower levels of sales and earnings will continue.

### West Michigan Banks

Five of the area's six banks publicly traded and headquartered in West Michigan lost money as stock prices tumbled to lower and lower prices. For most of last year, the rumor mill was actively predicting imminent bankruptcy filings by Independent Bank,

Community Shores Bank, Macatawa Bank, and Mercantile Bank. The rumors have proven to be unfounded, so far.

ChoiceOne Financial Services, a Sparta-based bank holding company, was the one exception to 2009's grim bank performance. Its stock price rose over 8%. Investors likely were pleased that the bank bucked the industry trend by earning a profit in 2009, and with a dividend of \$0.48 per share, returned an additional 6%.

Investing in area bank stocks is no longer investing; it's speculating. An investor who buys tons of stock in an area bank will need to be lucky. If the banks pull through, new investors will earn huge returns. Otherwise, losses will be 100%.

Even though the West Michigan Stock Index rose over 33% last year, it still has a long way to go to get back to its pre-2008 level. The Index has to rise nearly 50% in 2010 to reach its 1/1/08 level. That isn't likely. Instead, the rise is more likely to take several years as the economy slowly pulls out of the recession. Keep in mind that stock prices follow the economy. If the economy is strong, stock prices will be high. ■

**Table 2 LOCAL COMPANY RETURNS**

1/1/09 through 12/31/09

	2009 PRICES		PRICE CHANGE
	Closing	Opening	(%)
Gentex Corporation	\$17.85	\$ 8.83	+102.2%
X-Rite Inc.	2.18	1.49	+ 46.3
Universal Forest Products	36.81	26.91	+ 36.8
Wolverine World Wide	27.22	21.04	+ 29.4
Meritage Hospitality Group	1.25	1.00	+ 25.0
Perrigo	39.83	32.31	+ 23.3
Herman Miller, Inc.	15.99	13.03	+ 22.7
Steelcase	6.36	5.62	+ 13.2
ChoiceOne Financial Services	9.00	8.30	+ 8.4
OAK Financial	17.35	19.18	- 9.5
Mercantile Bank	3.08	4.30	- 28.4
Spartan Stores Inc.	14.29	23.25	- 38.5
Macatawa Bank	2.09	3.47	- 39.8
Community Shores Bank	0.80	2.00	- 60.0
Independent Bank	0.72	2.16	- 66.7

# Creating Opportunity through Innovation in West Michigan

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John Farris, Ph.D., Padnos College of Engineering and Computing\*

*Special thanks to Tim Syfert, Visiting Instructor of Management, and the Society for the Advancement of Management and International Business that motivated the authors to explore these ideas.*

## Definition of Innovation

**Innovation** is defined as a new way of doing something. It may suggest an incremental, radical, or revolutionary change in thinking about products, processes, or organizations.

One example of innovation is invention as in macro inventions, as in radical change, or micro inventions, as an incremental change. Micro inventions represent much of what is done in industry when looking at product and process inventions. Working on an idea and developing a concept and then a prototype is the way that many micro inventions occur (Smith). Change like Meijer brought to retailing, as extended by Walmart, is macro in nature.

## Life is full of little inconvenient opportunities!

As a reader, you may be able to contribute to the West Michigan innovation base. Ideas tend to come from inconveniences you experience. Some people tolerate inconveniences while others try to think of solutions. Thinking of a solution is only an idea. If you want to take it to the next level, you have to make the idea work that could lead you to an invention. Many inventions, including those that are patented, web sites put on-line, and even services performed never really reach the market and, therefore, are not innovations. For your product to be an innovation, it must be accepted in the marketplace.

Katie Racey, a GVSU student who lives with an insulin pump, really felt inconvenienced by having to wear the pump on her waist all the time. If she wanted to dress professionally or for a night out, she did not wish to advertise her pump to the world. Her idea was to move the pump's location, and she figured out how to do that. That was the invention. Now she is working to bring her product to market for the benefit of hundreds of thousands of other pump wearers throughout the United States. In the future, she may form a Michigan company.

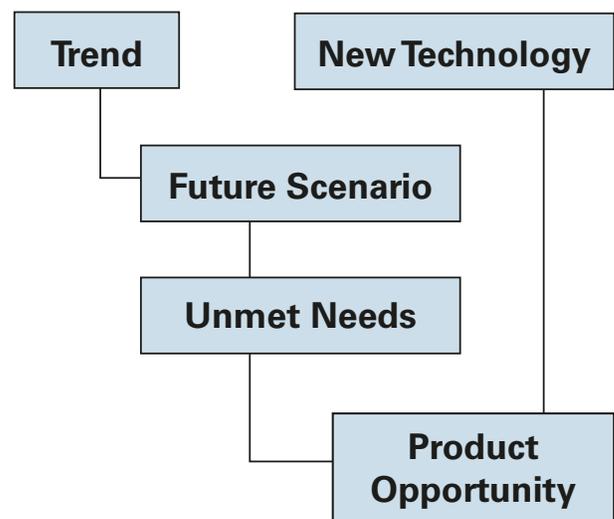
Brian Rider, a former GVSU student, saw the inconvenience of trying to plan a dorm room and created Digital Wingman. Brian and his team provide college and university students the opportunity to look at their dorm rooms while still in high school, and to change the rooms by adding and moving furniture. His ideas allow prospective roommates to organize and refine their dorm rooms on-line in advance of occupancy.

**Will you help Michigan grow by turning your inconvenience into a product for tomorrow?**

You may think of Amway as a huge sales and distribution organization, but it is also a power house of ideas and invention. Amway has developed 600 patents over the last fifty years and has 400 patents pending, according to its web site. Through its sales channels, Amway is able to take invention to innovation by bringing invention to market. Further, through Amway's leadership, vision, and passion for new ideas, it has turned ideas into successful ventures that affect many including the Seidman College of Business and Grand Valley State University. It helped build a university and with others, helped shape a world-class medical and research center in Grand Rapids. With vision and generous gifts, the leaders helped rethink economic development in downtown Grand Rapids and, most recently, how to engage people in the arts. All of these activities stemmed from recognizing a need or an opportunity and working to make something happen. It may help to have been successful, but each of these ideas involved seeing a need and finding a solution. **Can you be the champion of your ideas?**

## Trend Analysis

Many companies analyze trends to develop new products. Herman Miller is one such company. Looking at the trend of sustainability and the needs of a diverse workforce including aging boomers, they developed the desk top climate control, the C2 (Money CNN). This an example of adding new technology to an older product to meet perceived needs of the future. Herman Miller has long been known as a leader in design, but what many do not know is the company's focus on the future and the trends that may impact the office and manufacturing environments.



\*Drs. Lane and Farris serve as Co-Directors of Esteli Innovation, and are Advisors in Innovation and other areas to UPONIC University in Managua.

### Authors' Short List of West Michigan Innovations

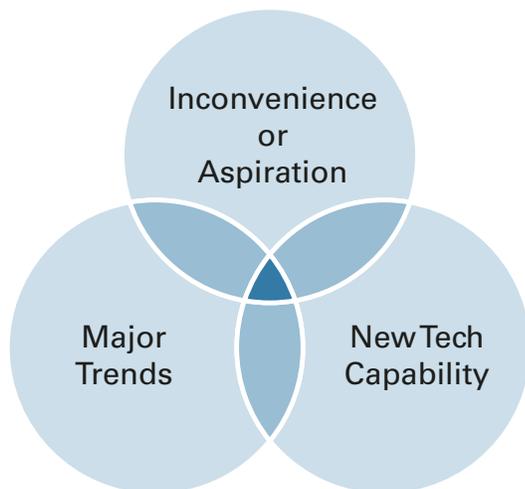
Area of Innovation	Organization or Individual
Retailing	Meijer
Furniture Design	Herman Miller, Izzy
Manufacturing Space Design	Herman Miller
Wall Systems, LIM (Led light)	Haworth
Recumbent Bikes for Boomers	Terra Trike
Gas from Trash	Ottawa County Farms Landfill
Electronic Mirrors	Gentex
Retailing On-line	Wolverine World Wide
Dimming Windows	Gentex
Distribution, Air Filters	Amway
Education/Charter Schools	Heritage Academies
Restaurants/The Bob	Gilmore Collection
Art/Internet	ArtPrize
Mfg Engineering	Cascade
Mfg Engineering	Auto Cam
Lodging/Environmental	City Flats Hotel
Klever Kutter	Klever Innovations
Environmentally Safe Asphalt	Advanced Seasonal Innovations LLC
Interactive Learning	Rapid Growth Media
Theatre	Spectrum
Science	Van Andel Institute
Personal Hygiene for Disabled	Freedom Wand
Brain and Spinal Injuries	Mary Free Bed
Gutter Protection	AAA Flow
Agricultural Products	Agretek
Medical Products	Stryker

### Sweet Spot

When it became evident that common objects like shoes, box cutters, and shaving cream were being used to threaten the safety of airliners, local entrepreneurs brought an innovation to market that rendered the box cutter harmless. Jeff Kempker, Orville Crain, and Matt Jacobs, owner of Grand Haven-based Advanced Molding Solutions, invented Klever Kutter—a box opener that cannot cut the user, anyone else, or damage the contents of the box. In 2006 they sold about 100,000 Klever Cutters. Last year they sold 900,000 and this year's sales are expected to be well over a million.

Klever Cutters, like other successful innovations, combined an inconvenience or aspiration—the need to open boxes in industry—with a major trend. When inconvenience, trends, and technology have clear intersection, you have the sweet spot, as shown in the darkest area in the Venn diagram. Clearly the unit sales indicate that the Klever Kutter hit the mark. Can you use the tool to help you think of new ideas?

Will you contribute to the future growth of West Michigan through innovation? There are many resources to help you including Seidman's Small Business & Technology Development Center. [www.gvsu.edu/misbt/dc/region7](http://www.gvsu.edu/misbt/dc/region7) ■



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# A Vision of Hope

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## Introduction

**W**ith the ever increasing medical research developing in West Michigan, a professor and two students from Grand Valley State University collaborated on the Food and Drug Administration (FDA) approval process. The three authors concluded that this paper would benefit both students and business persons. As research facilities in Grand Rapids grow, so will the many attending businesses that are needed to make the devices and drugs that result from such discoveries. The persons who work for these companies will need to know the basics of the FDA process, and this paper may serve as a basic primer of the process.



Michael McCarthy

The authors thought the paper would be more interesting with a specific example to explain the FDA process. They researched the eye disease of one of the authors of this paper, Michael McCarthy, and a potential cure. Mike is a senior in the Seidman College of Business and has Choroideremia (CHM). The disease is slowly causing him to go blind. CHM is called an orphan

disease because very few people have the disease. In this paper Mike will discuss his disease and a new product that offers true potential for slowing the progression of the disease. The paper will also explain how the Food and Drug Administration (FDA) regulates research developments through clinical trials. Finally, the paper will explain how business profits play a major role in determining which medical products make it to the commercial market, especially in regard to orphan diseases like CHM where the profits are less than those for non-orphan diseases.

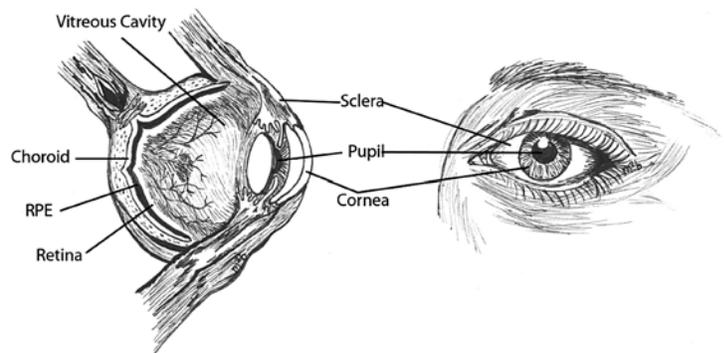
## What is CHM?

The actual vision loss is caused by the degeneration of several layers of cells that are essential to sight. These layers that line the inside of the back of the eye are called the choroid, the retinal pigment epithelium (RPE), and the retina. (Refer to Figure 1.)

## Cure?

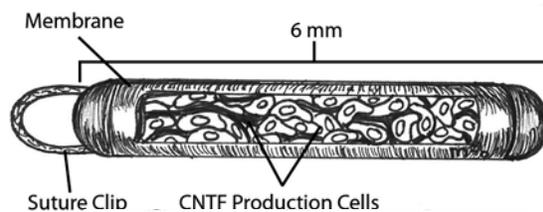
There is now a new surgical procedure that offers hope to persons with CHM. The procedure involves placing a

**Figure 1** Diagram of the Eye

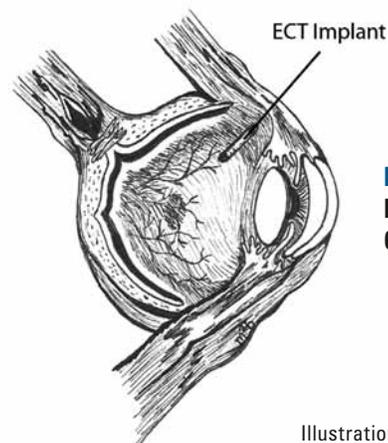


synthetic membrane capsule into the eye that will produce proteins which may halt degradation. The platform is called ECT (Encapsulated Cellular Technology). These engineered membrane capsules contain cells that have been genetically altered to produce a desirable protein called CNTF (Ciliary Neurotrophic Factor). CNTF mimics the naturally occurring proteins (REP-1) that are typically found in a healthy eye but are missing in CHMers. The membrane is the size of a single grain of rice. The engineered cells inside the membrane continuously produce new proteins (CNTF) which flow out of the implant to the damaged area of the eye. It is hoped that the insertion of these synthetic membranes will provide the safe and effective delivery of proteins for the treatment of CHM.

The ECT implant is 6 mm (under a 1/4 inch) in length. The capsule has a suture clip at one end and is stitched into the vitreous cavity of the eye. (See Figures 2 & 3) It contains



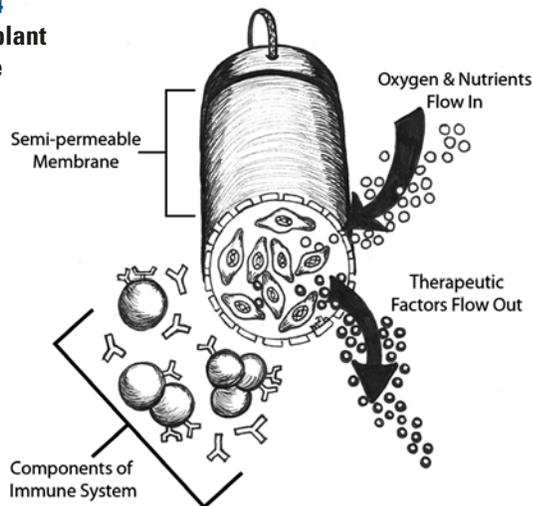
**Figure 2**  
ECT implant capsule



**Figure 3**  
Implanted Capsule

Illustrations by Melissa Bobowski

**Figure 4**  
ECT implant capsule



genetically-altered human cells in a semi-permeable fiber membrane. The membrane has specific hole diameters that allow the smaller CNTF proteins, but not the larger CNTF production cells, to flow out of the capsule and into the eye. The implant is attached in a way that allows for its removal when desired, providing an added level of safety as well as the ability to reverse or adjust the treatment. The surgery is performed as an out-patient procedure in about 20 minutes. For more information on ECT and animations of how the implant works visit [Neurotechusa.com](http://Neurotechusa.com).

A patient named Larry Hall was one of the first people to participate in ECT clinical trials. While reading the Foundation Fighting Blindness newsletter in 2003, Mr. Hall read that the National Eye Institute (NEI) was seeking volunteers for a Phase I clinical (safety) trial for the implant. After about a year of decision-making, rigorous testing, and paperwork, Larry was checked into the hospital. In a speech about his clinical trial experience Larry said:

*Every month (after the surgery), I went back for examinations and testing. Not much happened for the first two months. In the third and fifth months, my visual acuity improved. At six months, the device was taken out and returned to the company that made the device for examination. During the six month period the device was implanted in my left eye, my visual acuity improved from 20/120 to 20/50. A year later, my visual acuity was still 20/50.*

This hopeful new technology is unfortunately not yet commercially available. It remains in the regulatory processes of the FDA. Although Mike would gladly volunteer or pay to have the surgery to halt his impending blindness, there is no way to do that at this time. Mike was not chosen to participate in the clinical trials. It is now a waiting game for the FDA approval process to advance before he loses even more sight.

### FDA Clinical Trials

So what is a clinical trial? And what role does the FDA play? A clinical trial is generally considered to be a biomedical or health-related research study of humans that follows a specified set of federal guidelines. Work is done by a team of researchers, scientists, nurses, social workers and other health professionals. In this case, trials are deemed interventional because a surgical procedure is being developed and evaluated.

Applicants are considered in accordance with a set of inclusion/exclusion criteria before being chosen for participation. Some examples of factors that define participation eligibility are age, gender, the type and stage of a disease, previous treatment history, and other medical conditions.

There are benefits as well as risks that come with clinical trials in the medical field. Participants have the chance to take an active role in their own health care, gain access to new research before it is commercially available, and the have the opportunity to help others by contributing to medical research.

### FDA Approval Process

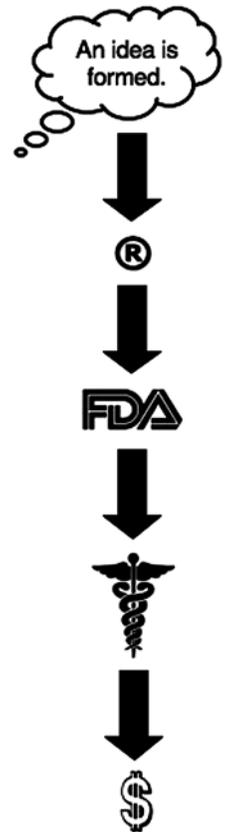
The Food and Drug Administration is part of the U.S. Department of Health and Human Services. "The FDA is responsible for protecting the public health by assuring the safety, efficacy, and security of drugs, biological devices, and medical devices, and responsible for advancing the public health by helping to speed innovations that make medicines and foods more effective, safe and more affordable." (FDA.gov)

Getting a new drug, device or procedure approved by the FDA is a complex process. No two trials are alike because of the numerous variables that pertain to each disease and new technology. As previously stated, the purpose of the rigorous FDA trials is to protect the public. Consequently, there is an intricate set of steps that must be completed before a drug, a device, or a procedure can be made commercially available.

### Below is a basic outline of the research path and FDA process:

1. The idea for treatment is conceived by a scientist.
2. The idea (drug/device/procedure) is filed with the U.S. Patent Office to protect the intellectual property rights of the inventor (or corporate owner).
3. Research begins: pre-clinical trials.
  - Initial research is typically done in labs with animals.
  - The length of time for investigation is dependent upon the complexity and type of research.

**Figure 5**  
ECT implant capsule



- The funding for research is also imperative for progress. It may come from private and/or public sources, but research and production cannot be completed without money.
4. IDA—Investigational New Drug Application  
Many times the researchers hire a consultant group familiar with the FDA approval process to help them file the necessary paperwork and navigate the FDA application process.

*If approved...*

#### 5. Clinical Trials: Human Testing Begins

##### Phase I (Toxicity)

Initial human testing begins here. Investigators look at the safety and risks of the device. Twenty to eighty participants are studied. Participants are screened for both medical and psychological stability. Potentially severe consequences, including death, must be acknowledged as recognized risks. Participants must release the researchers from all liabilities.

##### Phase II (Safety)

Multi-purpose research is conducted here. Prior safety research continues and new effectiveness research begins. One hundred to three hundred participants are studied. Samples of participants are selected from across the country. The trial may have ten to thirty different medical centers participating.

##### Phase III (Efficacy; this is the current standing of ECT trial)

The effectiveness of the trials is determined in the third phase. One thousand to three thousand people are studied. If the trials are successful, the FDA may approve the drug, device, and/or procedure for commercial use.

##### Phase IV (Post-Market Approval)

After the device is marketed, researchers collect information on long-term effects and potential “off-label” uses to aid in medical conditions other than the original intended application.

##### CHM in Clinical Trials

The purpose of this trial research was to look at the safety and effectiveness of the ECT implant in humans. This research was conducted because there are currently no cures for people with CHM, or other major eye diseases such as Macular Degeneration. The only reason CHMers were included in Phase II trials is because Larry Hall was diagnosed with CHM after Phase I. (He was originally misdiagnosed with another more prevalent eye disease.) Choroideremia Research Foundation members and friends wrote many, many letters to their Congressional representatives to plead their case for CHM to be studied in the trials. This advocacy effort was successful and CHM was included.

In the ECT implant studies, two different protein dose levels were used: a high dose or a low dose in one eye for half the patients. The other half of the patients (referred to as the control group), receives a placebo, or a non-medicinal surgery.

These studies involved the following:

1. Multiple visits over one to three years for specific tests of the participant’s vision and health. The visits included visual exams, blood draws for laboratory testing, family medical history, and exams. As stated previously, there were multiple research centers participating in the study with people enrolled from across the country.
2. The primary tool used to measure outcomes for this study was a visual field score one year after the implant surgery. At the start of the study, participants underwent a variety of visual field tests in order to map out their vision, including the EVR (Electronic Visual Acuity). One year after the trials, participants were retested and then given a score called their BCVA (Best Corrected Visual Acuity).
3. Other data collected in the study were: (A) average BCVA across all participants, (B) changes in the thickness of the rear of the eye, (C) atrophy within the eye and (D) a subjective assessment in changes in quality of life.

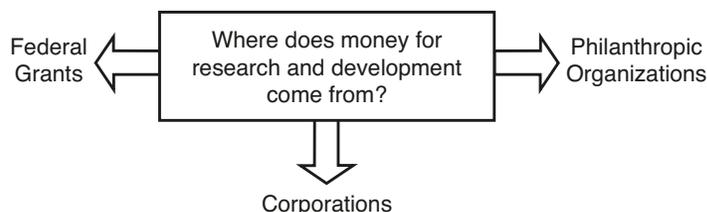
Researchers are currently collecting and analyzing the data from the most recent trials. The approval process waiting game is now in its final stages and will determine when, how, and in which direction the ECT implant research develops.

##### Profits versus Cure

The most difficult issue for many to accept is the chance that even though the ECT implants may show success in CHMers, funding is the bottom line for taking it to a commercial level. Medical manufacturing companies target a return of 6–7% profit. Most major corporations are focused on curing more “high-volume” (profitable) diseases such as Macular Degeneration (MD). About 1.75 million Americans have MD, and that number is expected to grow substantially with the increasing aging population. CHM affects only 1 in 58,000 people. Without hopes of a solid profit, companies tend not to pursue research and cures for most orphan diseases such as CHM. They typically receive little, if any, money from public/governmental sources. As a consequence, CHM research is mostly funded by parents, other loved ones, and umbrella organizations like the Foundation Fighting Blindness - [Blindness.org](http://Blindness.org) and the Choroideremia Research Foundation - [Choroideremia.org](http://Choroideremia.org).

Figure 6 graphically describes the funding sources that are necessary to bring a cure to market. Those who conduct medical research and the companies that produce medical cures are like any other business. They must conduct research and make products that are going to provide for reasonable profits. Orphan diseases rarely offer such possibilities.

**Figure 6**  
**Funding Investment**



## Conclusion

Hopefully in the future the FDA process will be accelerated, new funding will be found for orphan diseases, and we will all benefit from the miraculous findings of upcoming scientific research. When we look at the numerous research facilities sprouting wings in West Michigan, there is good reason for hope. ■

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## Real Estate Forecast *continued from page 8.*

there is a noticeable level of risk appetite returning to the market, and we anticipate increasing transaction volume in 2010. Obtaining financing will remain a challenge, and investors and sellers must continue a trend of exploring creative ways to complete transactions, such as assumption of debt, land contracts, and seller financing.

As anticipated there was an increase in the percentage of transactions that were completed by local investors. Investors are seeking opportunities to purchase distressed assets and are taking advantage of the price drops in the West Michigan market. Buyer activity can be expected to increase throughout 2010, as the national economy continues an improvement trend. There are distressed assets that well-capitalized investors with risk tolerance have begun to take advantage of. Local investors who understand the market will have increasing opportunity in 2010.

Cap Rates for properties that traded in 2009 have averaged 150 to 250 basis points higher than comparable sales in 2007. This equated to a 16 to 24 percent drop in value. While property values declined in 2009, it remained less than the national average of 40.6 percent. The primary reason for that disparity is that the local market did not hit the cap rate lows of the primary markets that generate much of the data. Additionally, this measurement did not include distressed assets, which have seen even greater price reductions. ■

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# Informed Employees—A Key Component to Benefit Plan Success

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**Author, *10 Steps to Financial Wellness***

**E**mployers throughout West Michigan continue to feel the crushing impact of rising healthcare costs. The cost of providing benefits to employees is one of the largest expenditures for organizations in the private and public sectors. For service-based entities, the cost of benefits can rank as the second highest expense behind payroll. Is your organization getting the most for its significant investment in group-sponsored employee benefits? With benefits consuming about 20% of total employee compensation nationally, it is essential to ensure that your group benefits are understood and valued by your workforce.<sup>1</sup>

Most organizations conduct their annual health and voluntary benefits open enrollment process during the last quarter of the calendar year. During this time, employees make annual elections for health insurance and make choices regarding voluntary benefits, including participation in flexible spending accounts. It's often at this time when employees consider their options involving their 401(k)-type savings plans. With rising benefits costs (especially for health insurance) and tight profit margins, businesses of all sizes are looking for ways to get the best value for the significant investment they make in employee benefit plans. **Figure 1-1** illustrates the cost for Average Annual Premiums for single and family health insurance coverage from 1999 to 2009. The cost increases are staggering for businesses of all sizes. Employee premium contributions during the same timeframe have also increased for single and family coverage, as illustrated in **Figure 1-2**.

Your employees will make better benefits choices through targeted communications and education. Focused benefits education and communications can boost employee participation in plan offerings and also elevate the value employees place on the overall benefits plan. The result of better benefit plan decisions by employees has both short- and long-term implications for the overall financial well-being of your workforce and can influence employee retention and productivity—two key metrics for the success of any organization.

## **Improving Benefit Plan Selection— A Look at Three Common Plan Options**

Selecting the right health insurance plan can be a daunting task. All health plans have unique guidelines and failure to follow the rules of the health plan can result in significant financial penalties, including denial of coverage for eligible expenses. If more than one health plan option is offered, you'll

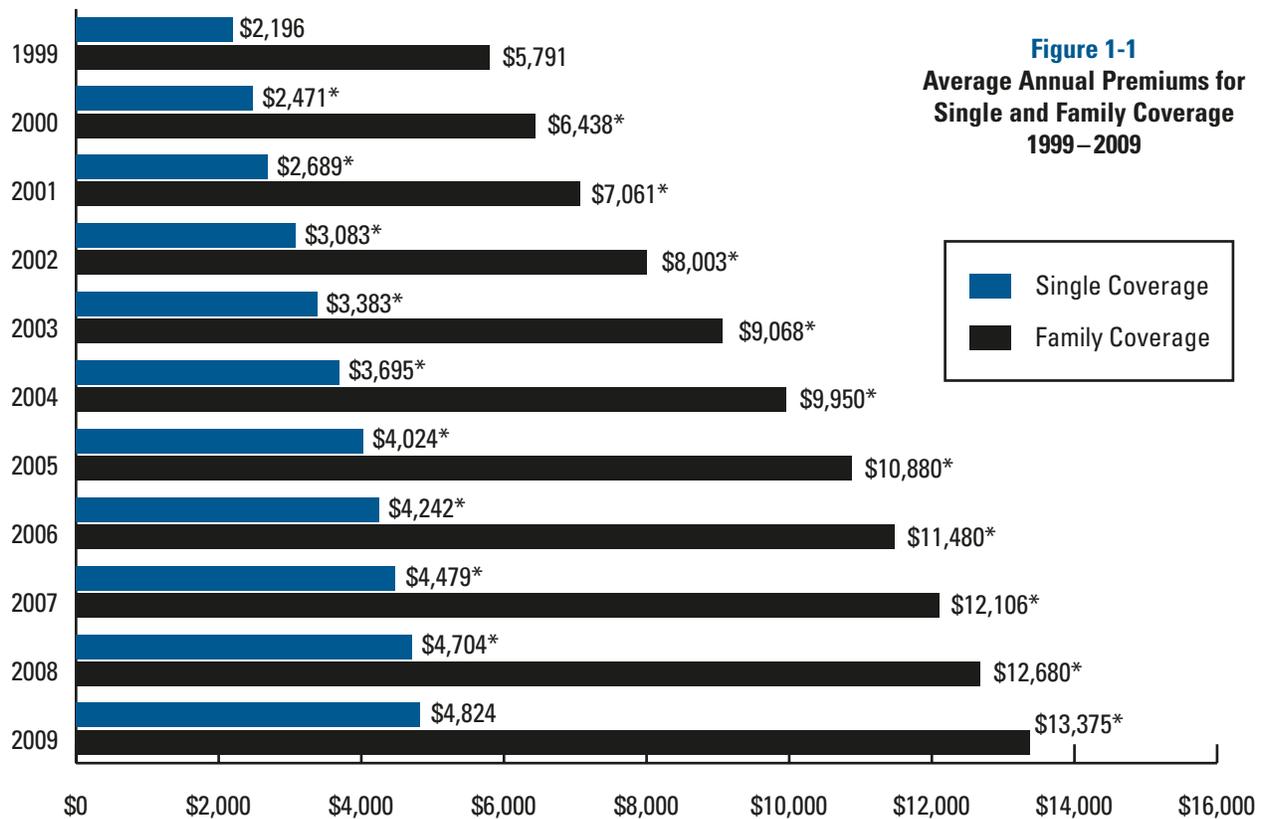
likely find significant opportunities to educate and engage employees on the unique features, benefits, and costs of each plan offered. Unfortunately, most employees don't start thinking about their health insurance choices until late in the open enrollment season. This can result in a misunderstanding of the health plan options and the selection of inappropriate coverage, resulting in dissatisfaction with the plan and the benefits provided.

Flexible spending accounts (FSAs) represent an attractive option for most employees to pay for qualified healthcare expenses on a pre-tax basis through the convenience of payroll deduction. These tax-advantaged plans are offered by employers to help employees pay for qualified medical expenses that are not covered or paid by the health insurance plan. They've been around since the late 1970s, but still are widely underutilized by employees to pay for qualified health care expenses like plan deductibles, copayments and certain over-the-counter medications. With a little planning, most employees will benefit from participation in an FSA, as all qualified expenses are paid with pre-tax dollars that are not subject to federal, state, and FICA taxes. But, only about 20% of all eligible employees choose to participate in these plans, largely due to misunderstanding of plan rules, including the fear of losing the money set aside if it is not used during the plan year for qualified expenses.

The days of the one-size-fits-all defined benefit pension plans are a distant memory for most employees in the private sector. Increasingly, employees will need to rely on the amount they set aside in defined contribution, 401(k)-type pension plans for funding expenses in retirement. If your organization offers a 401(k)-type plan, you'll probably find that a significant percentage of your eligible employees either don't participate or they "under-participate" by not saving at least the amount that meets the full employer matching contribution. Take a look at how your employees actually invest their money in the plan. Your plan administrator should provide you with reports that will give you an overview of aggregate plan investment choices. A review of the data will likely indicate an opportunity for employees to improve on both their ongoing plan contributions and their asset allocation decisions. Proper asset allocation is a key strategy for reducing risk and maximizing long-term investment returns. All employee plan participants will benefit from a basic understanding of proper asset allocation in their 401(k)-type plan. Make sure your education efforts focus on this critical area.

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<sup>1</sup> Employee Benefit Research Institute, Databook on Employee Benefits, Chapter 2, Updated September 2009, [www.ebri.com](http://www.ebri.com).



**Figure 1-1**  
Average Annual Premiums for  
Single and Family Coverage  
1999–2009

■ Single Coverage  
■ Family Coverage

\*Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2009.

### Ideas for Boosting Employee Benefits Education

The good news for employers is that meaningful employee financial education focused on understanding and utilizing available benefit plan offerings does not need to be expensive. It will require time, some analysis of plan data, and prioritization—but the upside for enhancing the knowledge your employees have in selecting and using eligible benefits can be well worth the effort. Here are some benefit plan ideas to help you evaluate how your education and communication efforts can be targeted to improve your employees’ understanding and use of company-sponsored benefits:

**Health Insurance Plan Options**—work with your health benefits agent and your insurance carrier to ensure that a comprehensive communication plan is established to explain health plan options to employees. Most employers offer two or more health plan options, and employees should understand how the plans function and the unique rules, limitations, and potential out-of-pocket expenses of each plan. Informed employees will make better health plan elections, which should serve to enhance their satisfaction with the selected health plan.

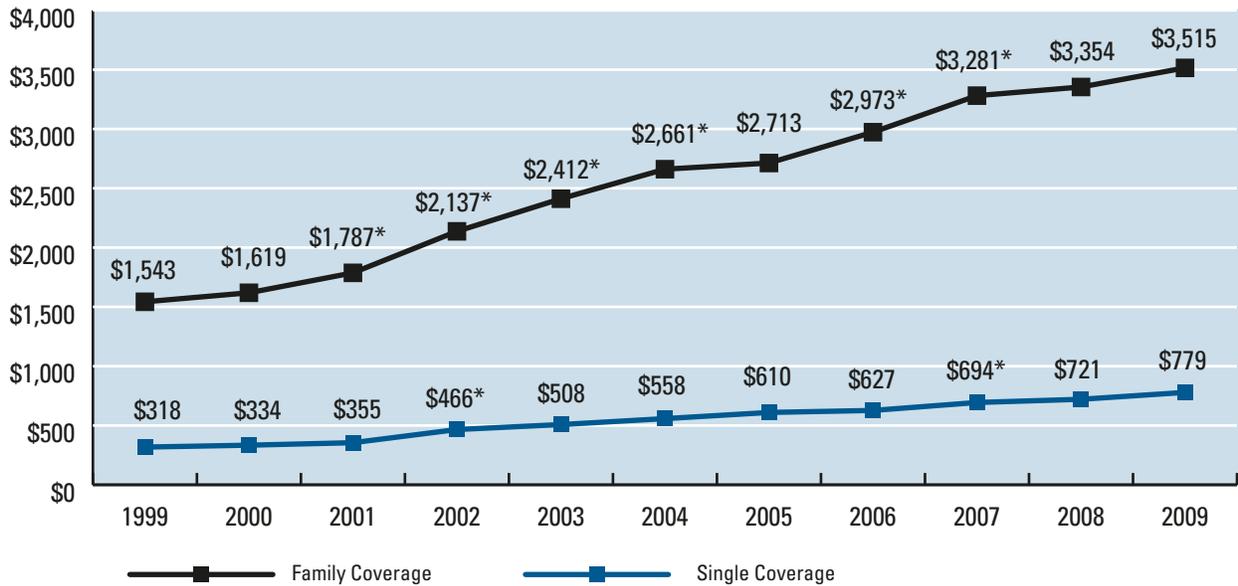
**Potential Action Steps:** Meet with your health benefits agent to plot a strategy for communicating key health plan concepts, well in advance of the annual open enrollment period. Since most employers require employees to contribute to the cost of their health insurance plan, make sure that employee premium contributions for higher deductible plans are significantly lower than required employee contributions

for lower deductible plans. By doing this, you’ll provide a financial incentive for employees to take on the additional risk of paying more for covered medical expenses. **Here’s a bonus item!** Consider working with your leadership team and your benefits advisors to put together a three-year plan for the annual changes you’ll likely need to make in your health insurance plan and 401(k)-type plan offerings. This planning should pay huge dividends by providing a road map for the communication and education steps you’ll need to take to get your employees to understand and prepare for the changes in plan design that will be needed to keep your benefit plan economically viable.

**Flexible Benefit Plan (FSA) Participation**—determine the percentage of eligible employees who participate and look at the average amount of dollars participating employees set aside. You’ll find that opportunities will be abundant to demonstrate measurable improvement in both participation and increased annual plan contributions.

**Potential Action Steps:** Examine current employee education efforts. Consider having your FSA vendor conduct on-site meetings to explain the benefits of participation. Also make sure that you distribute easy-to-read materials that explain the benefits of participation. Consider the addition of a 90-day grace period following the close of the plan year to give employees the opportunity to spend any unused funds to avoid the penalty associated with the “use-it-or-lose-it” provision of FSA plans. Set a goal of increasing both participation in the plan and the average dollar amount set

**Figure 1-2**  
**Average Annual Worker Premium Contributions Paid by Covered Workers for**  
**Single and Family Coverage, 1999–2009**



\*Estimate is statistically different from estimate for the previous year shown ( $p < .05$ ).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2009.

aside to fund eligible expenses. Targeted employee education can have a material impact on participation and employee contributions to the plan.

**401(k) Plan Options**—for most of your employees, the amount they accumulate in this account will be the most significant financial asset they possess for paying ongoing retirement expenses. Getting employees engaged in the 401(k)-type plan is essential for their long-term financial well-being.

**Potential Action Steps:** Review your current plan with your benefits advisor. Make sure that your plan offers sufficient choice in domestic and international mutual funds for equities and prudent fixed-income options. Consider the addition of target date or asset allocation funds to provide an easy way for employees to choose an investment that is suitable for their age and expected date of retirement. Work with your benefits advisor and your plan administrator to establish a strategy for comprehensive plan education for your employees. Make this information available throughout the year and consider on-site sessions to educate employees on the importance of participation and how investments can grow over time. Also take stock in your matching contributions. Immediate vesting of employer contributions provides a powerful incentive for participation. Consider automatic enrollment of current employees and new hires in your 401(k)-type plan. The Pension Protection Act of 2006 provides guidance for employers on how to implement the automatic enrollment option. Be sure to consult with legal counsel before implementing this option.

### The Value of Targeted Benefits Education

Employer-sponsored benefits represent a significant cost to the organization for the direct benefit of its employees and their dependents. Benefits offered represent a powerful recruiting, retention, and productivity resource for organizations. An engaged and productive workforce is a critical element for sustaining the success of your business and is an essential component in building a sustainable competitive advantage in any industry. Take the opportunity to leverage the power of targeted employee benefits education to enhance the value of your benefits plans. ■

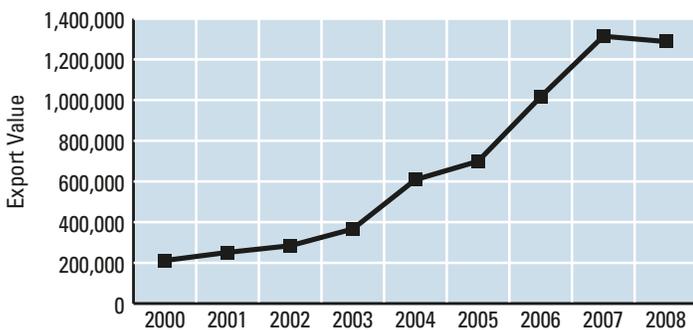
# Michigan Has New Opportunities in China

Wei Sun, Assistant Professor of Economics, and  
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Michigan has new opportunities for creating a vibrant export sector with China. Since Michigan's manufacturing sector is experiencing tough times, this new opportunity presents many challenges and rewards. Particularly for West Michigan the new opportunities for trading with Asia should be capitalized by pragmatic long-term strategies.

Over the past thirty years, China has grown into a new economic power, with an average annual growth rate of 9.8%. According to the International Monetary Fund's latest World Economic Outlook report, in 2008 China's GDP reached 4.33 trillion U.S. dollars, about 7.6% of the world total. China may overtake Japan to become the second largest economy in 2011. China is the world's second largest international trader. In 2008, its imports were 1.13 trillion U.S. dollars, about 55 times the amount of 1978. China is the largest trading partner for many countries, including Japan, Australia, and South Korea, and a major trading partner for many, including the U.S. and the E.U. It is becoming apparent that China has played an increasingly important role as both a stabilizer and a stimulator for the world economy.

**Figure 1**  
Michigan Exports to China, 2000–2008, in Thousands of Dollars



Source: Department of Commerce, [www.commerce.com](http://www.commerce.com)

Michigan has experienced an increasing momentum in business relationships with China in the past decade. As can be seen in Figure 1, Michigan's annual exports to China increased from about \$200 million in 2000 to \$1.29 billion in 2008, an average annual rate of increase of 26.8%, outpacing the 20.2% average annual rate of increase of the U.S. total (see Table 1A). The importance of the Chinese market has

**Table 1**  
Michigan Exports to China and Miscellaneous Information  
2005–2008

	2005	2006	2007	2008
Michigan population as a share of U.S. total	3.4%	3.4%	3.3%	3.3%
Michigan GDP as a share of U.S. GDP	3.1%	3.0%	2.9%	2.8%
Michigan exports to China as a percentage of U.S. total exports to China	1.7%	1.9%	2.1%	1.9%
Michigan total exports as a percentage of total U.S. exports	4.2%	3.9%	3.9%	3.5%
Michigan exports to China as a percentage of total state exports worldwide	1.8%	2.5%	2.9%	2.9%

Source: Bureau of Economic Analysis, [www.bea.gov](http://www.bea.gov); U.S. Census Bureau, [www.census.gov](http://www.census.gov); and authors' calculation.

increased, reflected by an increase in Michigan's exports to China as a percentage of total state exports worldwide from 1.8% in 2005 to 2.9% in 2008 (see Table 1). China has been Michigan's fifth largest export market for 2005, 2006, and 2008, and third largest for the year 2007 (see Table 2A).

Michigan's exports to China are dominated by industrial manufacturers, consistent with the state's tradition of being the manufacturing base of the country. Table 2 shows the value of Michigan exports to China by the top five sectors. Michigan's exports to China are tilted toward transportation equipment, which accounted for 33.6% in 2008. This is due to Michigan's unique advantages as the origin and center of the U.S. automobile industry. In recent years, the Big Three of Detroit have achieved some business success in the Chinese market. Ranked second and third are machinery manufacturers and chemical manufacturers, which accounted for 14.5% and 12.4%, respectively, of total Michigan exports to China. This finding is promising. As the world's manufacturing center itself, China still absorbs a great deal of Michigan exports of industrial manufacturers, suggesting there is still plenty of room for Michigan to explore in areas that are complementary to China's own production capacity.

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Acknowledgment: The authors would like to thank the staff at the Michigan Small Business & Technology Development Center at GVSU for their efforts in assisting with data, and Dr. Hari Singh of the Economics Department for his helpful comments on this paper.

**Table 2**  
**Michigan Exports to China by Top 5 Sectors, 2007–2008**

2008 Rank	Sector	2007	2008	Percent of total for 2008
	Total value (in thousands of dollars)			
		1,313,683	1,287,602	
1	Transportation Equipment	586,695	432,541	33.6%
2	Machinery Manufacturers	127,335	186,639	14.5%
3	Chemical Manufacturers	148,234	159,142	12.4%
4	Waste & Scrap	138,837	134,009	10.4%
5	Primary Metal Manufacturers	86,333	129,480	10.1%
	All Others			19%

Source: Department of Commerce, [www.commerce.gov](http://www.commerce.gov), and authors' calculation.

A closer look at the data indicates that Michigan can achieve more in the Chinese market. In 2008, U.S. exports to China increased 10.8%, while Michigan's exports to China decreased 2%. As can be seen in Table 1, for the period of 2005–2008, Michigan's GDP takes an average of around 3.0% of the U.S. total, while Michigan's exports to China as a percentage of the U.S. falls short, ranging from 1.7% to 2.1%. This measure also falls short of Michigan's total exports worldwide as a share of the U.S. total exports, with the latter ranging from 3.5% to 4.2% for the corresponding period. Michigan ranks 14 among the 50 states in exports to China, trailing states like California and Texas, or Illinois in the Great Lakes region. All this suggests that much still can be done.

China's economic rise provides plenty of opportunities for the world, and Michigan too. Under the globalization trend, whether Michigan can quickly capture business opportunities in this increasingly integrated world is a key to the revival of the state economy. There are favorable domestic factors in China that may encourage expansion of Michigan's exports. First, China is undergoing deep structural changes in the upcoming years, pursuing technological enhancement in most manufacturing industries, for which Michigan has the talents and resources. Second, the 2008 financial crisis has triggered the Chinese government to move faster toward a policy focusing more on domestic consumption than on exports. These policies will help unleash the great consumption

potential of the Chinese households. Third, with \$2.27 trillion in foreign reserves, about 16.7% of the U.S. GDP in 2008, the Chinese government will spend more on imports that will help enhance the living standards of the Chinese people.

In particular, opportunities may lie in the following areas. In the commodity trade area, Michigan has a lot of advantages. First, Michigan should secure its position in its traditionally strong areas, such as the auto industry and machinery and chemical manufacturers. Michigan has a well-established auto industry compared to the relatively young auto industry in China. In recent years, the Chinese government has provided strong policy support for the growth of the auto industry.<sup>1</sup> In the first ten months of 2009, total auto sales in China reached 10.9 million. Total sales for the year are expected to reach 13.8 million, according to FOST's latest forecast.<sup>2</sup> Furthermore, the growth of auto consumption in China is still at its initial stage, and the Chinese auto market will keep expanding for many years. However, China's auto industry faces a need for a full-fledged upgrade to catch up with the world's quality standard. As the origin and manufacturing base of the U.S. auto industry and the center for research and development, Michigan can seize the opportunities and play an important role in this process.

Under the backdrop of the financial crisis in 2008, the Chinese government put forth a sizable economic stimulus package of 4 trillion Renminbi (\$586 billion) to be used to improve infrastructure building, with an emphasis on the rural areas. Within this framework are plans for environmental recovery and preservation, new energy, and modern agriculture.<sup>3</sup> We can expect that these three areas will be given priority even beyond the stimulus plans. Given Michigan's prior experience and continuing innovation in these areas, Michigan can pursue these opportunities more aggressively.

There is also great potential in attracting China's outward Foreign Direct Investment (FDI). In recent years, China's FDI abroad has increased exponentially, from \$2.7 billion in 2002 to \$41.9 billion in 2008. China's FDI in the U.S. was only \$1.24 billion in 2008.<sup>4</sup> Chinese companies are now starting to explore overseas development opportunities. Just like Japanese and Korean companies, Chinese companies are much more likely to invest in the U.S.

Education and tourism industries also provide good opportunities. Economic success in China has generated a large number of financially successful families. These families like to send their children to study abroad and see the world. Their first preference is always the U.S. According to the 2008

<sup>1</sup> See the Auto Industry Revitalization Plan of 2009, within the framework of the 2009 economic stimulus package, [http://www.gov.cn/zwqk/2009-03/20/content\\_1264324.htm](http://www.gov.cn/zwqk/2009-03/20/content_1264324.htm).

<sup>2</sup> FOST, Beijing Fost Economic Consulting Company, [www.fostecon.cn](http://www.fostecon.cn).

<sup>3</sup> Refer to Ten Measures to Boost Domestic Demand, published by the Central People's Government of the People's Republic of China, 11/2008, [http://www.gov.cn/ldhd/2008-11/09/content\\_1143689.htm](http://www.gov.cn/ldhd/2008-11/09/content_1143689.htm).

<sup>4</sup> Source: Ministry of Commerce of the People's Republic of China, [www.mofcom.gov.cn](http://www.mofcom.gov.cn).

annual report of the Institute of International Education, 81,127 Chinese students enrolled in U.S. colleges and universities in 2008, among which 2,937 came to Michigan, about 3.6% of the total.<sup>5</sup> In the past four years, the number of Chinese tourists to the U.S. almost doubled, increasing from 325,900 in 2004 to 632,300 in 2008. However, reliable data showed that the number of overseas visitors to Michigan declined from 494,000 in 2000 to 325,000 in 2005.<sup>6</sup> With Michigan's world class educational and tourism resources, attracting more Chinese students and tourists is achievable.

Many states have already taken the lead to explore business opportunities in China, including California, Colorado,

Kentucky, Minnesota, Nevada, Oklahoma, Tennessee, Virginia, and Wisconsin, to name a few. Governors of these states have sent business delegations to China in the past two years to meet with government officials and business leaders, to strengthen economic connections and start new businesses. Michigan should develop a viable long-term strategy to increase its export share in the markets we have discussed. West Michigan in particular has a more business-friendly climate that can potentially attract tourism and investments from China. ■

## Appendix

**Table 1A**  
Michigan and U.S. Exports to China, 2000–2008  
(in thousands of dollars)

Year	Michigan Exports to China	Annual Rate of Growth	U.S. Exports to China	Annual Rate of Growth
2000	211,629		16,185,276	
2001	251,283	18.7%	19,182,333	18.5%
2002	284,029	13.0%	22,127,790	15.4%
2003	366,359	29.0%	28,367,943	28.2%
2004	608,845	66.2%	34,427,772	21.4%
2005	699,245	14.8%	41,192,010	19.6%
2006	1,015,969	45.3%	53,673,008	30.3%
2007	1,313,683	29.3%	62,936,892	17.3%
2008	1,287,602	-2.0%	69,732,838	10.8%
<b>Average</b>		<b>26.8%</b>		<b>20.2%</b>

Source: U.S. Department of Commerce, [www.commerce.gov](http://www.commerce.gov), and authors' calculation.

**Table 2A**  
Michigan's Top 5 Export Markets, by Value of Exports  
(in millions of dollars), and Share of the State Total

Rank	Country	2005	2006	2007	2008
1	Canada	22,851 60.4%	23,910 59%	25,817 57.9%	24,073 53.3%
2	Mexico	4,220 11.1%	4,656 11.5%	5,206 11.7%	6,415 14.2%
3	Germany	1,058 2.8%	1,179 2.9%	1,267 2.8%	1,562 3.5%
4	Japan	1,072 2.8%	1,105 2.7%	1,308 2.9%	1,438 3.2%
5	China	699 1.8%	1,016 2.5%	1,314 2.9%	1,288 2.9%
	Rank of China	5	5	3	5

Source: U.S. Census Bureau, [www.census.gov](http://www.census.gov), and authors' calculation.

<sup>5</sup> Source: Institute of International Education, <http://opendoors.iienetwork.org/>.

<sup>6</sup> Source: Department of Commerce, Office of Travel and Tourism Industries, <http://tinet.ita.doc.gov/>.

# Unemployment and Property Crime in West Michigan

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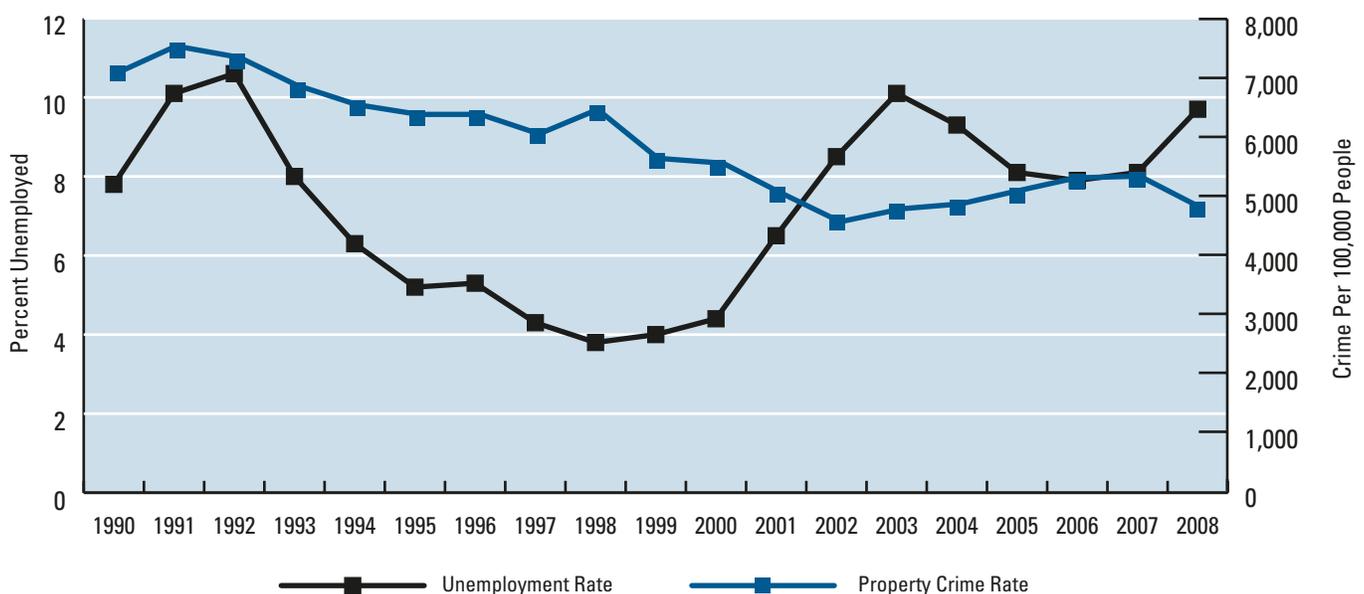
Reports on the Michigan economy have been dismal over the past few years. The unemployment rate in the state reached 15.3% in September 2009 (Bureau of Labor Statistics (BLS), 2009), aggravated by the downturn of the auto industry and the recent nationwide economic crisis. Although West Michigan has been considered by many as an economic bright spot in the state, the region has also experienced the effects of the rough state and national economy. In the same period, the unemployment rate in the Grand Rapids-Wyoming metropolitan area (Barry, Ionia, Kent, and Newaygo Counties) was 11.9%, which is well above the 2.5% rate seen 10 years ago at the end of 1999 (BLS, 2009).

Unemployment puts many strains on individuals and families, but it might impose yet another cost on society: increased crime rates. While results of studies have differed with regard to the extent of this effect and whether all types of crimes are affected by unemployment, there is evidence of the relationship between crime and economic activity. The hypothesis that criminal behavior responds to economic incentives was formalized by Nobel Prize-winning economist Gary S. Becker, 1968. According to this view, because the ability to earn income from legitimate activities is reduced in a poor labor market, some people resort to criminal means to support themselves and/or their families. On the

other hand, legitimate labor opportunities generally make crime less attractive because someone who is gainfully employed has more to lose in case of imprisonment. Since unemployment affects the financial motivations to commit crime, it should disproportionately affect property crime as opposed to violent crime rates.

While numerous studies have found evidence of an effect of unemployment on crime, there is no consensus on whether this effect exists and, if so, its size. Skeptical authors suggest that unemployment reduces the availability of easy targets, while others point to problems in the measurement of both crime and unemployment rates (doubting views are surveyed by Chiricos, 1987). Indeed, some of the recent academic studies fail to find a clear relationship between unemployment and crime. However, most find at least a weak positive relationship, suggesting a 1 to 2% increase in property crime rates for a 1% increase in unemployment rate, (Most studies do not find significant effects of unemployment on violent crime.). There are exceptions, however, that suggest a stronger relationship, Lin, 2008, finds a 4 to 6% increase in property crime rates for a 1% increase in the unemployment rate during 1974–2000 in the U.S. Variations in estimated effects are due to differences in statistical methods or the use of data for different periods or regions.

**Figure 1: Unemployment and Property Crime Rates in Grand Rapids, MI**



Sources: Local Area Unemployment Statistics (BLS, 2009) and Uniform Crime Report (FBI, 2009).

Looking at the period of 1990–2008, the major West Michigan cities (Grand Rapids, Holland, and Muskegon) have experienced similar trends in crime and unemployment rates (see Figure 1 for Grand Rapids). Overall, both crime and unemployment rates fell during most of the 1990s, but unemployment rates began to increase in the late 1990s. Property crime rates stopped falling in 2003. Thus, one could conclude that the decrease in property crime rates in the 1990s was related to the declining unemployment rates, while the slight increase in crime rates after 2002 was related to the rising unemployment rates in the 2000s. However, it is not possible to determine whether unemployment affects crime by just comparing the trends for these two variables because many other factors affect individuals' decisions to commit crime.

**Table 1**  
**Crime Rates Per 100,000 People in Major West Michigan Cities**

		1990	2000	2005	2008
<b>Grand Rapids</b>	property crime	7072.0	5475.7	5000.7	4769.1
	burglary	1979.1	1320.5	1043.7	1183.9
	theft	4303.0	3720.4	3610.3	3350.7
	motor vehicle theft	789.9	434.8	346.7	234.6
	robbery	360.1	300.3	345.2	397.2
<b>Holland</b>	property crime	4696.7	3897.5	3398.4	3563.2
	burglary	429.3	413.7	589.0	549.1
	theft	4104.7	3321.2	2696.8	2919.6
	motor vehicle theft	162.6	162.6	112.6	94.5
	robbery	16.3	22.8	23.1	67.9
<b>Muskegon</b>	property crime	10125.9	7829.4	7044.8	6020.0
	burglary	2658.7	1580.9	1307.9	1439.5
	theft	6945.9	5181.4	5141.7	4216.8
	motor vehicle theft	521.3	1067.2	595.2	363.7
	robbery	320.2	204.5	247.6	256.9

Note: The property crime rate is the sum of burglary, theft, and motor vehicle theft rates. Robbery is counted as violent crime in the FBI Uniform Crime Report. Source: Uniform Crime Report (FBI, 2009).

Although all three cities mentioned have similar crime rate trends, actual rates differ as do demographic characteristics. Table 1 shows differences in crime rates across cities and time, while Table 2 shows how these cities differ in some of the demographic aspects that might influence crime. For example, the higher crime rates in Muskegon might be explained by lower median household income, lower levels of education, greater proportion of males and people in minority groups, and higher rate of single parenthood rate. In fact, studies have shown that young males are more likely to be involved in crime, and education reduces the benefits from crime (likely because it increases the ability to earn income from legitimate sources). Peer effects among racial or cultural groups and family structure can also affect children's moral values and discipline, thus affecting crime rates. A more detailed review

of how demographic characteristics might affect crime is provided by Levitt (2004).

To better understand how unemployment has affected crime in West Michigan (and thus to better predict whether increasing unemployment might lead to higher crime rates), we performed a statistical regression analysis using annual unemployment and crime data available for 55 Michigan cities during the 1990–2008 period (data from BLS, 2009; FBI, 2009; and U.S. Census Bureau, 2009b). Considering the demographic factors that might affect crime (Table 2), our analysis indicates that unemployment had a negligible effect on four types of property-related crime for which data is available (burglary, theft, motor vehicle theft, and robbery). One possible explanation for the weak relationship between unemployment and crime rates is that the duration of unemployment is more significant than the level of unemployment. Moreover, government and community programs (unemployment insurance, welfare programs, food pantries, etc.) might help attenuate the income needs of unemployed workers

It is also important to note that our analysis is based on unemployment, crime, and demographic data observed in Michigan cities in the last two decades. The relationship between unemployment and crime might change over time. On the other hand, cities differ on other factors that can affect crime but that are not accounted for by demographics (community organization, efficiency of the local police agency, and alcohol and drug consumption). These differences might impact the actual effect of unemployment on crime in each city. While effects are negligible on average, they might be relevant for some cities. For instance, the Grand Rapids Police Department (2009) announced that there was a 4% increase

**Table 2** City Demographic Characteristics (2006–2008)

	Grand Rapids	Holland	Muskegon
Population	187,695	32,259	41,085
White	69.1%	80.7%	59.6%
Black or African-American	22.0%	2.9%	35.4%
Hispanic	16.2%	24.7%	8.0%
Male	49.0%	47.5%	53.5%
Age 15–19	7.7%	9.0%	6.4%
Age 20–34	26.0%	26.1%	26.0%
Age 35–59	30.8%	27.9%	32.3%
Age 60 or older	14.4%	17.0%	14.4%
Median household income	\$39,269	\$44,935	\$27,241
BA or higher degree*	27.2%	28.3%	20.6%
No high school diploma*	18.7%	16.4%	9.5%
Single parent family**	44.0%	24.1%	52.6%

\* Among adults 25 years or older.

\*\* Among families with children under 18 years.

Source: 2006–2008 American Community Survey (U.S. Census Bureau, 2009a).

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in the number of burglaries in the first six months of 2009 compared to 2008; robberies, on the other hand, actually decreased by 31% while the average unemployment rate in the city went up from 8.7 to 14.7%. In comparison, the Kalamazoo, Michigan Department of Public Safety reported a 42% increase in the number of recorded burglaries and a 4% decrease in the number of robberies in the same period (Liberty, 2009). In Kalamazoo, the average unemployment rate increased from 7.8 to 13.2% in that period (BLS, 2009).

In conclusion, despite the lack of definitive evidence that unemployment affects crime, we cannot rule out the possibility that property crime rates might increase during the current economic downturn. Crime can affect not only the financial and emotional lives of the population, but also the quality of life and business activities in the neighborhoods. **In bad economic times, general frustration can fuel crime which is hard to capture with objective data. Moreover, unemployment rates and crime might have a slow-moving lag relationship that is difficult to capture in a short period.** Having a better understanding of the predictors of crime can facilitate the development of effective solutions. ■

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