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May 08, 2011 8:00 PM

Digital reside: IT firms grow in W. Michigan; incentive to set roots mostly not from government

By Matthew Gryczan

When Nathan Garrett is asked whether he received any government help to launch his growing reverse-engineering company in metro Grand Rapids, he says with a laugh: "Yeah, an unemployment check."

For the 34-year-old entrepreneur -- laid off from a Plymouth design house in 2008 -- the real incentives to build **Cruxtone Product Development** from scratch and keep it in West Michigan have little to do with tax abatements or abundant venture capital. They have everything to do with his wife and three young children, a desire to own a business and the beauty of Michigan.

And while the experiences of other information-technology entrepreneurs like Garrett aren't identical, they have much in common.

In West Michigan, IT entrepreneurs -- loosely defined as those involved in Web, software and graphic design; smartphone apps; Internet services; and telecommunications -- have grown in number and size during the Great Recession. And in the hope of growing further, many have hung out digital help-wanted signs.

They've located in West Michigan because they love the area, despite the universally reviled Michigan Business Tax and largely without help from state or local governments. That's in contrast to film industry gypsies who are leaving the state as generous tax credits evaporate.

When it comes to making business contacts, those starting new companies are more likely to bend their elbows at local microbreweries and coffeehouses than at golf courses and country clubs. They're even founding their own business networks -- **aimWest**, **SoftwareGR**, **LinkedUp** -- that rely on social networks such as Twitter to replace more traditional organizations.

As a whole, information-technology companies say they haven't expected the economic incentives offered by the state of Michigan to foster the growth of targeted industries such as alternative energy and homeland security. And many seem reluctant to accept venture capital with its potentially long strings attached.

But those in the IT industry say they are owed one thing: respect.

COURTESY OF ATOMIC OBJECT INC.

With about \$4 million in revenue last year, the "software craftsmanship" firm Atomic Object Inc. is among the metro Grand Rapids tech companies that grew during the recession.

Starting a Startup

- What: Michigan Lean Startup Conference
- When: 8 a.m.-5 p.m. May 19
- Where: Eberhard Center, Grand Valley State University, Grand Rapids
- Cost: \$150 plus \$9.24 fee to register online.
- For whom? The event is for anyone who wants to learn about lean startup principles from experts including Eric Ries, author of *The Lean Startup* and the blog "Startup Lessons Learned"; Dan Martell, co-founder of *flowtown.com*; Rob Walling, author of *Start Small, Stay Small: A Developer's Guide to Launching a Startup* and the blog "Software By Rob"; and Brant Cooper and Patrick Vlaskovits, co-authors of *The Entrepreneur's Guide to Customer Development*.
- For information or to register: momentum-mi.com/lean-conference

"I'd like some visibility for our industry," says Carl Erickson, 49, co-founder and president of **Atomic Object Inc.** in Grand Rapids. "Just the recognition that what we do is important, that it matters because of how we are helping **Gentex** and **X-Rite** and other companies to do what they do."

Erickson's company, which posted revenue of about \$4 million last year, uses sophisticated techniques to concurrently write and test software used by customers ranging in size from Fortune 500 companies to startups. He calls what his company does "software craftsmanship."

Statewide, employment in IT is a force to be reckoned with. The **Michigan Department of Technology, Management and Budget** estimates that more than 200,000 individuals are employed in IT positions as direct employees or employees of vendors. The **U.S. Bureau of Labor Statistics** reports that Michigan had about 48,200 employees working in IT companies statewide in February. About 2,200 IT companies in West Michigan, ranging in size from one to 500 employees, provide an aggregate employment of roughly 14,000.

In recognition of its importance, Gov. Rick Snyder last week signed into law changes to the **21st Century Jobs Fund** to now include IT and agricultural processing among targeted competitive edge sectors in addition to alternative energy, life sciences, homeland security and defense, and advanced manufacturing and materials.

"Michigan has a long history as a technology leader in our nation, and while we have put focus on other industries, our information-technology sector is vital to building Michigan's competitive position in the global economy," says Michael Finney, president and CEO of the **Michigan Economic Development Corp.**

The Bureau of Labor Statistics estimated that computer systems design and related services will be among the fastest-growing industries in the state's economy over the next eight years, expecting to grow 34 percent from its 2008 level.

Michigan State University researcher Diane Doberneck tried to get a fix three years ago on how state and local economic development agencies could help foster the growth of so-called knowledge-economy businesses, which included information communication technology and high-tech manufacturing.

"The best way to find out what was going on was to use snowball sampling -- asking one company to name others that are in the industry," says Doberneck, whose team interviewed 15 knowledge-economy businesses in metro Grand Rapids, greater Lansing, and Port Huron and St. Clair County.

When the research was compiled, it turned out Michigan stacks up well against other states for reasons to locate here. And government incentives and economic development activities played little part in attraction and retention.

"Most of the knowledge-economy businesses were established in Michigan by Michigan entrepreneurs because the founders and owners liked living in Michigan," Doberneck wrote in the report. "They, their spouses or their parents were from the state, and their pride of place is palpable."

Although incentives were not a factor, Doberneck found other tangible business reasons, particularly for information-communication companies. Among them were the relatively low cost of living; the low cost of power, which can be significant for tech businesses with six-figure electricity bills; cooler summers that translate into lower air-conditioning costs; relatively low risk of natural disasters; and good response times of computer servers to both coasts.

A thirst for lake living

Many in the report cited quality of life as a major advantage for Michigan, and entrepreneurs in the Grand Rapids area agree.

"You can live on the lakeshore and get to Grand Rapids in half an hour," says Cliff Wegner, 31, a native of Lansing who in 2007 launched **Mighty Co.**, a website development company in Grand Rapids that now has five full-time employees. He says amenities such as proximity to Lake Michigan are helping the area establish itself as a technology, art and design center.

"We've gone out to conferences where people say: 'Oh, Grand Rapids. You've got a lot of developers over there, you've got a lot of designers over there,' " Wegner says.

Cruxtone Product Development was born during the recession, the result of Garrett's being laid off from his job at a Plymouth design house in 2008. His decision to locate in Grand Rapids was partly based on the facts that his wife is from Kentwood and the quality of life suits him well.

Says Garrett: "They've invested a lot of money in walking and biking trails around here. We can go for 25 miles on our bikes just starting from Kentwood."

With two profitable years under his belt, Garrett just brought on his first full-time employee to help perform design services and reverse engineering -- where Cruxtone creates digital files of military and commercial parts so they can be replicated.

Garrett thinks he is perfectly positioned to help companies as the economy steadily improves, because he can perform work using expensive and sophisticated software packages to translate customer data and sketches into intelligent and useable digital models. And he can perform this work using a network of independent contractors in the area who are familiar with software design.

Larry Andrus sees better times ahead for IT companies because customers want to reach their data "anytime, anywhere and with any device." He says the technology sector is a leading economic indicator, often moving six to nine months ahead of the general economy.

"Our pipeline of opportunities is as robust as probably about mid-2008," says Andrus, 60, CEO and partner in **Trivalent Group Inc.** in Grandville, west of Grand Rapids. "But it's taken a longer sales cycle for us to get there this time."

Andrus has just overseen the eighth acquisition of a company by Trivalent, which staffs offices in Mount Pleasant, Portage and Battle Creek and data centers at its headquarters and Portage, just south of Kalamazoo.

With its most recent acquisition -- **Innovative Software** in Battle Creek -- Trivalent has about 65 full-time employees and expects to post revenue exceeding \$22 million this year. The company offers services ranging from help-desk support and network design to data storage and communications.

Andrus, a local dean of the knowledge economy and a native of Sparta, north of Grand Rapids, started his career in the 1970s with **Burroughs Corp.**, moving up the ranks to become vice president of the Midwest region.

"But I got tired of the constant travel, and I had an itch to be an entrepreneur, so I ended up acquiring the original Trivalent in 2002," Andrus said.

Who needs Chicago?

Andrus sees growth in the number and size of IT companies in West Michigan, and he chalks it up to a combination of several factors.

"When I was a young man working in the computer industry in the '70s and early '80s, the place to go was Detroit or

Chicago," says Andrus. "But Grand Rapids is now offering a lot of the same lifestyle choices now -- theater, professional sports, entertainment -- that you previously had to live in a much bigger market to enjoy."

In her study, Doberneck found that knowledge-economy entrepreneurs who did not have families said they decided to locate in an area based on a vibrant downtown, alternative entertainment and a creative arts scene.

Wegner and others say metro Grand Rapids seems to have reached a critical mass over the past decade in meeting those criteria.

"**ArtPrize** is an example of Grand Rapids as a community saying that we don't have to leave Grand Rapids to be in a tech-design environment," Wegner says. "I love art, and I love technology, and they put those things together for this experimental thing called ArtPrize."

The ArtPrize contest, launched in 2009, awards the world's largest cash purse to artists based on a vote of the public.

Meredith Bronk, COO of **Open Systems Technologies**, says her company has attracted and retained top talent in computer applications in part because of Grand Rapids' vibrant local tech-arts-design community.

OST -- which helps companies in the health care, manufacturing, distribution, financial and insurance industries manage their data -- has hired seven employees since January. Bronk expects to employ at least 80 full-time people and reach revenue between \$75 million and \$80 million by the end of the year. The company reported revenue of just over \$55 million in 2010, a nearly 62 percent increase over the prior year.

"I read a statistic the other day that Michigan has one of the highest rates of college graduates leaving the state after graduation," Bronk says. "And while I don't have any reason not to believe it, I have people who don't live in the area contact me clamoring to get back on a weekly basis. There are a lot of people -- especially ones who are from here -- who want to get back."

Making room for those new employees has presented some challenges for OST. The company is renovating about 5,000 square feet on the third floor of its signature building, located prominently along I-196 on the northwest side of Grand Rapids, where it already leases 10,000 square feet.

Like Bronk at OST, Erickson says he also has to make sure he maintains the corporate culture as Atomic Object grows.

"There was a point where I thought that we couldn't grow past 20 people," says Erickson, a former computer science professor at **Grand Valley State University** who launched the company in 2001. "But we added two individuals with the upfront work -- business development and sales, strategic planning -- and now I have a team of three people doing that with the support person. That let us get up to 30 people."

Atomic Object -- which designs and develops custom software for embedded, mobile and Web applications -- is situated in about 2,500 square feet of space in a renovated former post office in the Easttown section of Grand Rapids. The company has seen employment and revenue rise steadily, from \$3.41 million in 2009 to \$4.1 million last year.

Atomic Object designers write and conduct automated tests of the software they create to make sure it works bug-free. A full-sized traffic light in the center of their office gives visual cues to designers as to whether the software they are writing is passing muster.

Using census data and other federal resources, Erickson estimates that Atomic Object's revenue places it in the top 10 percent of all businesses in software development. He figures his company enjoys profitability about twice the national average in its industry.

How big will they get?

"So that is the question in my mind," says Erickson. "Are we like the cottage industry at this stage of business -- with a zillion little tiny companies -- and there will be some kind of consolidation? Or is it the nature of the beast -- the way we do things -- that makes it so it won't scale up really well?"

Andrus at Trivalent thinks companies in the knowledge economy will consolidate, as evidenced by his growth over the past seven years. But it's clear that Trivalent and Atomic Object operate in different spheres of the knowledge economy, where Trivalent is much more reliant on tangible assets than Atomic Object.

Bronk says a company such as Open Systems shows that IT companies can get bigger, but hiring has to be deliberate.

Erickson says he worries that a whole generation of Americans believes -- mistakenly -- that software development and IT work is particularly vulnerable to being moved offshore.

"College enrollments are still down from where they were historically in computer science and computer engineering," he says. "Many parents to this day still believe that all of the software development and IT work in this country is going to be done in India.

"That idea became so powerful in the late 1990s that our country hasn't let go of that yet. It is absolutely not the case. We have picked up work that had been previously offshored, and there is plenty of work that can be done locally. Frankly, I think that we are already experiencing a shortage" of IT workers."

Everyone seems to agree, too, that enthusiasm and passion for software development, Web design and other skills can trump formal training.

"Honestly, there is a free education out there for anyone who is passionate and interested in what we do," says Wegner, who started his career with a bachelor's degree in advertising and business from Grand Valley. "There are so many resources online that people can teach themselves, and the education that is out there for Web design and development at the college and university level is rarely up to date because the industry is moving so fast."

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