

# Seidman Business Review

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

Vol. XXV  
Winter 2019



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- Health Savings Accounts – A Way to Save and Invest to Pay Health Care Costs
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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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**Editor:** Dr. Gerry Simons, Professor, Economics Department  
**Copy Editors:** Vonnie Herrera, Linda Schmidt  
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## From the Editor...

**F**ederal tax cuts; trade disputes with China; the renegotiation of NAFTA; changes to the Affordable Care Act; the soaring and plunging stock market; continuing uncertainty over Brexit; the Fed raising interest rates; talk of an impending recession. 2018 had all this and more.

I have been asked on occasion about issuing an edition of the Seidman Business Review on a single theme, which is something that many academic journals do once in a while. How about an issue devoted to the ACA, or international trade, or investment in China? My response to date has been the same – the strength of the Review lies in the variety of topics, analyses, and information presented by its contributors. The problems and issues that you, our readers, have to address on a regular basis are varied; the articles that we provide to you should be varied too.



This current edition of the Review has a particularly rich variety of topics – women in leadership; advertising during sporting events; health savings accounts, just to name a few. These are in addition to our core annual pieces on regional stocks, housing markets, and business confidence.

One of the joys of serving as Editor of the Review is talking with my colleagues about their insights, and research, and then reading their completed articles. Like me, I hope that you will find these articles interesting, informative, and useful. As always, I encourage you to review the list of Seidman Faculty Experts provided on the last page and to contact those whose expertise may be of value to you; their areas of expertise are as varied as your needs.

A handwritten signature in black ink that reads "G. Simons".

Gerry Simons, Professor of Economics

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# Grand Rapids Economic Forecast 2019

Paul Isely, Ph.D, Seidman College of Business  
Riley Hall, Research Assistant, Seidman College of Business

- The Current Business Confidence Index for 2018 is 80.8%, a small improvement over last year.
- The Forecast Business Confidence Index for 2019 is 78.6%, a drop from the expectations seen the last few years.
- Employment is expected to grow by 1.1% to 1.5% in 2019, a rate consistent with the growth seen in 2018.
- Overall nominal sales are expected to increase by 2.7%-3.1% for 2019, a slowdown from the last few years.
- Exports are expected to grow by 1.0% to 2.0% in 2019, reversing the increased expectations from 2018.
- All indicators signal the West Michigan economy will grow at a slower pace in 2019 compared to 2018.



Paul Isely



Riley Hall

## Introduction

The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties or KOMA) was conducted in November and December 2018. A survey was mailed to the CEOs and business leaders of nearly 1,150 organizations based on a representative sample. We tried to ensure that the sample reflected different sectors of the regional economy and the geographical diversity of the area. Eventually, 212 organizations responded, resulting in a strong response rate of 18.5%. However, due to the possibility of a non-random response sample, the survey should be interpreted with caution. The survey was timed for the week after the Midterm elections to allow respondents time to digest some of the possible implications of the elections.

A few methodological considerations are in order. 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). Because 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.

## Confidence Index

The confidence index has been tracked by researchers at the Seidman College of Business since 1995. A continuing goal of the survey is to historically track the overall business confidence of the Grand Rapids area. The confidence index respondents use a scale from zero percent (no confidence at all) to one hundred percent (complete confidence) in response to the question: **How confident are you in the regional economy?** The average responses for the private sector and the government/non-profit sector over the past 23 years are shown in **Figure 1**.

Last year, respondents' expectations for 2018 and their view of 2018 at the end of the year were nearly identical. This is a strong indicator that the economy has stopped accelerating. Organizations currently view their confidence now (end of 2018) and through 2019 as dropping for the first time since the Great Recession in 2008. The expectations of businesses are falling much faster than those in non-profit and government sectors. An expected confidence level of 78.6% overall is still good, but it shows that businesses believe 2019 will not be as good as 2017 or 2018 have been.

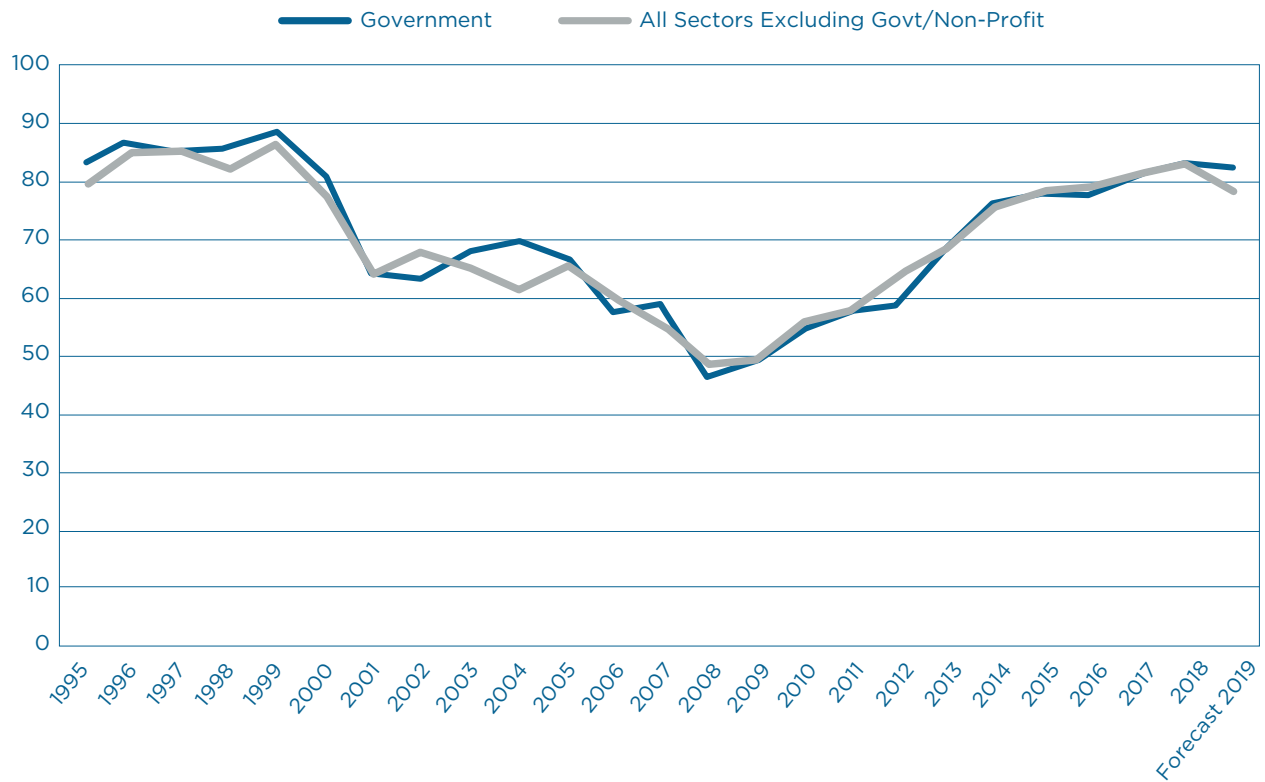
## Employment

For 2018, employment for KOMA was projected to grow at an average of 1.1 – 1.5%. The numbers from the Current Employment Survey indicate that employment in the Grand Rapids and Muskegon Metropolitan Areas (which is made up of Barry, Kent, Montcalm, Muskegon, and Ottawa counties) has grown by approximately 1.7% annualized rate through October. This is slightly higher than the estimate, but the final two months are still to be added.

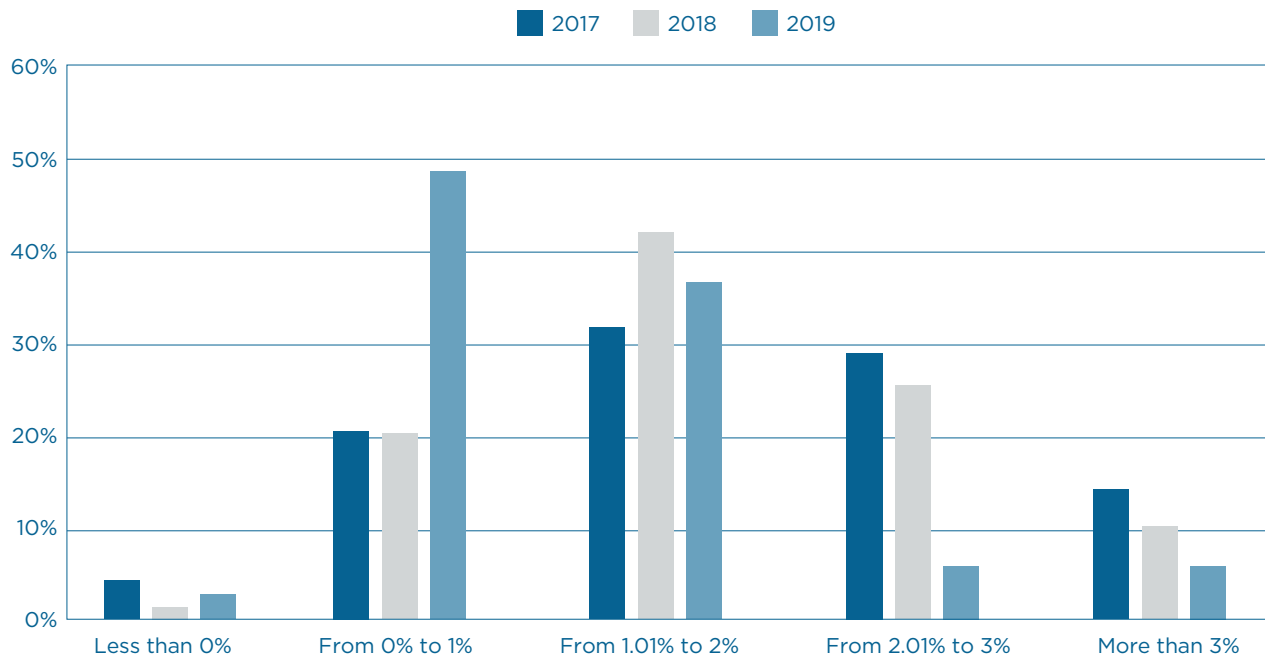
The average responses to the question: **What percent change do you expect in employment for the four counties in 2019?** are shown in **Figure 2**.

Average employment in the KOMA region during 2019 is expected to grow at 1.3%, the same as last year. However, this disguises the drop in firms expecting growth above 2%, which went from 36% of respondents last year to only 12% of respondents this year. For 2019, firms expectations are tightly bound between zero and 2% with 86% of respondents calling for growth in this range (up from 62% last year). So although the average expected employment increase is the same as last year, this is a much more pessimistic report.

**Figure 1: West Michigan Confidence Index Forecast 2019**



**Figure 2: Respondents' Anticipated Change in Employment for 2019 as Compared to Expectations in 2017 and 2018**

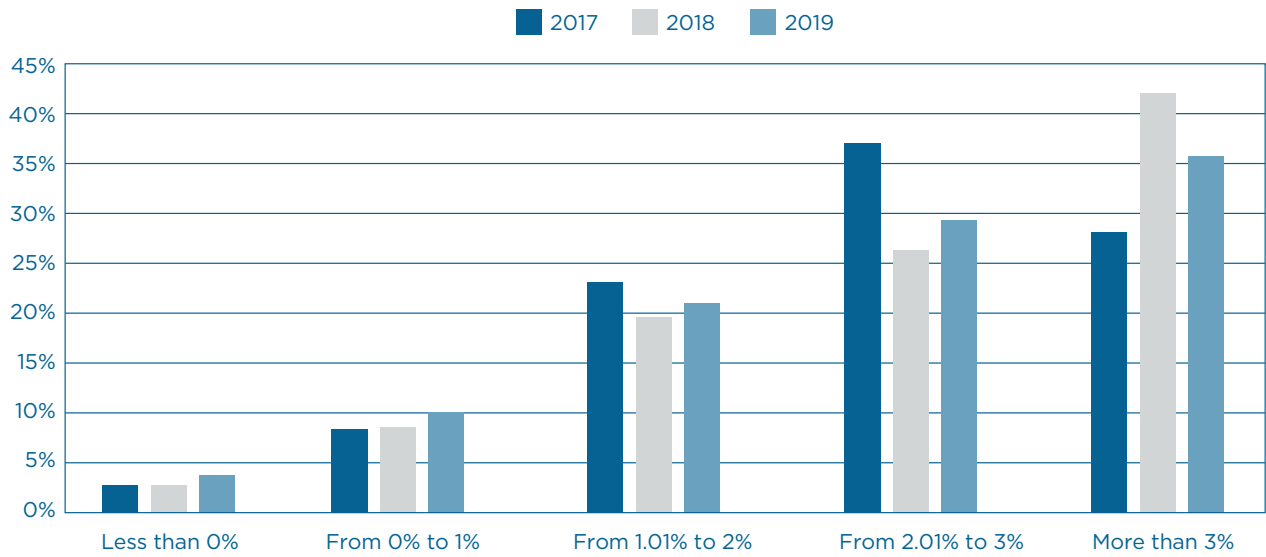


## Sales

For sales, the respondents answered the following question: **What percent change in sales do you project for the four counties in 2019?** During the late 1990s, sales grew at an annual rate of 5%. Last year, the percentage of respondents expecting a growth rate above 3% peaked at 42% of

respondents. For 2019, the percent of firms looking for sales growth above 3% has begun to drop and is now at 36%. This has dragged down the expected sales growth in 2019 to 2.9% from 3.3% last year. This is another indication that the current expansion has peaked. Average responses are shown in **Figure 3**.

**Figure 3: Respondents' Anticipated Change in Sales for 2019 as Compared to Expectations in 2017 and 2018**

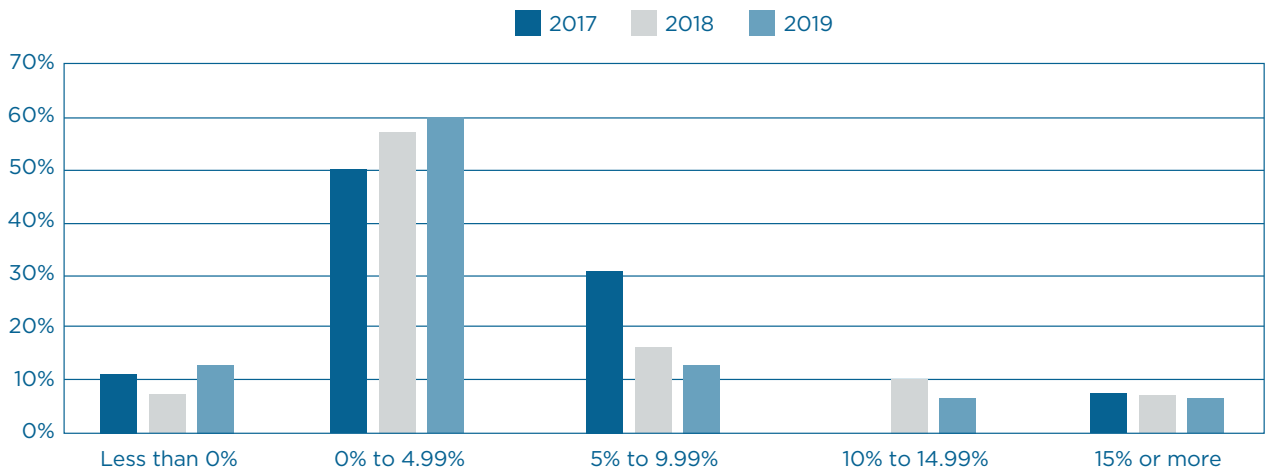


## Export Growth

Exports have traditionally been a bright spot in the West Michigan economy. However, over the last few years, export growth has been weak. Last year started with an expectation for a slight increase for the first time in three years, but those expectations have reversed this year. Average responses are shown in **Figure 4**.

The optimism in exports was being helped by increases in global economic output. Currently, forecasts for world economic growth are being scaled back, and there is increased concerns about a trade war. As such, West Michigan exporters are expecting slow growth for the year.

**Figure 4: Respondents' Anticipated Change in Exports for 2019 as Compared to Expectations in 2017 and 2018**



## General Outlook

Surveys (**Table 1**) from late in 2018 show an expectation for economic growth of around 2.5% for 2019. These surveys also show expectations for inflation at or above the Federal Reserve target of 2%. This shows both a slowdown from the strong growth seen over the summer of 2018 and a continuing pickup in the level of inflation. Each of the surveys also showed greater strength in the first part of the year that weakened as the year continued, as shown in **Table 1**.

These surveys are consistent with the expectations of our survey respondents with weakening confidence (78.6%), flat employment growth (1.3%), weakening sales growth (2.9%) and weaker export growth (1.5%).

The primary uncertainty for the year surrounds the global economic slowing combined with the escalating trade tensions. The U.S. economy has also used up much of the “sugar rush” from the tax cuts in 2018 and will be moving forward without this powerful stimulus. The uncertainty on trade has undercut some of the potential benefits of the tax cuts as businesses

have been reluctant to invest in the face of the uncertainty mounting internationally.

Finally, three important indicators are pointing to an increased likelihood of a recession nearing. First the U.S. economy crossed potential GDP late in 2017. Potential GDP is the maximum level of output that can be sustained for long periods of time. Historically, when this happens, a recession follows in around two years. Second, the yield curve started inverting in parts during late 2018. An inverted yield curve is an indicator of a potential recession looming. Third, labor compensation adjusted for inflation is growing faster than productivity growth adjusted for inflation. This is a sign of a very tight labor market with compensation pressures. Historically, labor gets the most benefits late in the economic cycle, so this points to a potential recession looming.

The data for West Michigan and the United States both show that 2019 will likely start well. However, this growth is likely to slow as the year progresses, and the probability of a recession will start to grow.

**Table 1: Results from Surveys**

Survey	GDP Growth 2019	Inflation 2019
Philadelphia Federal Reserve Survey of Professional Forecasters (Nov)	2.7%	2.5% (core CPI)
Federal Open Market Projections (Sept)	2.5%	2.0% (PCE)
Wall Street Journal Economic Forecasting Survey (Dec)	2.3%	2.1% (CPI)
Duke CFO Survey (Dec)	2.7%	3.6% (Input Prices)

<https://www.philadelphiafed.org/research-and-data/>  
<https://www.federalreserve.gov/monetarypolicy/fomcproptabl20180926.htm>

<https://www.wsj.com/graphics/econsurvey/>  
<https://www.cfosurvey.org/>

## Acknowledgments

This study could not be completed without the assistance of the SBDC West Michigan Region staff. We are very grateful to all the organizations that participated in the survey. ■

# Housing Market in the Grand Rapids Area

**Laudo M. Ogura, Ph.D., Associate Professor of Economics**

**Paul Isely, Ph.D., Professor of Economics**



Laudo M. Ogura



Paul Isely

In 2018, home prices kept rising in the Grand Rapids area, fueled by the continuing employment growth and the low supply of homes for sale. At the national level, housing prices also rose well above the inflation rate (see **Table 1**). High production (GDP) growth rates and low unemployment rates have kept demand for housing high despite a significant increase in mortgage rates and the reduction in homeowner tax benefits due to the Tax Cuts and Jobs Act of 2017.

According to our estimations, home prices rose by 15% on average in 2018 in the Grand Rapids city, while prices in the remainder of Kent County rose by 8%. **Figure 1** shows the housing price indexes for both areas since 2005. The indexes were calculated using data on arm's length sales only to better reflect market conditions for non-distressed home sales (see details on the method used in the Technical Notes at the end of this article). While average prices in the Grand Rapids city declined more than in the remainder of Kent County during the housing crisis until 2011, prices have gone up faster in recent years in the city and are now converging to the same trend level of the rest of the county. In 2018, prices in the city were 34% higher than the average in 2005, surpassing the inflation rate in the same period, which was 28%. On the demand side, this large increase in home prices reflects the fast employment growth in the region. Employment is now 13% higher than in 2005 and is still growing at a 2% annual rate. On the supply side, the local association of realtors (GRAR, 2018) has reported very low inventory-to-sales ratios in recent years. In 2018, the ratio was still at 1.5 months' supply (the same as in 2017), and pending sales actually decreased by 3.2% in the first 11 months of the year compared to the same period in 2017.

**Table 1 - Economic and Housing Market Conditions**

	2005	2017	2018	2017-2018 Change
20-city S&P/Case-Shiller housing price index (2005 = 100)	100	106.1 (Sept)	111.6 (Sept)	5.2%
U.S. Consumer Price Index - CPI (2005 = 100)	100	126.7 (Nov)	129.5 (Nov)	2.2%
U.S. Real Gross Domestic Product annualized growth rate (%)	3.5	2.2	3.5 (3rd quarter)	1.3%
U.S. unemployment rate (%)	5.1	4.4	3.7 (Nov)	-0.7%
U.S. 30-year fixed mortgage rate (%)	5.9	4.0	4.9 (Nov)	0.9%
U.S. home mortgage delinquency rate* (%)	1.6	4.2	3.4 (3rd quarter)	-0.8%
U.S. new private housing starts (annual rate, in millions)	2.16	1.29	1.31 (Nov)**	1.6%
U.S. NAR Existing Home Sales (annual rate, in millions)	7.07	5.51	5.39 (Nov)**	-2.2%
U.S. homeownership rate (%)	68.9	63.9	64.3 (3rd quarter)**	0.4%
Grand Rapids metro area unemployment rate (%)	5.8	3.6	3.2 (Oct)	-0.4%
Grand Rapids metro area employment (in thousands)	496.0	551.8 (Oct)**	563.6 (Oct)**	2.1%
Grand Rapids GRAR homes sold (pending sales, annual rate)	13,407	12,943	12,546 (Nov)**	-3.1%
Grand Rapids GRAR home sales months of inventory	8.0	1.5	1.5 (Nov)**	0.0%

\* Delinquency rate of single family residential mortgage in the top 100 banks.

\*\* Average in the 12-month period ending in that month.

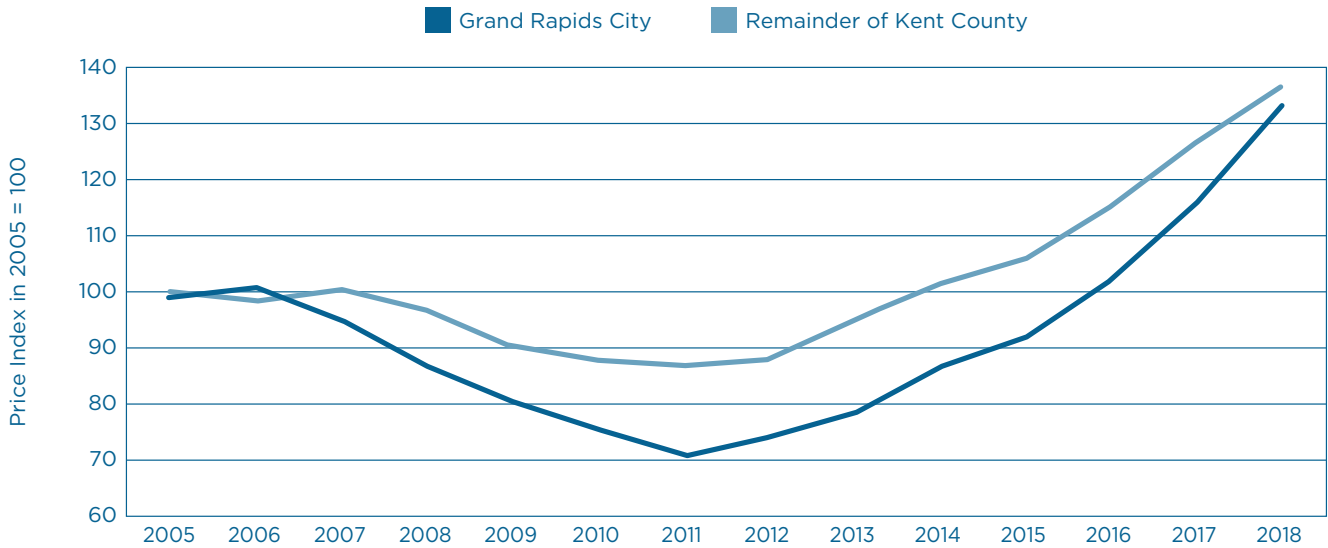
The Grand Rapids metropolitan area includes Kent, Ottawa, Barry, and Montcalm Counties.

Annual data represents average or total for the year. Non-annual values are seasonally adjusted, except for mortgage rates.

Sources: Federal Reserve St Louis (2018), National Association of Realtors - NAR (2006, 2018), and Greater Regional Alliance of Realtors - GRAR (2018).



**Figure 1: Housing Price Index for the Grand Rapids Area\***

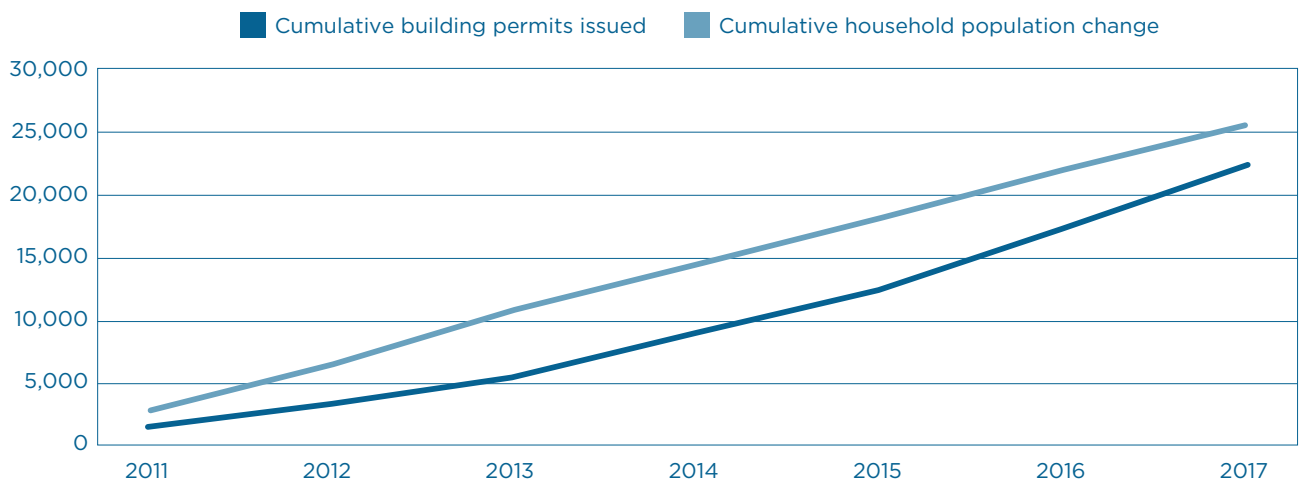


2018 index is based on data until September. See Technical Notes at the end of the article for details.  
 Source: Sales data from the Kent County Government; housing price index based on authors' calculations.

Since the last recession, construction of new homes has lagged behind the growth of the household population in the metro area. This lag can be seen in **Figure 2**, which shows the change in household population compared to building permit issuance since 2011. In part, the slow recovery in construction activities was due to the overbuilding in the years prior to the recession. In fact, homeowner vacancy rates increased from 2% to 4% during 2009-2010. However, vacancy started to

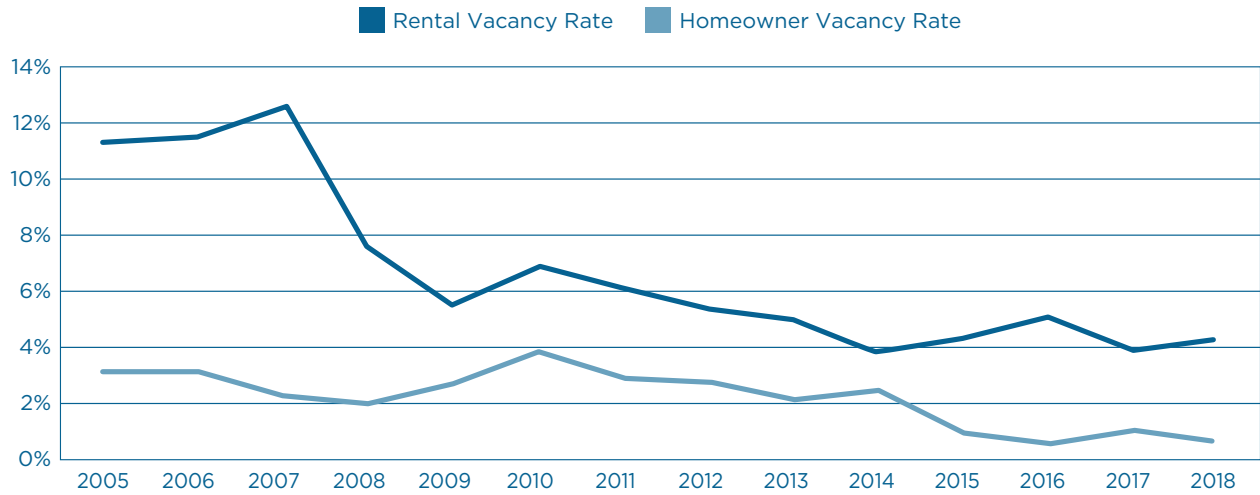
decline in 2011 as the economy recovered and is now under 1% (**see Figure 3**). Rental vacancy rates have also been very low compared to historical levels and to other regions. Rental vacancy had declined significantly during the foreclosure crisis as homeowners were displaced and credit was restricted, but it continued to go down in the following years as population grew faster than construction in the region.

**Figure 2: Building Permits and Household Population Change in the Grand Rapids Metro Area Since 2011**



Household population was estimated using population data from the U.S. Census Bureau and the 2010 average household size of 2.7 persons in the Grand Rapids metro area.  
 Source: Building permit from U.S. Census Bureau (2018a) and population from Federal Reserve Bank of St Louis (2018).

**Figure 3: Housing Vacancy Rates In the Grand Rapids Metro Area**

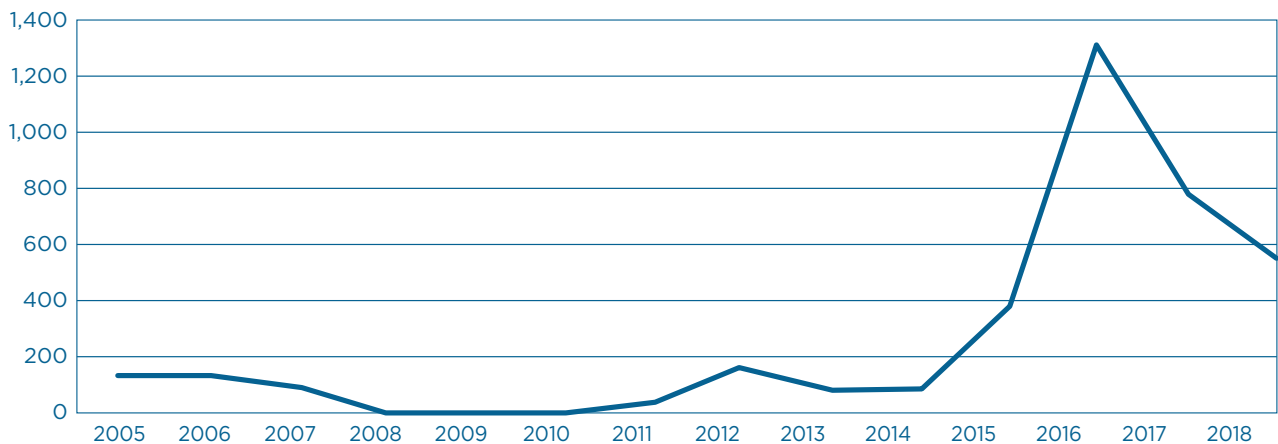


2018 vacancy rates are based on data until September.  
Source: U.S. Census Bureau (2018b).

As a response to the shortage of homes in the central area of Grand Rapids, many high-rise buildings have been developed since 2015. **Figure 4** shows the number of permits issued for units in large multi-family buildings in the city. From 2015 to September 2018, the city had issued 2,876 permits for such types of housing. In comparison, only 1,833 permits were issued in the previous 20 years (1996-2014). After a peak in 2016, multifamily building construction plans have waned with concerns of overbuilding, but it is still at a high level relative to historical trends, indicating that developers are still hopeful about the future of the downtown housing market.

An additional support to the Grand Rapids area housing demand is the age distribution of its population. Kent County has a higher percentage of its population in young cohorts. According to the U.S. Census Bureau (2018c) data, in the 2013-2017 period Kent County had more than 12 people between the ages of 25 and 34 for every 10 over 65 years old. The average across Michigan was fewer than 8 people between the ages of 25 and 34 for every 10 over 65. The implication is that Kent County has a much larger group of adults who are just starting their home ownership journey, creating greater support for the growth of the housing market than in the rest of the state.

**Figure 4: Building Permits for Units in 5-and-plus-unit Multi-family Buildings In the Grand Rapids City**



2018 data is estimated based on cumulative count until September. Source: U.S. Census Bureau (2018a).

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## Conclusions

In the past year, housing market conditions were still favorable to rising prices. Employment and income growth are still fueling demand, despite increasing mortgage rates, while supply of available homes is still short in the region. For the next couple of years, few factors might slowdown the rise of home prices. Mortgage rates can still go up by another half point in 2019 as the economy continues to grow. Employment growth may decrease in the region due to the increased tariffs on international trade, which should negatively affect local production costs and exports. Also, an economy-wide recession is looming, possibly in 2020, although most likely short and shallow. In the supply side of the market, construction is now surpassing population growth, thus helping to limit further increases in home prices. Nonetheless, vacancy rates and the supply of homes for sale are still low and should take at least a couple of years to rise to historical levels.

## Technical Note

The housing price indexes shown in **Figure 1** are estimated using the repeat-sales method, which compares prices of the same houses over time. We used data from January 2000 to September 2018, setting the indexes at 100 in 2005, so that they can be interpreted as the amount of money needed to buy a house for every \$100 that was needed to buy the same house in 2005. The use of repeat-sales is a way to control for variation in the quality of houses. The estimation does not include houses that were not resold during the period studied and disregards the impact of improvements or deterioration of houses and neighborhoods. Nonetheless, it is a widely used method to measure the average changes in prices in a broad housing market. In order to better reflect the market conditions for typical homes, our indexes include only arms' length sales, with prices as low as \$10,000 and as high as \$1,000,000. We also excluded houses that never reached at least \$30,000 during the period. ■

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# West Michigan Stock Returns

Gregg Dimkoff, Ph.D., Department of Finance



## West Michigan Stocks Fall in 2018

The West Michigan Stock Index fell 8.4% in 2018. As if that weren't bad enough, the Index had been up by almost seven percent through the first nine months of the year, and then dropped by almost 15% during the fourth quarter. That miserable fourth quarter performance was about the same as both the Dow Industrials and the S&P 500 Indexes, but could have been

worse: The NASDAQ Composite Index fell 21% in the year's final quarter. **Table 1** below highlights 2018 annual returns.

**Table 1: 2018 Stock Market Returns<sup>1</sup>**

	Returns
West Michigan Index	- 8.4%
NASDAQ Composite Index	- 4.6%
S&P 500 Index	- 7.0%
Dow Jones Industrial Average	- 6.7%

The West Michigan Index includes two companies not previously appearing in the Index: Kellogg Company and Whirlpool Corporation.

Only two West Michigan Index companies ended 2018 with positive returns: Sparta-based ChoiceOne Financial Services, Inc. topped the Index with a 5% return, while Kalamazoo-based Stryker Corporation eked out a 1.2% return. In a striking coincidence, Wolverine Worldwide began and ended the year with a price difference of only a penny. All other firms in the Index finished the year with losses.

West Michigan company stock returns mostly reflected changes in the U.S. economy during the year. The year began with great optimism after significant business tax cuts were signed into law just before Christmas in 2017. Further, gross domestic product grew by 4% in early 2018, a level unreachd for many calendar quarters. Investor optimism drove up the price of most stocks. But as the year proceeded, concerns developed over how tariffs would affect international trade, how higher interest rates would affect the economy, and whether slowdown in worldwide growth would eventually lead to a recession. These concerns came to a head in the

fourth quarter, and stocks plummeted. Most companies in the West Michigan Index saw their stock price peak about midyear, and reach their lowest levels with about a week to go in December.

**Table 2** ranks the sixteen companies comprising the Index by their 2018 returns.

The 2018 performance of each of the companies in the Index is described below. Most of the discussion is based on year-to-date performances as reflected in quarterly earnings reports through the third quarter. Companies are listed alphabetically.

## ChoiceOne Financial Services, Inc.

ChoiceOne Financial Services, Inc. is the holding company owning ChoiceOne Bank. The bank consists of 12 full-service offices, including one opened in downtown Grand Rapids during the year. The company's stock price rose steadily during the year until mid-October, then tailed off. Good news included a decrease in the company's income tax rate from 26% to 15% and a third quarter earnings increase of 11.5% compared with the year earlier quarter.

## Community Shores Bank Corporation

The Muskegon-based bank holding company had an interesting year. As has been the case since it was founded about 20 years ago, insiders own the majority of shares. The company's board of directors filed Form 15 with the Securities and Exchange Commission on January 4 to deregister its stock. The process allows a company with fewer than 300 shareholders to "go dark," thereby avoiding the need to file quarterly and annual reports with the SEC. As a result, significant operating expenses associated with the cost of preparing and reporting reports are eliminated. So Community Shores Bank Corporation still exists, its expenses are lower, its shares are still traded, but it is no longer possible for the public to determine how the company is doing.

## Gentex Corporation

The company enjoyed a relatively good year. For example, second quarter net income increased 23% while third quarter net income increased 23%. Overriding this fine performance, its revenue increase was slightly lower than the consensus estimates. The corporation's stock fell beginning in September as President Trump's threats of trade tariffs made investors uneasy about the company's ability to maintain unit sales and profit margins. Further, there are concerns that world-wide sales of vehicles will fall in 2019. If that happens, Gentex's sales likely will be negatively affected. These concerns likely caused the company's stock to fall throughout the end of 2018.

<sup>1</sup> The West Michigan Index consists of 16 publicly traded companies headquartered in West Michigan. Each company's return is weighted by its market value - the number of shares of common stock outstanding multiplied by the company's stock price. The index matches the weighting methodology used by the NASDAQ Composite Index. The Dow Jones Industrial Average is price weighted, while the S&P 500 Index uses a somewhat complex method dividing the sum of the market values of each component stock by a proprietary index divisor.



**Table 2: West Michigan Company Returns**

	2018 Prices Closing	2018 Prices Opening	Price Change
ChoiceOne Financial Services, Inc.	\$25.00	\$23.80 <sup>2</sup>	5.0%
Stryker Corporation	\$156.75	\$154.84	1.2%
Wolverine Worldwide, Inc.	\$31.89	\$31.88	0%
Steelcase Inc.	\$14.83	\$15.20	-2.4%
Gentex Corporation	\$20.21	\$20.95	-3.5%
Macatawa Bank Corporation	\$9.62	\$10.00	-3.8%
Independent Bank Corporation	\$21.02	\$22.35	-6.0%
Community Shores Bank Corporation	\$2.65	\$3.00	-11.7%
Meritage Hospitality Group Inc.	\$17.50	\$20.00	-12.5%
Kellogg Company	\$57.01	\$67.98	-16.1%
Mercantile Bank Corporation	\$26.28	\$35.37	-20.1%
Herman Miller, Inc.	\$30.25	\$40.05	-24.5%
Universal Forest Products, Inc.	\$25.96	\$37.62	-31.0%
SpartanNash Company	\$17.18	\$26.68	-35.6%
Whirlpool Corporation	\$106.87	\$168.64	-36.6%
Perrigo Corporation PLC	\$38.75	\$87.16	-55.5%

<sup>2</sup> Adjusted for a 5% stock dividend 5/31/2018

### **Herman Miller, Inc.**

The company reported strong second quarter results on December 19 (Its quarters are not traditional calendar quarters beginning on January 1). Sales growth had increased 10%, and that led to a 20% growth in eps. Quarterly net sales and order levels both hit all-time record highs. Executives report that "...the outlook is supportive for continued growth." Usually such great news would drive up the stock price, but it hasn't done so yet.

### **Independent Bank Corporation**

Like other area banks, the bank's price rose through early July and then dropped steadily through December, reaching a bottom in the last week of December. The bank is doing well, however. Third quarter net income rose 59%, while eps increased 46%, beating consensus estimates. Both of these numbers were helped by the June acquisition of Traverse City State Bank. Return on assets was a healthy 1.3 percent.

### **Kellogg Company**

Bucking the trend of most stocks, Kellogg's price trended downward during the first half of 2018, hit a 2018 peak in mid-September, and then steadily declined to a 52-week low at the end of December. Why the decrease? The company's profits fell short of its guidance. The company explained that it poured more money into developing its single-serve and on-the-go snacks for U.S. markets. By doing so, the company is foregoing some profit in order to develop products and markets. In addition, because the company experienced unusual double-digit sales growth earlier in the year, stock investors – often accused of over-focusing on short-term events – took the

news badly, and down went Kellogg's share price. However, the company recently raised its guidance for 2019 sales growth to 5%, the high end of its previous guidance. 2019 looks like it will be a better year for Kellogg than was 2018.

### **Macatawa Bank Corporation**

The Holland-based bank had a very good year, but its price fell victim to concerns about the U.S. economy. Its stock price approached \$13 in early July, having risen around 35% from the beginning of the year, but closed at \$10.00 per share. Third quarter net income was up 41% year over year, however, at least partly due to lower federal tax rates. Macatawa increased its quarterly dividend by 16%, its return on assets was 1.37% for the first three quarters, and its dividend yield is nearly 3%. Even with its current lower price, its price/earnings ratio is 15.3, and that's high. It reflects investor optimism about the future, but also makes the stock somewhat pricey.

### **Meritage Hospitality Group Inc.**

Meritage is the nation's largest owner of Wendy's restaurants, as well as the owner of several other types of restaurants. In total, it owns 314 restaurants with plans to increase that number to 420 by 2021. It had plans to open a new Wendy's restaurant every 10 days of the fourth quarter, and as of December, was doing so. It also has a robust program to renovate older Wendy's restaurants. There is a little cause for concern, however. Comparing third quarter performance for same-store-sales (doing so omits the effects of new acquisitions), sales fell 1.9%.

### **Mercantile Bank Corporation**

There seems to be nothing but good news regarding Mercantile Bank's performance. It had consistent earnings growth from quarter to quarter, had a strong commercial loan pipeline for the second consecutive year, and characterizes the Michigan economy as strong. Through the first three quarters of 2018, eps rose from \$1.41 to \$1.83, a 30% increase. Mercantile paid its usual quarterly dividend of \$0.19 in the 2017 fourth quarter. Then the dividend exploded. It was increased to \$0.22 in 2018's first quarter, to \$0.24 at the end of the third quarter, and to \$0.25 at the end of the fourth quarter. Further, a special \$0.75 dividend was tacked on in December. That's a total dividend of \$1.68, amounting to 6% of the stock's price at year end. In spite of all this good news, the bank's stock price fell 20% in the second half of 2018 as concerns about the U.S. economy overwhelmed the bank's performance.

### **Perrigo Company PLC**

Investors in Perrigo - one of the world's largest generic and over-the-counter pharmaceutical manufacturers - had a terrible year. The stock price drifted down throughout the year. The company had three CEOs during the year, and it would be unusual if that didn't cause disruption in company affairs. Further, the company reduced its earnings guidance for the year, and reported a net loss of \$68 million in the third quarter. The company's stock began the year with a price around \$90 per share, but the price drifted down to \$52 by mid-December. Then things turned especially ugly on December 21 when the company announced it had received an unexpected tax bill for \$1.9 billion (yes, billion) from Ireland's tax officials. Perrigo had completed a tax inversion in 2013 when, for income tax purposes only, it moved its headquarters to Ireland to take advantage of much lower tax brackets than in the US. Even though the company says the tax is without merit and plans to appeal, investors drove Perrigo's stock price down another 29% that day to \$37.02. Its stock was the Index's worst performer in 2018.

### **SpartanNash Company**

What a choppy year for investors in SpartanNash! The company's stock price was up and down all year, and several times the daily percentage price changes - both up and down - were double digit. That's relatively unusual volatility. Spartan is battling higher freight and labor costs which have been offsetting the benefits of sales increases. 3Q net sales increased 1.0%, while eps of \$0.50 exceeded the consensus estimate of \$0.48. Investors were expecting more, and as a result, the company's stock price ended 2018 near a yearly low. The company's price/earnings ratio is a relatively low 7.4, while its dividend yield is a high 4.3%. The company owns supermarkets across 45 states, Europe, and several countries.

### **Steelcase, Inc.**

There is great news about Steelcase. It is enjoying strong earnings growth, and in fact, the company is expecting fiscal year 2019 (ending February 28) to be the strongest year in a decade. Third quarter eps increased by 41% compared with the same quarter a year earlier. The company has worked hard to broaden its product offerings, and it's working. Orders

and backlogs have increased 14% and 16%, respectively. In addition, December 2017's tax cuts lowered Steelcase's effective tax rate from 32% to 17%. It's interesting to note that Steelcase's stock price has fluctuated mostly in the teens for 20 years, but 2019 may be the year the company's stock cracks through the \$20 per share level.

### **Stryker Corporation**

Stryker's stock price hit \$179 in both June and October, but a sharp sell-off near the end of December knocked more than \$15 off the price. Even so, the company ended the year with a price higher than at the beginning of 2018. When third quarter earnings were reported, sales had risen by 8%, and Stryker raised its full-year guidance for both sales and eps growth. With a price/earnings ratio of nearly 50, investors are showing their optimism about Stryker's future.

### **Universal Forest Products, Inc.**

Its stock price was stable at \$35-\$39 until mid-September, then began a steady decline to its low for the year near the end of December. In its most recent quarterly report, the company reported record sales and earnings, and most notable, the 13th consecutive quarter for records in both measures.

So why did the company's stock price drop given its record performance? Most likely it's due to fears of a slowdown in the housing and construction industries because of higher interest rates, and the overall disillusionment with the outlook for both the U.S. and foreign economies.

### **Whirlpool Corporation**

Whirlpool's price was its highest in January, steadily declined all year, and was near its lowest in late December. Clearly, investors were not impressed with the company's outlook. The company reported losses in the 4Q of 2017, a relatively small profit in Q1 of 2018, lost over \$600 million in the Q2, and earned \$216 million in the 3Q. Over this four-quarter span, Whirlpool reported \$600 million of losses. Whirlpool attributes its problems to rising raw material costs, specifically, tariffs on aluminum and steel. Further, sales have not met projections, a major factor in falling share prices.

### **Wolverine World Wide, Inc.**

The company had good financial news in its third quarter report. Revenue increased 3.9%, but profits rose 44% compared with the third quarter of 2017. Gross profit margin also increased. Wolverine increased its prior guidance for sales, operating margin, and eps for the fourth quarter. Investors like this type of good news, and as a result, Wolverine's stock price was one of only three companies in the West Michigan Stock Index that didn't fall in 2018. Here's another shout out for the company: Its dividend increase in February 2018 from \$0.06 to \$0.08 per share was not only a 33% increase, but was the company's first dividend increase in many years. Rockford-based Wolverine World Wide, Inc. designs, manufactures, sources, markets, licenses, and distributes footwear, apparel, and accessories. ■

# Innovation in West Michigan

Gerry Simons, Ph.D., Department of Economics



Innovation is a major driver of long-run economic growth. Although economists disagree on some issues, this is not one area of contention. The theoretical analysis of the connection between innovation and growth goes back to the likes of Schumpeter (1911) and Solow (1956), for which the latter won the Nobel Prize. Numerous researchers have conducted empirical analyses of innovation and growth rates in numerous countries as well

(see, for example, Bae and Yoo, 2015, and Santacreu, 2015), concluding that stronger growth leads to higher innovation and, in turn, higher innovation leads to stronger growth.

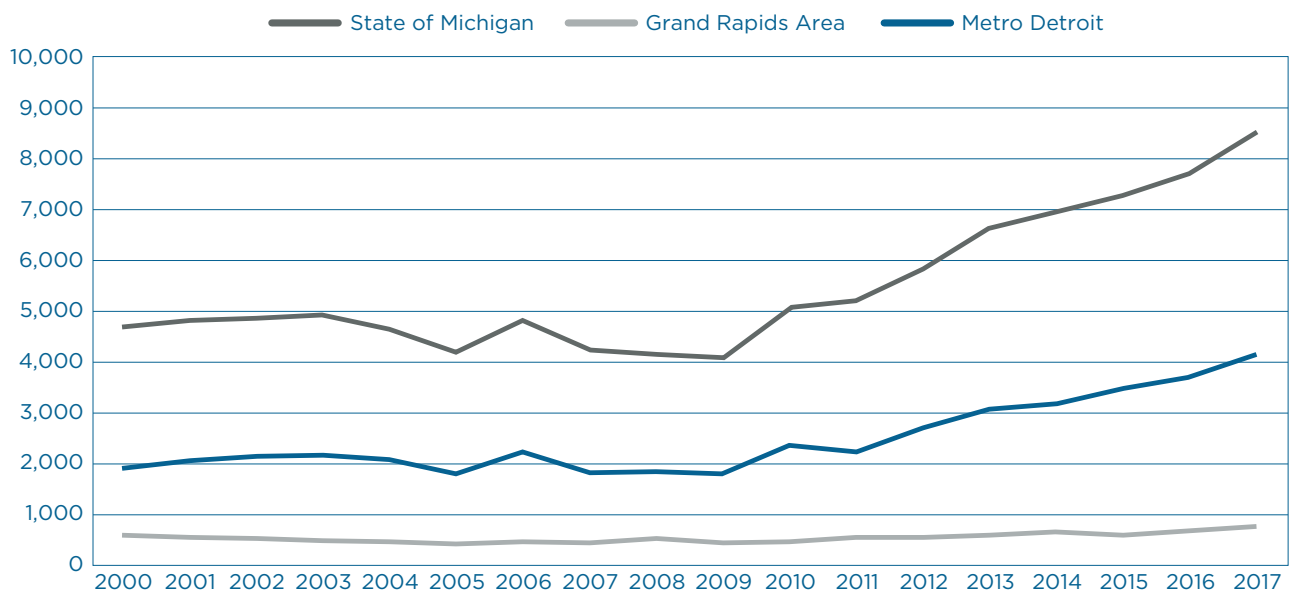
The exact magnitude of innovation's impact on economic growth is difficult to determine, though, as measuring the amount of innovation is not straightforward. Measuring research and development spending (R&D) is one approach, but that runs into the problem that it is a measure of one input into the innovation process (spending), and not a measure of the output (the actual innovation). One alternative is to count the number of innovations through a country's patenting system. This is by no means a perfect measure – not all innovations are patented, and any one patented innovation need not have the same impact on economic growth as another. Yet counting patents does have the

advantage of being an objective measure of the output of the innovation process, as well as one for which data are easily available.

The United States Patent and Trademark Office (USPTO) maintains a free, online, searchable database of innovations that have been granted patents in the U.S. Each patent record lists the home city and country for both the inventor and the assignee (owner) of the patent. For some patents, the inventor is also the assignee, but for most patents the inventor and assignee are separate entities (think of a researcher living in Detroit who creates an innovation as part of her work at General Motors; the researcher is the inventor, and GM is the assignee). The inventor and assignee could be in the same location, or they could be in different parts of the country, or even in different countries. The USPTO database allows us to collect a lot of information about the patenting process and patenting behavior in the U.S. All of the patent data presented here were obtained through the USPTO database (available at [www.uspto.gov](http://www.uspto.gov)).

**Figure 1** shows the number of patents issued per year with an inventor living in Michigan as a whole, living in the Grand Rapids area (Kent, Ottawa, and Muskegon Counties combined), and living in metro Detroit. Note that just because the innovations illustrated in **Figure 1** were created by a Michigan resident does not mean that they have a Michigan assignee (in fact, many do not). Also, it is common for patents to have more than one inventor – the patents shown in **Figure 1** are for where at least one of the inventors is from the relevant geographic region.

**Figure 1: Annual Patenting by Location of Inventor**



Source: United States Patent and Trademark Office, [www.uspto.gov](http://www.uspto.gov)

Although the trend for all three geographic areas is somewhat similar for 2000-2009, there is a noticeable change after 2009, with the number of patents with an inventor from Michigan and the number with an inventor from metro Detroit increasing much more substantially than for those with an inventor from the Grand Rapids area.

**Table 1** shows the overall percentage changes for these

three regions. All three regions experienced a decline in the annual number of patents for 2000-2008, with the Grand Rapids area experiencing the largest decline of the three. All three experienced a significant increase for 2009-2018, with the Grand Rapids area experiencing the smallest increase of the three.

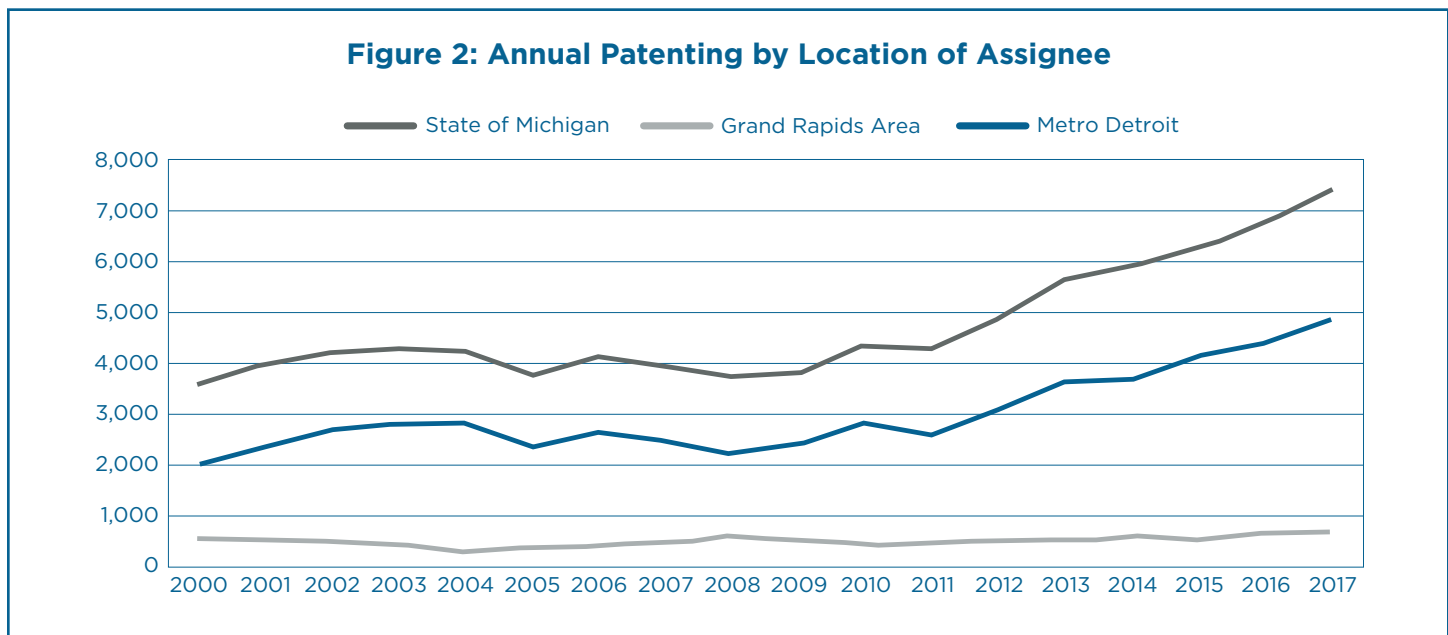
**Table 1: Growth in Annual Patents by Location of Inventor**

	Grand Rapids Area	Metro Detroit	Michigan
% change 2000-2008	-18.57	-4.28	-10.78
% change 2009-2017	86.27	131.30	110.31
% change 2000-2017	45.03	125.62	85.91

Having innovative minds in a region is important, but the larger potential impact on the economy comes from innovations that are used by businesses in that region. To get

at this distinction, we can look at the location of the assignee of the patent. **Figure 2** and **Table 2** duplicate the information of **Figure 1** and **Table 1**, but for patent assignees.

**Figure 2: Annual Patenting by Location of Assignee**



Source: United States Patent and Trademark Office, [www.uspto.gov](http://www.uspto.gov)

**Figures 1 and 2** look strikingly similar, but there are significant differences in the details, as made clear by a comparison of **Tables 1 and 2**. Of particular note is that the annual number of patents issued to assignees in the Grand Rapids

area increased by 43% in 2000-2017, while the number for assignees in metro Detroit increased by 142% over the same period. Another way to look at this information is to think of flows of information between the “producers” of

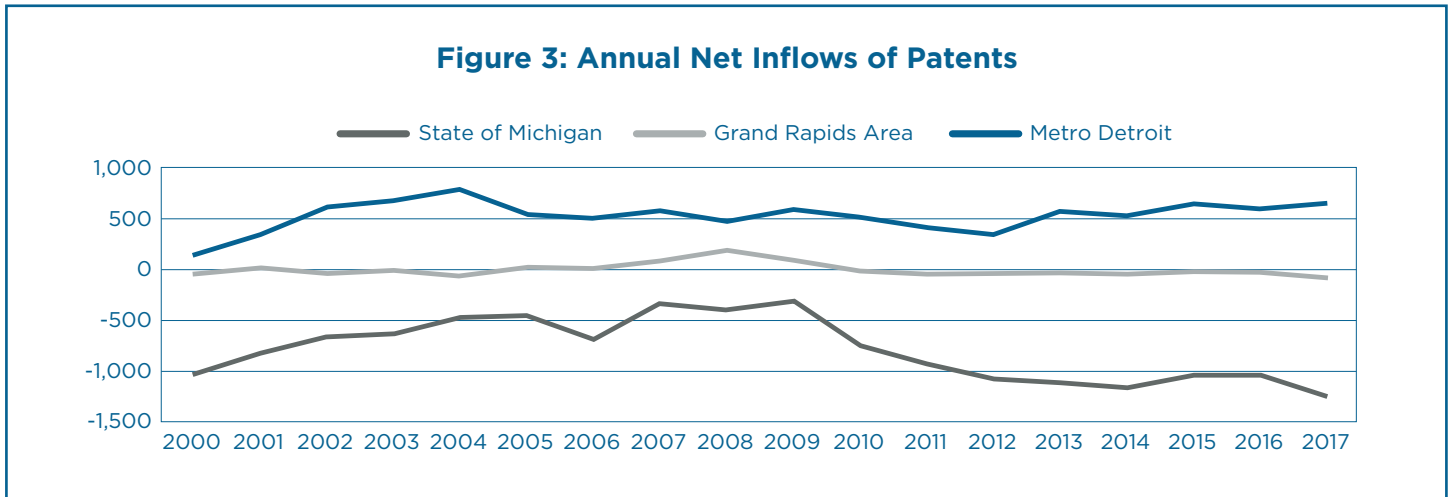
**Table 2: Growth in Annual Patents by Location of Assignee**

	Grand Rapids Area	Metro Detroit	Michigan
% change 2000-2008	25.41	12.64	3.81
% change 2009-2017	38.29	102.72	94.80
% change 2000-2017	42.83	142.21	105.14



knowledge – inventors – and the “users” of knowledge – the assignees. Knowledge flows “out” from inventors and “into” assignees. **Figure 3** shows the annual net “inflows” of patents

by location, measured as the annual number of patents by location of assignee minus the annual number of patents by location of an inventor.



Source: United States Patent and Trademark Office, [www.uspto.gov](http://www.uspto.gov)

For every year from 2000 to 2017, metro Detroit has a positive net inflow of patents, in the sense that the number of patents owned by corporations and other assignees in metro Detroit is greater than the number of patents with an inventor from metro Detroit. Assignees in this area are, effectively, “importing” knowledge from outside metro Detroit – for example, from inventors in Grand Rapids, Houston, or Beijing. This result is not unexpected, given the concentration of large, multinational enterprises in metro Detroit with numerous facilities in countries around the world.

However, for Michigan as a whole throughout 2000-2017, and for the Grand Rapids area for most of this time period, the net inflow is negative. This means that, although a significant number of innovations are created by inventors living in the Grand Rapids area or in Michigan in general from 2000-2017, many or at least some of them are not owned by entities in those locations. In a sense, inventors are “exporting” knowledge. In some cases, this imbalance is benign – innovations created by people in Grand Rapids but owned by GM in Detroit still have positive growth impacts on the West Michigan economy due to GM’s presence and connections in West Michigan. Other situations might be different, though – innovations created in Grand Rapids but owned by Boeing Co. are unlikely to have significant impacts on the West Michigan economy beyond the compensation provided to those inventors; that knowledge is not being invested into the West Michigan economy.

Taken as a whole, the above data indicate definite differences in the pattern of patenting in West Michigan, metro Detroit, and the State of Michigan as a whole.

There is no debating that West Michigan currently has a strong and vibrant economy. The information presented here is not to be taken as fear mongering, nor as an argument that West Michigan is in some sense falling behind. Rather, it should be taken as an indication of opportunities missed and opportunities still to be taken. Greater investment in research and development could reap significant returns for the Grand Rapids area economy in the future, whether those investments are channeled through the creative minds of local inventors or are “imported” from elsewhere. ■

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# Health Savings Accounts — A Way to Save and Invest to Pay Health Care Costs

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In Michigan, about half of all employers that sponsor health insurance coverage for employees offer qualified high deductible health insurance that permits the employee to establish a health savings account (HSA). Most employers will introduce HSA coverage alongside of traditional health insurance plans such as PPO and HMO options for employee consideration during the annual open enrollment period for health insurance selection. This

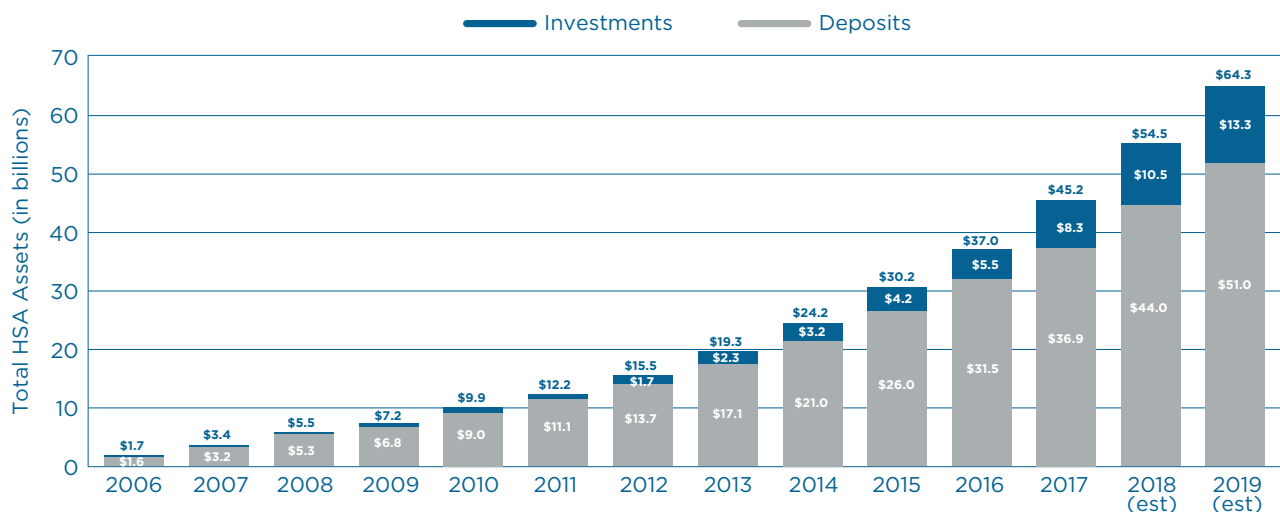
gives employees the choice during open enrollment to select the health insurance coverage that best meets their health insurance and budget needs.

HSAs were created in 2003 through the enactment of the Medicare Modernization Act. This same Act brought us the Medicare Part D prescription drug program that provides prescription drug benefits for those receiving Medicare. Since that time, HSAs have experienced explosive growth. At the end of 2017, the number of HSAs surpassed 22 million, with established accounts holding about \$45.2 billion in assets. This represented a year-over-year increase of 22% for HSA assets and 11% for accounts. **Exhibit 1** shows the growth of both HSAs and assets since 2006.

HSA-qualified health insurance plans must meet federally mandated design requirements. Mandated plan design includes:

- 1. A high deductible plan design with minimum deductibles—**for 2019 the minimum plan deductible for single coverage is \$1,350 and \$2,700 for family coverage (note that family coverage is considered coverage for 2 or more people). The single deductible cannot exceed the maximum out of pocket limit of \$6,750 and cannot exceed \$13,500 for family coverage. These amounts are subject to change annually based on an annual inflation adjustment by the Internal Revenue Service (IRS).
- 2. Covered plan benefits—**must be subject first to the plan deductible, which includes amounts spent on prescription drugs. However, annual physical exams are not subject to the deductible and are covered at 100% when in-network providers are chosen. Note that fixed dollar copays, common for physician office visits and prescription drug coverage, are not permitted until the underlying deductible has been satisfied. This is often a surprise to first year plan participants when they realize that the full cost of a physician office visit and the full cost of prescription drugs are first applied to the deductible before the underlying plan coinsurance is applied. This can result in a cash crunch for participants that do not have enough funds available in their HSA to pay for these covered expenses when they are applied to meet the required deductible.

**Exhibit 1: Growth of HSA Accounts and Assets**



Source: Devenir Research

**3. Maximum out-of-pocket exposure**—the annual IRS inflation-adjusted limit for 2019 is \$6,750 for single coverage and \$13,500 for family coverage. Once this threshold is reached, all covered expenses are paid at 100% for the plan year. Most health plan designs double the out of pocket dollar limits if services are obtained outside the insurance carrier’s panel of in-network providers.

**4. Maximum Annual HSA Contributions**—although the HSA is separate from the actual high deductible health insurance plan, IRS guidelines establish the annual inflation-adjusted amount that can be contributed to the HSA. For 2019, the single contribution limit is \$3,500 and the family contribution limit is \$7,000. In addition, those age 55 or older may make an annual catch-up contribution of \$1,000. The catch-up contribution is not subject to the IRS annual inflation adjustment. It is important to note that the contribution limits include contributions from all funding sources. For example, if an employer contributes \$1,000 to an HSA for an employee with single coverage in 2019, the employee can fund an additional \$2,500 to reach the maximum annual contribution of \$3,500.

#### Rising Health Insurance Costs Drive HSA Adoption

Paying for health insurance premiums represents a significant financial burden for both sponsoring employers and covered employees. In its annual 2018 Employer Health Benefits Survey, The Kaiser Family Foundation found that the “average” amount of annual premiums paid by employers for single coverage was \$6,896, with employees paying \$1,185 of the annual premium. For family coverage, the average cost of annual coverage was \$19,616, with employees paying \$5,547 of the annual premium.

Since 2008, health insurance premiums have risen at about 3 times the rate of CPI inflation. Year-over-year insurance premium increases have resulted in rapid annual increases in plan deductibles and coinsurance, as employers reduce plan benefits to decrease the cost of rising annual premiums. In addition to changes in plan design, employers have been sharing the increasing annual insurance costs with employees through increased employee premium payments. These dynamics have been the primary catalysts for the rapid growth of qualified high deductible health plans at the workplace.

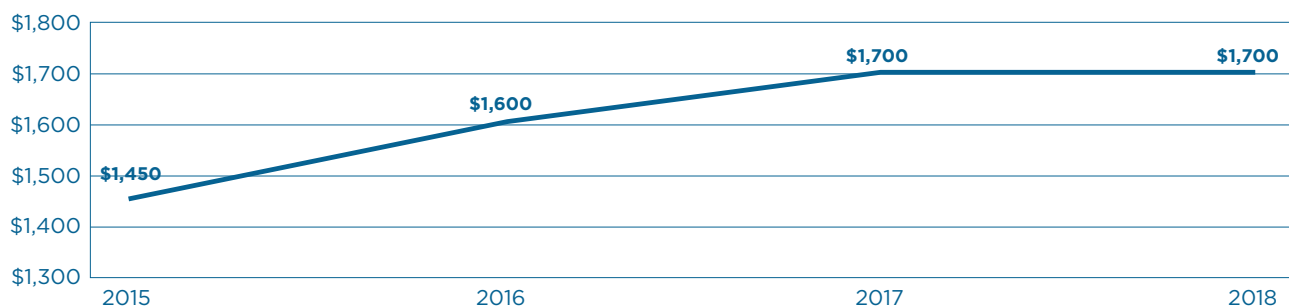
**Exhibit 2** shows the average deductibles employees paid at the single coverage level for health insurance plans sold by Blue Cross Blue Shield of Michigan from 2015 through 2018. For single coverage, the average deductible in 2018 was \$1,700. Average family coverage deductibles were \$3,400, double the single coverage deductible amount. These 2018 average deductible amounts were higher than the required HSA plan minimum deductibles (\$1,350 for single coverage and \$2,700 for family coverage in 2019), making the addition of HSAs a natural fit for employers of all sizes.

#### Financial Advantages of HSAs

HSAs provide account owners with several advantages, which makes HSAs attractive for funding. The first three listed tax advantages combine to produce a powerful “triple-tax” advantage for HSA owners:

1. Contributions to HSAs are tax deductible.
2. Interest and capital gains grow tax deferred inside the HSA.
3. Distributions for qualified health care expenses from the HSA are tax free.
4. Employees control saving and investing decisions and often have equity mutual fund options to grow their account balances over time.
5. Qualified health care expenses can be paid at the account owner’s discretion—often years after the qualified expense was incurred.
6. Accumulated balances can be used to fund COBRA insurance premiums if employer-sponsored coverage is lost.
7. Qualified health care expenses incurred in retirement, including Medicare premiums, can be paid tax free.
8. Starting at age 65, the account owner can take distributions for any purpose penalty free. If a taxable distribution is taken, the account owner will be subject to ordinary income taxes.

**Exhibit 2: Average Single Coverage Deductibles for Blue Cross Blue Shield Michigan Members**



Source: Blue Cross Blue Shield of Michigan

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### **Employer Contributions Boost Plan Adoption**

Although there can be significant advantages for selecting qualified high deductible plans that permit the establishment of an HSA, employers often struggle to gain employee acceptance during open enrollment. A major deterrent for employee enrollment is the required plan design provision that requires all qualified expenses to be subject first to the plan deductible, leaving the employee exposed to funding the deductible before plan expenses are paid.

By establishing an employer fixed or matching contribution to the HSA, employee adoption usually increases. Employee HSA adoption is often directly related to the amount of money the employer contributes to the employee's HSA. Most employers choose a fixed contribution based on single and family deductibles. It is important to work with a qualified health benefits professional to help in the establishment of any employer matching contribution. This is a critical component in increasing enrollment in the HSA. To encourage employee HSA contributions, be sure to permit elective payroll deductions. The automatic nature of payroll deductions provides an effective

mechanism for systematic employee contributions to their HSAs. Work with your health benefits professional and your health insurance carrier to select an HSA administrator for your employees' HSAs. Be sure to review proposed final plan design changes with qualified legal counsel to gain feedback and alignment with overall benefit strategies.

### **Employee Education Is Essential**

Informed employees are a critical component to HSA success. Take the time to educate your workforce well in advance of open enrollment on what an HSA is and how your organization will support the HSA in such areas as account funding and elective employee payroll contributions. Be sure to work with your health benefits professional and your health insurance carrier to fully understand your options and involve them in the education of your employees. When HSA strategies are carefully planned and communicated, employees often are excited to learn about the flexibility and growth opportunities their individual HSAs can produce for them during their working years and into retirement. ■



# Fan Reaction to Sponsoring Rival Sports Teams: The Case of West Michigan College Football Fans

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Joseph Little



Mark Kubik

## Introduction

A local business sponsoring a little league or high school sports team or even the “company softball team” is often the means by which a team is able to purchase necessary equipment and supplies for the team to compete. Perhaps you as a business leader have been approached and sponsored such a team.

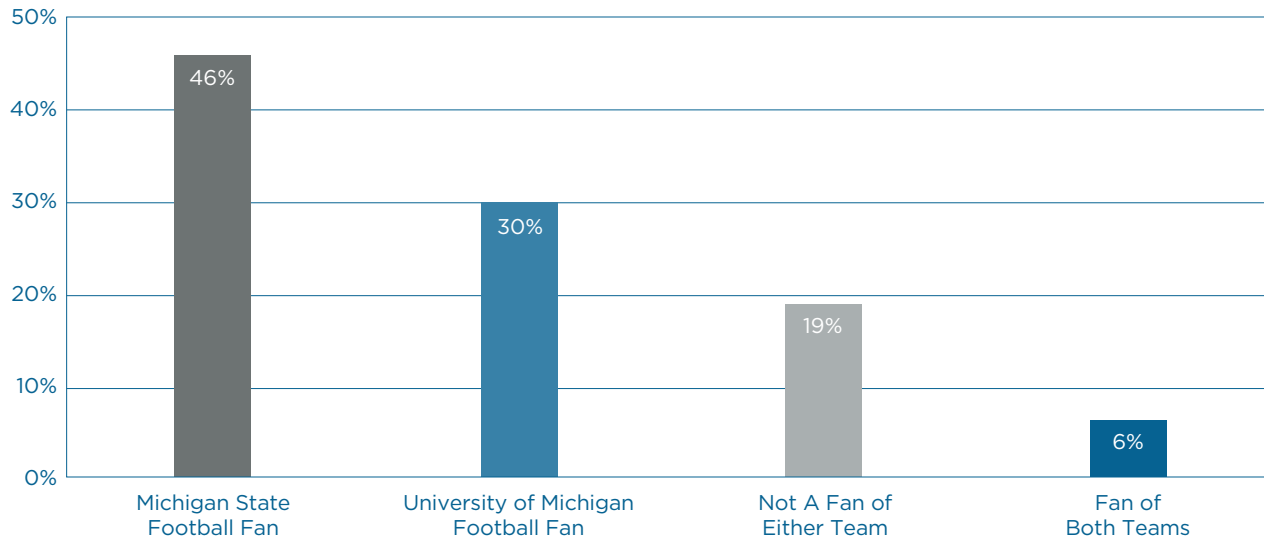
However, during a recent college football season, an automobile manufacturer ran an advertising campaign in the Grand Rapids media market. The automobile manufacturer boasted that they were proud sponsors of the University of Michigan Football program, even though Michigan State University is much closer in proximity to Grand Rapids than the University of Michigan. A recent survey of 206

Grand Rapids Metropolitan Statistical Area (MSA) residents indicated that 46% were Michigan State fans, 30% were Michigan fans, 19% indicated they were not fans of either team, and 6% indicated they were fans of both teams, as shown below in **Figure 1**. Ironically, the automobile manufacturer was running television advertising boasting about sponsoring a team where 65% of the residents in the area were not fans. Furthermore, there is an obvious fierce rivalry between the two schools’ athletic programs.

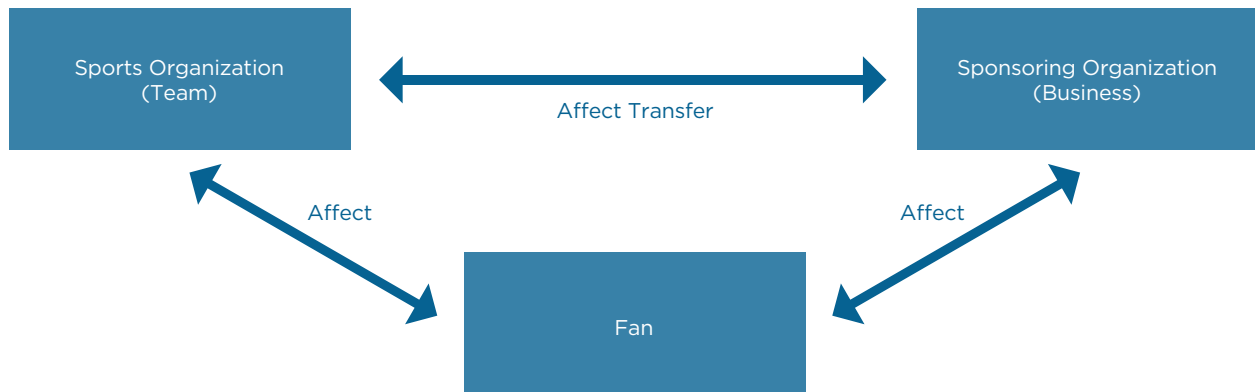
Thus, the question, “Can sponsoring a sports team negatively affect the perception of the company among rival fans?” begs to be answered. Furthermore, “Will this negative perception of the sponsoring company affect the consumers’ willingness to purchase products from the sponsoring company?” While previous research has studied these questions, (Angell, Gorton, Bottomley, & White, 2016; Bergkvist, 2012; Bee & Dalakas, 2015; Dalakas & Levin, 2005; Olson, 2018), the current article introduces and tests a new model for fans’ reactions to rivalry sports sponsorships inasmuch as the results of previous research are somewhat contradictory.

The model being introduced, **Figure 2** below, is based on the consumer animosity model (Klein, Ettenson and Morris 1998) and the affect transfer model (Shimp, 1981). This model suggests that when a company is associated with an institution, such as a university football team (or any sports team), toward which the negative affect (anger) is directed, that company will be negatively affected by the association with that institution.

**Figure 1: Grand Rapids MSA College Football Fandom**



**Figure 2: Affect Transfer Process/Consumer Animosity Model for Sponsorships**



**Methods**

We surveyed 206 Grand Rapids, MI, MSA residents used as participants in the experiment. Each participant was given a list of brands (Toyota, Apple, and Coca-Cola) for which they answered their willingness to purchase each brand's products. Each participant also answered a questionnaire to measure their attitude towards their rival football team. Three weeks later, the same participants were again given the same measures for the brands but this time were told that each brand (Toyota, Apple, and Coca-Cola) was a sponsor of their rival football team before they filled out the survey. To investigate the hypotheses, the data was then used in a paired-t sample to analyze the difference in attitude before and after the realization that these firms were sponsors of each participant's rival football team.

**Results**

Results indicate that the mean animosity score for participants' rival football team was high (**Table 1**). A mean of 8.233 indicates a strong dislike of their rival football team. Also, results indicate that between Time 1 (before the participant was informed of the brands' sponsorship of their rival team) and Time 2 (three weeks later, when they were informed of the brands' sponsorship of their rival team) there was a significant drop in willingness to purchase each brands' products (**Table 2**). A higher mean indicates that there was a greater drop in fans' willingness to purchase tested brand products. As you can see, each brand showed a significant decrease in willingness to purchase the brands' products after the revelation that they sponsor the participants' rival team.

**Table 1: Fans' Affect towards Rival Team**

	N	Minimum	Maximum	Mean	Std. Deviation
Rival Team Affect	206	4.00	28.00	8.2330	5.73173

**Table 2: Growth in Annual Patents by Location of Assignee**

Brands (Time 1 – Time 2)	Mean	Std. Deviation	Std. Error Mean	t	df	Sig. (2-tailed)
Pair 1 CokeSum - CokeSum2	2.69903	4.96099	.34565	7.809	205	.000
Pair 2 AppleSum - AppleSum2	3.45631	4.71485	.32850	10.522	205	.000
Pair 3 ToyotaSum - ToyotaSum2	3.94660	4.50388	.31380	12.577	205	.000

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## Conclusion

The research indicates that a consumer's willingness to purchase from a sponsor of a rival team is significantly lowered when the consumer becomes aware of the sponsorship. Marketing professionals who manage sports sponsorships should take this into consideration. For example, placing advertisements that boast about sponsoring the University of Michigan Football team in West Michigan may result in Michigan State Football fans being less willing to purchase products from that sponsoring organization. Therefore, any promotional plan that carefully selects the proper markets to promote sponsorships is highly recommended. ■

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# The Unbearable Heaviness of Leadership: Why Some Women Decide Not to Bear it, and 5 Ways to Ease the Burden

**Carol M. Sánchez, Ph.D., Department of Management**  
**Kevin Lehnert, Ph.D., Department of Marketing**



Carol M. Sánchez



Kevin Lehnert

Last year we published an article in this journal about why so few women serve as top leaders in West Michigan, and the barriers that block them: gender stereotypes, different career socialization, and discriminatory mindsets. Certainly women, especially minority women, aspire to leadership, and are willing to apply for leadership positions if there are opportunities. And firms with more women in leadership have stronger returns, sales and invested capital, improved social responsibility, and smaller pay gaps (Tate & Yang, 2015).

Still, we wondered: why, in 2018, do gender stereotypes, institutional barriers, and discrimination stand in the way? We reached out to 1,700 men and women at six more Michigan colleges and universities. We found that many competent and experienced women choose not to aspire to top leadership positions. Competent women with more work experience are less likely to aspire to leadership, compared with equally competent men. And competent women with less work experience are more likely to aspire to leadership, compared with men. Why would this be?

Let's review some facts. Gender diversity in organizations is good because firms with more gender diversity in top management show lower risk and better performance (Perryman et al., 2016). But in U.S. organizations, women hold fewer than 20% of top leadership jobs. In U.S. colleges and universities, women hold fewer than 25% of leadership positions (such as full professors, college presidents, and chief academic officers), although 43% of faculty and staff are women (Johnson, 2016). Women also earn 20% less than men in U.S. universities (Lennon, 2013).

So why don't more women aspire to be leaders? We found that the more women associate leadership with negative

aspects, the less likely they aspire to leadership. This isn't the case for men. Many women perceive that leadership puts a high demand on family life, takes away from personal and work flexibility, comes with high costs, and provides insufficient rewards. These negatives don't seem to matter to men, who aspire to leadership despite them.

Also, the amount of work experience they have influences women's aspirations to leadership differently than it does for men. Despite what some say, it's not that women underestimate their competency to lead or are afraid to "lean in" (Sandberg & Scovell, 2013). Rather, among competent men and women, women aspire to leadership based on the amount of experience they have – and not in the way you might presume. Competent women with less work experience are more likely to aspire to leadership, compared with men. And competent women with more work experience are less likely to aspire to leadership, compared with men. But don't these results seem backwards?

It turns out that the same barriers – gender stereotypes, different career socialization, and discrimination – explain these counterintuitive results. Perhaps younger women with limited experience are not yet discouraged by the unbearably difficult road to leadership. But among senior women with more work experience, it is precisely their longer tenure, their greater experience that combines with the three barriers to dampen their aspirations to leadership.

In other words, as women gain experience and positions of greater responsibility, they become interested in the top roles. But often after serving in middle-management, something interesting happens. As they aspire to higher positions, women find more resistance than they thought. Many senior women say that the barriers to the CEO and other top management jobs are more deeply rooted in discrimination and persistently different socialization than they thought when they had less experience. For example, a female senior executive noted that she always had to perform better than everyone else to be considered equal. But when women do well and assert it so that it is noticed, men often react badly. Women who negotiate for promotions are 30% more likely than men to be labeled intimidating, bossy, or aggressive. Even when women are well-established in the upper management pipeline, they are often overlooked. One woman noted that the men in her organization received promotions in two years, while women had to wait three years, with the only explanation being "we're not sure she is ready for the job" (Chira, 2017).

<sup>1</sup> The full version of this paper was published in the *Journal of Business Research*: Sánchez, C. M., & Lehnert, K. (2019). The unbearable heaviness of leadership: The effects of competency, negatives, and experience on women's aspirations to leadership. *Journal of Business Research*, 95, 182-194.

Then there's sex discrimination in wages. Women working full time in 2016 made 81 cents for each dollar made by men (U.S. Census Bureau, 2017). The gap is larger among college graduates, and more so in business, finance, and legal careers than in science and technology. So, the more professional the field, the larger the wage gap, which increases with age, when women marry, and start to have children.

Finally, there's sexual misconduct. In its most egregious form, sexual assault of the kind practiced by some powerful men in politics, media, and technology happens so frequently that it chips away at a woman's patience and sense of self, even among strong and successful women. Women often start their professional careers with optimism, but sexual misconduct in the workplace dampens women's autonomy and influences the choices they make, including their aspiration for top positions. Women often deal with sexual misconduct by brushing it off, not calling it out, and internalizing it. This becomes tiring, then exhausting, as women gain more experience and wisdom about how their organizations work. While the men succeed in negotiating powerful deals for themselves - and are commended for being fierce and tactical - women must balance coming across as assertive but not too aggressive just to get their fair share. So women soldier on, often to exhaustion. After enduring decades of sex discrimination and misconduct, women get tired of fighting, and many opt out of the running for top leadership.

### **What can organizations do to get more experienced women into leadership?**

Our study of Michigan universities suggests that organizations can do five things to lighten the burden, reduce the negatives, and encourage competent, experienced women to seek top leadership posts.

#### **Provide monetary and non-monetary incentives to women that make leadership more attractive and less burdensome.**

Pay women the same as men for the same positions and responsibilities. Make salaries transparent so that employees know what their male and female colleagues earn and begin to close the wage gap. Offer family leave to both women and men, knowing that it is especially important to women because they are often most responsible for juggling family responsibilities even when they hold positions of significant responsibility. Provide opportunities for flexible working hours and locations so women and men have options to manage careers, families, and other priorities. Such moves will help convince women that the positives of leadership outweigh the negatives.

#### **Proactively promote and sponsor women: do not expect them to always self-promote.**

Build formal mentoring programs that give mentors and mentees common goals to accomplish and remove the social awkwardness of expecting men and women to seek each other out. Institutionalizing a formal mentoring program discourages gossip and suggestive comments because it is part of the company's culture. A leader at Google sent out regular "nudge" emails that explained promotion opportunities and urged women to nominate themselves. Women did, suggesting they perceived the support and saw more positive than negative aspects to leading.

**Require that women are seated at all the tables.** For example, oblige corporate recruiters to bring diverse slates of candidates for the positions they want to fill. If they don't, recruiters will tend to suggest candidates they have seen before and who look very similar to the current leadership - which is usually male. Require the boards and panels that executives are asked to serve on not be all-male. Formal inclusion practices such as these suggest to women that their experience and competence is respected and increases the positive attributes of leadership.

**Use "blind auditions" to help fill leadership positions with more diverse candidates.** Have applicants complete a test that is evaluated by a hiring manager who knows nothing about the applicant: not gender, age, schooling, or name. Comedian Samantha Bee, producer and star of Full Frontal, did this to recruit writers. To level the playing field, producers created a detailed instruction packet for applicants so that every application received looked exactly the same with no way to tell men from women or whites from non-whites. As a result, Full Frontal's writing staff was split evenly between men and women, and 25% were minorities. Women who see more female role models in their organizations begin to believe that leadership is desirable, and they will be encouraged to try it themselves.

**Speak out against gender-based misconduct in the workplace.** Sexual misconduct ranges from demeaning "bro talk" among men about women to flip remarks signaling to women they are not respected or taken seriously to outright sexual assault against women. It occurs in most, if not all, industries. Men know it happens: they see it, they hear it, they watch it, and yet they often do little to stop it. Many say to call out other men is uncomfortable, embarrassing, emasculating, and bad for their careers. But men especially must speak up in their organizations to stop it. When someone makes an offensive comment about women, an observer's gently-put question such as "what did you mean by that?" might jolt the person into changing their behavior (Lipman, 2018). Change is important because sexual misconduct often derails women's careers.

Many competent women with lots of work experience who don't aspire as readily as men to leadership positions can tell us something important about leadership. The road to leadership can be negative, perhaps unbearable, for women. Until that changes, there will be fewer experienced women in positions of leadership, which our organizations desperately need. Organizations can change by doing five things to convince women that leadership, while still a formidable burden, is less unbearable than many women have found it to be. ■



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# Manufacturing and the Grand Rapids Economy

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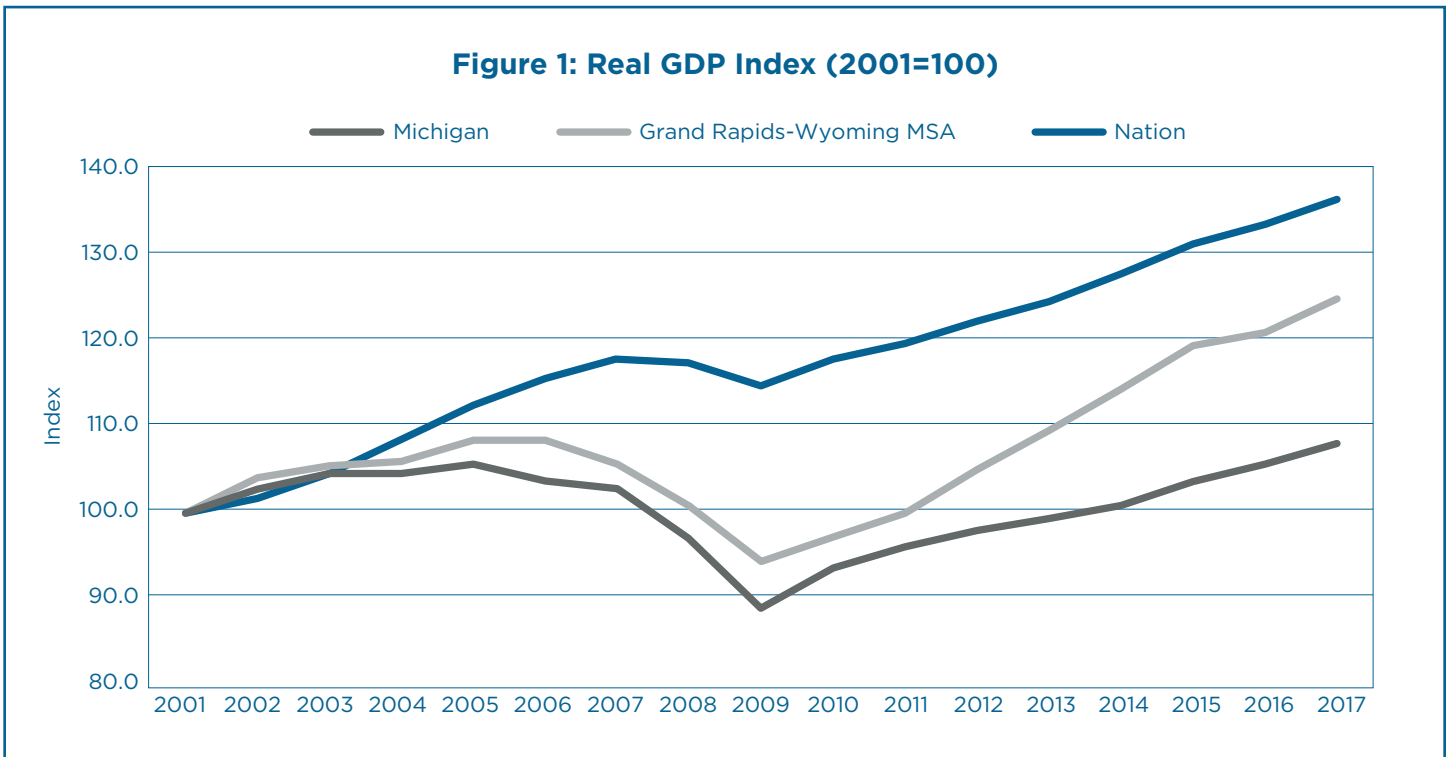
## Introduction

The manufacturing sector is clearly an important part of the local economy in West Michigan. A heavy reliance on manufacturing is a mixed blessing. Employee compensation in manufacturing is above average and manufacturing has relatively large “multiplier” effects on local economies. On the other hand, manufacturing is cyclical so when there is a recession, areas that are dominated

by manufacturing suffer relatively more than other areas. Of course, this also means that in economic expansions manufacturing economies do relatively well. There is concern, however, independent of the business cycle effects, which the manufacturing sector in the U.S. is declining, and this

may spell trouble for economies, like Grand Rapids, which are focused on manufacturing. Many people believe it is important that the local and state economies diversify so that it can better withstand future recessions. This report uses data from the Bureau of Economic Analysis (BEA) to provide an overview of manufacturing output, employment, and compensation in the Grand Rapids-Wyoming MSA with attention to the impact of the Great Recession and the recovery since. To put the Grand Rapids experience in context, I compare Grand Rapids to the state of Michigan and to the nation.

**Figure 1** shows indices of Real Gross Domestic Product from 2001-2017 (base year 2001) for Grand Rapids, Michigan and the nation. Clearly the local and Michigan economies suffered more during the Great Recession than the country overall and continue to lag the country during the current expansion despite the recent relatively rapid growth locally. The relatively large impact of the Great Recession on Grand Rapids’ (and Michigan’s) GDP was likely a result of the size of the manufacturing sector in the local and state economies.



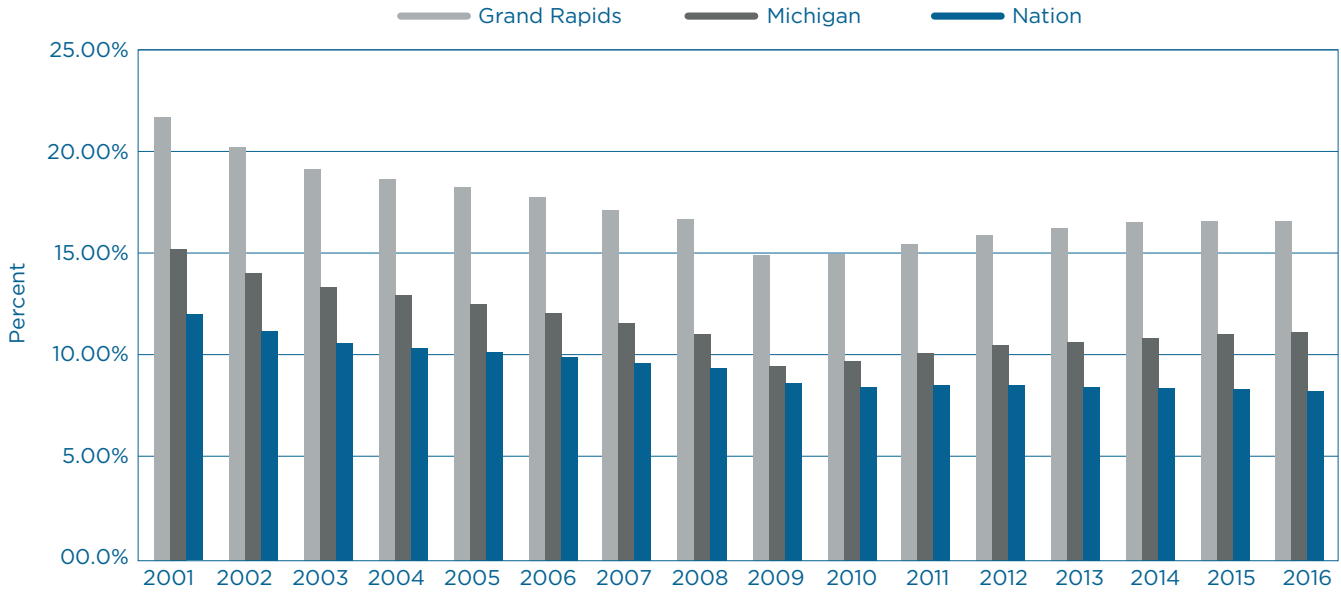
Source: Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov))

## Employment

One way to measure the importance of manufacturing is to consider number of employees. **Figure 2** shows manufacturing employment as a percent of total employment for the years from 2001-2016. Two conclusions are evident: First manufacturing accounts for a much larger share of the labor market in Grand Rapids-Wyoming MSA than in

the nation or in Michigan. Second, for all three geographies, manufacturing employment share has diminished over this period. Manufacturing employment in Grand Rapids and Michigan have rebounded somewhat from the Great Recession, but there is basically a steady downward trend for the nation.

**Figure 2: Manufacturing Employment as Percent of Total Employment**



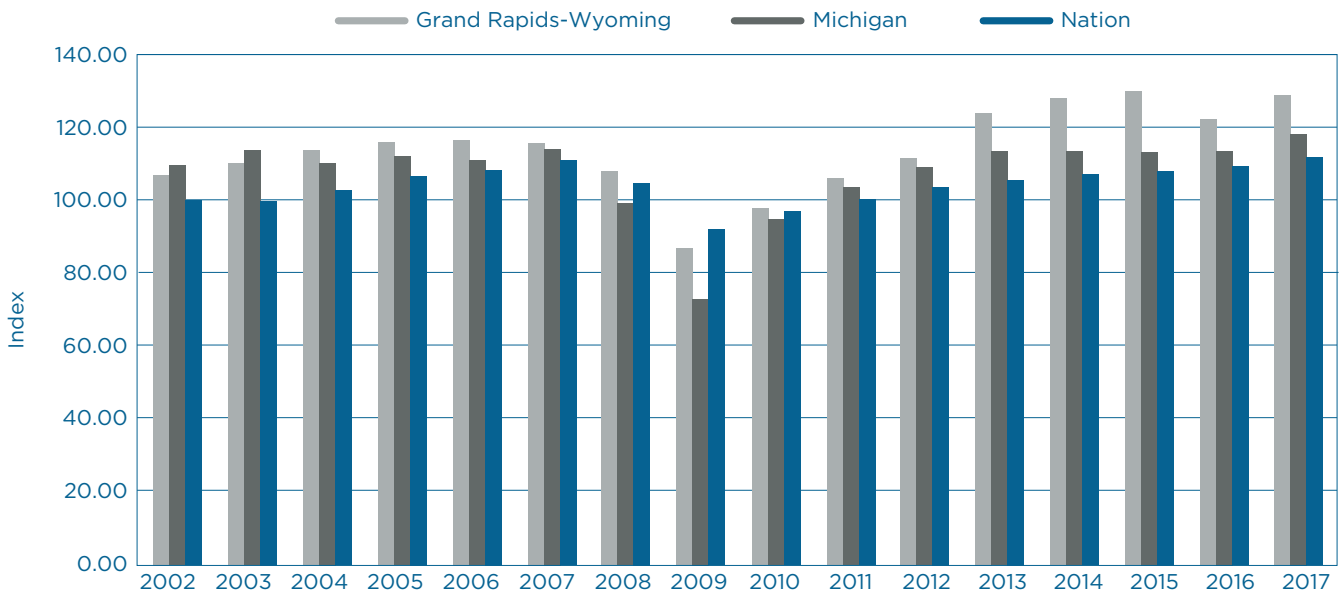
Source: Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov))

**Manufacturing GDP**

Falling employment does not necessarily mean that the manufacturing sector is shrinking. Employment could fall even with rising total output because of increases in labor productivity. **Figure 3** presents changes in the real value of manufacturing output from 2001-2016. Output fell during the Great Recession and the decrease relative to 2001 was greater for Michigan and the Grand Rapids area than for the

nation. There has been a rebound since the recession ended, such that the real value of manufacturing output was greater in 2017 than in 2001. By 2017, the value of manufacturing output was 11.35% higher than in 2001 for the nation and was 28.34% higher in the Grand Rapids-Wyoming MSA (the value of manufacturing output peaked locally in the period in 2015 with an index value of 129.29).

**Figure 3: Real Value of Manufacturing Output (Base Year 2001)**

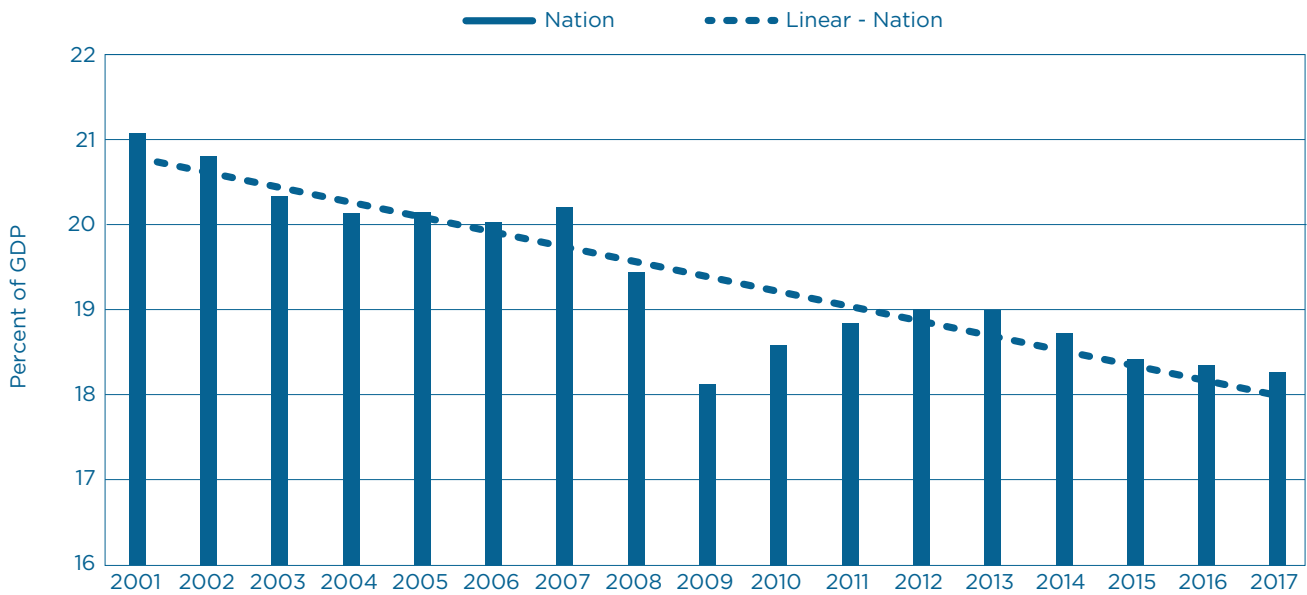


Source: Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov))

Yet another way to measure the importance of manufacturing is to compare the value of manufacturing output to the value of total output. It is well-known that the U.S. economy is becoming more of a service economy. So, even if the manufacturing sector is growing, it may be shrinking in size relative to the whole economy. In fact, as demonstrated in **Figure 4**, that is exactly what is happening for the national

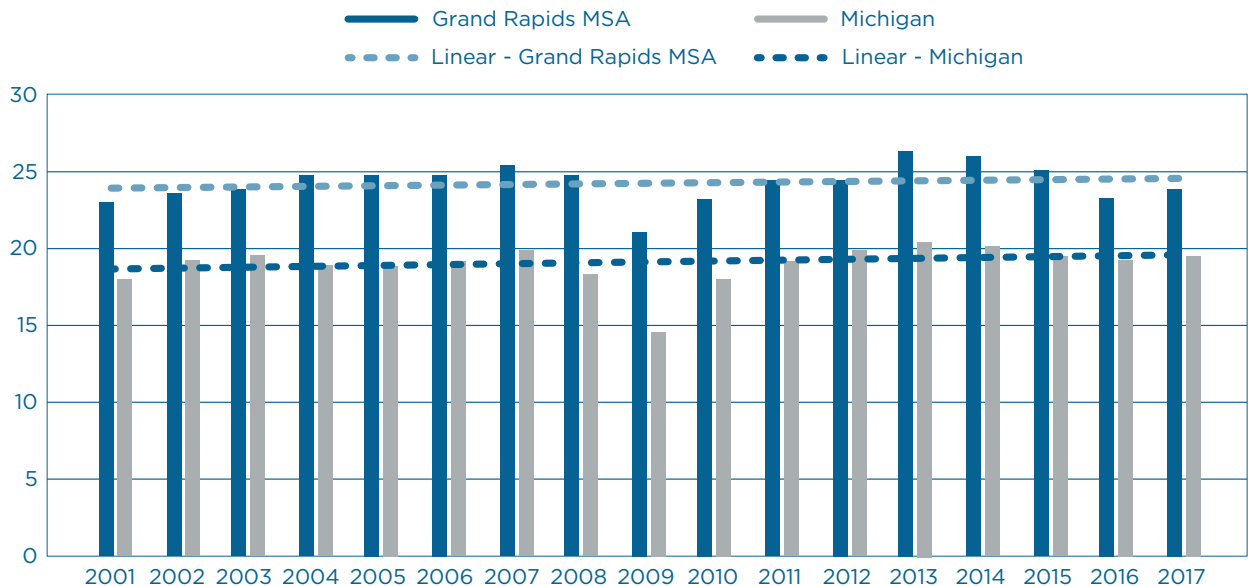
economy. The experience for Michigan and Grand Rapids, as presented in **Figure 5**, tells a different story. As manufacturing is more cyclical than the rest of the economy, it is not surprising to see the drop in the recession years, but by 2017 manufacturing accounted for a slightly larger portion of total output than in 2001.

**Figure 4: Manufacturing Output as Percent of GDP Nation**



Source: Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov))

**Figure 5: Manufacturing as Percent of Total Output**



Source: Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov))

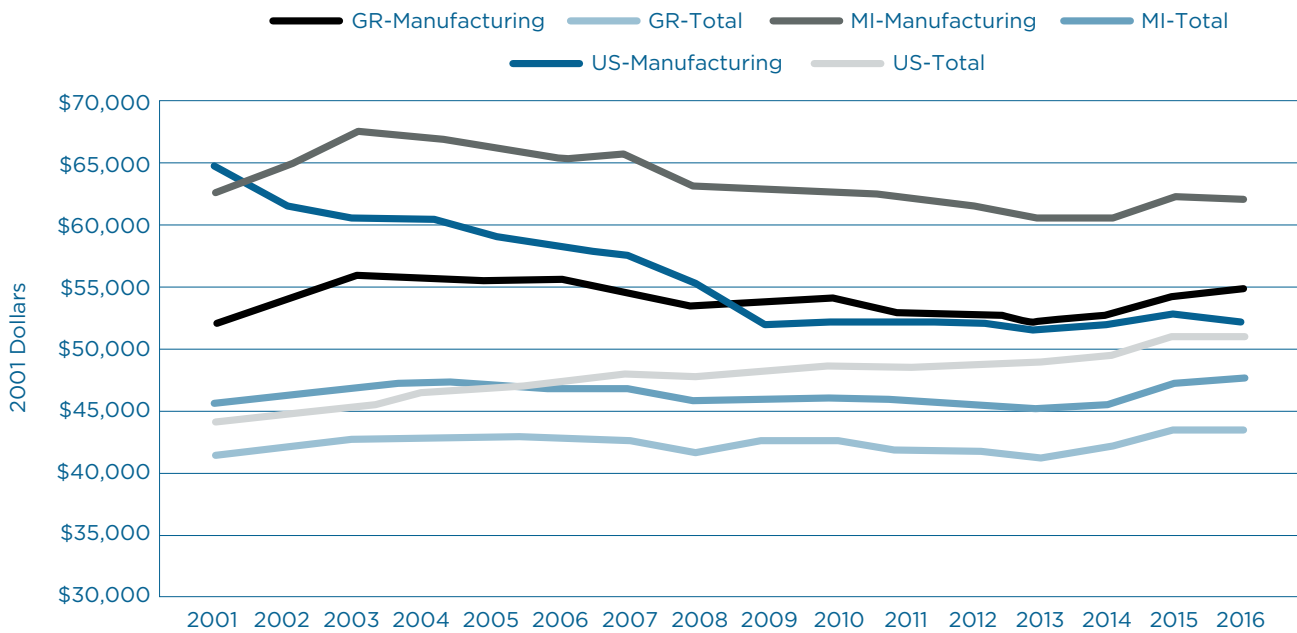
## Employee Compensation

Employee compensation—pay and benefits—in manufacturing is above average. For example, in 2015 average compensation in manufacturing in the Grand Rapids-Wyoming MSA was \$71,586 as compared to \$57,027 for all employees (so manufacturing compensation is included in the latter figure).

**Figure 6** shows that manufacturing compensation from 2001-2016 grew faster in the Grand Rapids-Wyoming MSA than in the rest of the country. In 2001, average compensation in manufacturing in the Grand Rapids market was only 81% of that for the country, but by 2016 it was 5 percent higher

than the national average. Average compensation for all employees in the Grand Rapids market is below the national average for the entire period and has fallen from 94% of the national average in 2001 to only 85% by 2016. In fact, as seen in **Figure 6**, real compensation—both in manufacturing and overall—has barely kept up with inflation over this period. The largest increase has been for average compensation for all employees nationally. On the other hand, real compensation in manufacturing for the country has fallen (in 2001 dollars) from \$64,000 in 2001 to \$52,054 in 2016.

**Figure 6: Average Annual Real Compensation (2001 Dollars)**



Source: Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov))

## Conclusion

The Grand Rapids-Wyoming economy is currently doing well. As demonstrated in **Figure 1**, its economy is growing much faster than the country overall. Between 2009 and 2017, GDP grew 32% as compared to 18.7% for the country. Local employment reached its nadir during the Great Recession in July 2009. The local unemployment rate that month was 13.3%. Since then, the total non-farm private employment has risen 29%. The Bureau of Labor Statistics

reports a preliminary estimate of the local unemployment rate in August 2018 of only 2.7%. While local employee pay is relatively stagnant, this is not different than the rest of the country. Nonetheless, the Grand Rapids economy continues to be dominated by manufacturing. Thus, it is likely, once again, to be more negatively impacted by the next recession than the country overall. ■



# From Classroom to Business to Research: Seidman Supply Chain Management in Action

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Supply chain management is nothing if not practical. The discipline grew up in stockrooms, warehouses, and shop floors with the goal of improving the day-to-day operations that drive a business. The classroom is no different. Supply chain management education equips students with conceptual tools that they can take to work and apply right away. So when JR VanTuinen studied operations and supply chain

management with me a few semesters ago, he was able to recognize how the concepts covered in the class might apply to his family's business. That recognition led to a conversation and ultimately to a plan: we would work together on an independent study that applied supply chain management thinking to a concrete issue facing the business. JR could earn credits by applying his classroom learning while also adding value to his family's company. And I could collect data for new teaching materials and research by observing a supply chain improvement process in real time. Win-win.

**The Setting:** Accurate Regrinding Service is a Grand Rapids-based family business with seven employees. JR's grandfather acquired the company in 1984, and it is currently owned and operated by JR's dad and uncle. The company uses state-of-the-art technology to regrind drill bits and other cutting tools that have become worn or damaged through use in manufacturing. Regrinding can return cutting tools to their original performance capabilities, saving customers money without sacrificing quality. Accurate Regrinding has succeeded over the years by delivering exceptional quality on their finished products while also developing close working relationships with suppliers and customers.

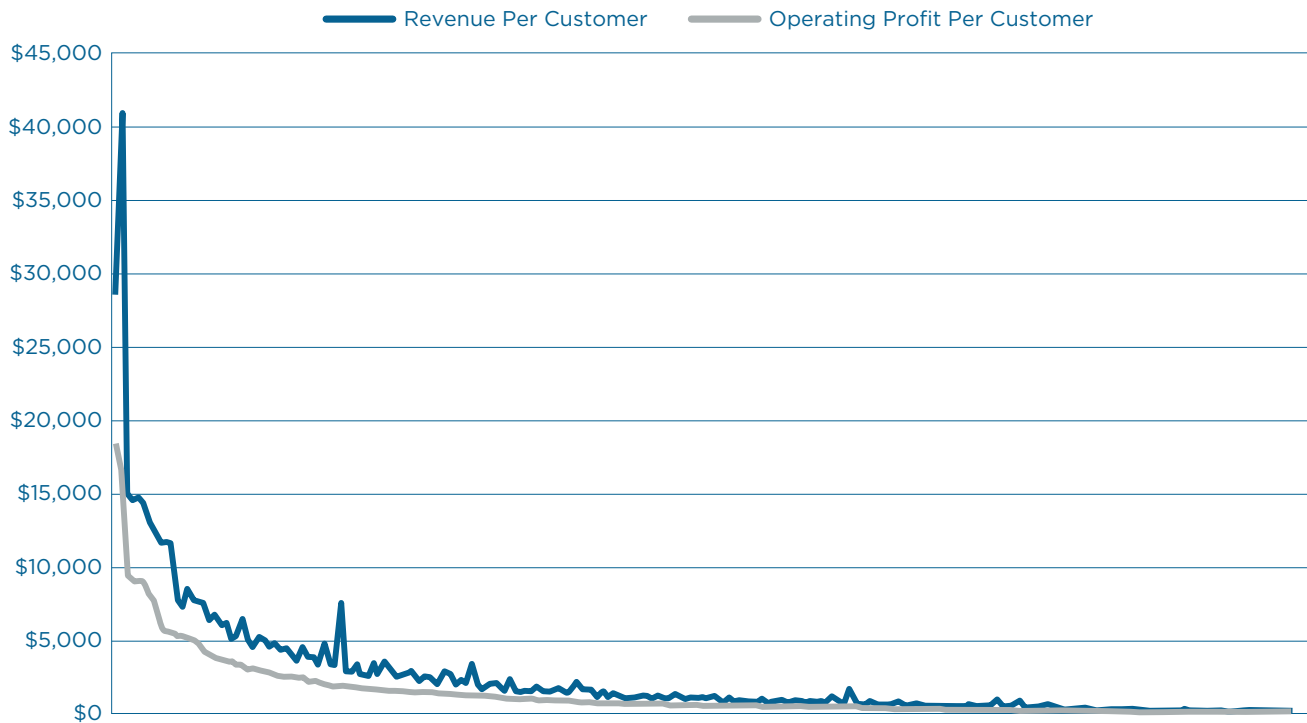
**The Problem:** As in many businesses, a working assumption at Accurate Regrinding was that customers cost about the same to serve, and, therefore, ranking customers according to revenue was sufficient for identifying top earners. Yes – there was always a “gut-feeling” that some customers required more work than others and were probably less profitable, but when it came to running the numbers, revenue served as a rough approximation of customer profitability. At the start of the project, Accurate Regrinding was considering an across-the-board price increase coupled with discounts to what they thought were their A customers, slightly smaller discounts to B customers, and no discounts to C customers. The idea was to increase total revenue while trimming the “long tail” of customers with low sales volume. But the team wasn't confident in the new pricing plan and continued to argue back and forth over the decision.

**The Project:** JR decided he could help: “The current team didn't have the time or resources to conduct a study on customer profitability, but I did. I had learned about time studies and product costing models and felt those concepts could be applied to make a data-driven decision on customer pricing.” In particular, JR felt the company needed to do a better job distinguishing between customers that truly drove profits versus customers that drove sales volume or revenue. As JR noted, “Oftentimes additional sales volume comes with additional process complexity, which adds to the costs of completing an order.” Accurate Regrinding had no system in place for identifying profitable customers, and as the company grew, “gut-feeling” alone just wasn't enough to support strategic decisions. Identifying profitable customers required data collection and analysis. That's where JR decided to focus for his independent study project.

**The Process:** JR's project centered on a core idea in supply chain management: the cost to serve. The cost to serve represents all those costs associated with customer revenue stream that would disappear if that customer disappeared (Guerreiro et al., 2008). Cost to serve models provide companies with a view of profitability at the customer level, giving them the data they need to start designing their supply chain to deliver optimal value to different customer segments (Stank et al. 2012). In the case of Accurate Regrinding, developing a cost to serve model meant (at a minimum) understanding all the costs associated with taking in tools from customers, sorting tools into optimal batches for regrinding, regrinding tools in batches while also managing the complexities associated with unique jobs, resorting tools according to customers, and finally delivering tools back to customers.

JR's cost to serve model started with gathering data on the length of time associated with regrinding all the different types of tools the company received, in other words the cycle time for each tool. Data collection was easier said than done. As JR noted, “We had never actually calculated the cycle time associated with different tools due to the fact that each tool was considered unique due to its wear.” Gathering this data required machine operators to write down cycle times for hundreds of specific tools over the course of several weeks. Once the data were collected, cycle times were then translated into a per tool cost by calculating associated labor costs, machine costs, facility costs, electricity cost, and supplies/ utilities costs. Finally, an initial cost to serve was calculated for each customer based on the assortment of tools that the customer had sent in for regrinding. Although the complexity of recording cycle times resulted in a narrower cost-to-serve model than originally planned, the project tackled the primary costs associated with the most popular tools.

**Figure 1: Customers Ordered By Operating Profit**



**Outcomes:** JR's analysis provided his dad and uncle with data they needed to make an informed decision on pricing and customer service moving forward. JR's analysis, represented in **Figure 1**, allowed the company to offer additional services to their most profitable customers while adjusting pricing for other customers to ensure the company maintained its margins on high volume, high complexity orders. As JR explained, "Being able to see customer revenue versus customer profit was critical. Every spike in the upper line represented a customer that was adding sales volume - and potential complexity - without adding revenue. Before this project, we would have misidentified many of those customers as better earners than what their true profitability actually was." The overall benefits have been significant. Since the project, Accurate Regrinding has been able to reduce the number of tools it grinds by 4.8 percent while increasing revenues by .4 percent. The company has also updated its software to continually monitor cycle times in an effort to improve their understanding of the costs associated with processing different tools. More generally, the company become more data-driven in its decision-making rather than relying on "gut-feeling."

JR's reflections on the project best summarize the value of applying supply chain management concepts to his family's businesses: "Dan and I applied concepts from his operations and supply chain management class to develop a model that has impacted Accurate Regrinding's products, pricing, and customers. Decisions can now be made based on data, instead of "gut-feeling". Although "gut-feeling" may come somewhat naturally to first or even second generation

owners, those "gut-feeling" may not be so natural for the third generation. That could be why most family-run businesses fail in the third generation. I thought a lot about this as I was trying to link my education at Seidman to my family's business. This project, and my education at Seidman more generally, has dramatically improved my value to the company. I now feel much more confident in my role at Accurate Regrinding, and so do my dad and uncle."

Not only does JR's project represent an innovative model of supply chain management education at Seidman, it has also helped generate a new research stream in collaboration with the Seidman Family Owned Business Institute focused on the professionalization of operations and supply chain management practices in family owned businesses. An initial theoretical outline of the research presented at the Council of Supply Chain Management Professionals (CSCMP) was well received, winning a prize for advancing theory in the discipline. Similar projects are now underway with other students. ■

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

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Research Team, Colliers International | West Michigan

## 2019 Industrial Forecast

The manufacturing sector of the West Michigan region has been a driver that has kept unemployment low relative to other markets, has helped mitigate economic downturns, and has been a catalyst for economic recovery. The diversity of industries creates synergies between local and regional companies, and with the prime logistical location between Chicago, Indianapolis, Detroit, and even Toronto, West Michigan is an ideal manufacturing and distribution market. Industries such as Aerospace, Tier II and III Automotive, Food Processing, and Medical Device Manufacturing have all thrived in the region. Even retail giant Amazon took notice this year and has since opened an 850,000-square-foot fulfillment center in Gaines Township, its first such building in West Michigan. Amazon, with various facilities on the east side of the state, however, saw an opportunity in West Michigan and moved quickly to take advantage.

Amazon opening distribution and fulfillment centers around the country is a result of the proliferation of online shopping. As **e-commerce** continues to grow, logistics of quick and efficient delivery of packages to their destinations has become a focal point. The “last mile distribution” model is built in a way that fuels the demand from two different angles. As the internet makes purchasing items easier with factors like revolutionary payment processing, improved web design, reduced overhead, and wider access, the need for distribution subsequently grows. Yet at the same time, as distribution gets more efficient, the appeal of online ordering also grows. These factors working simultaneously have made this trend increase in a hurry.

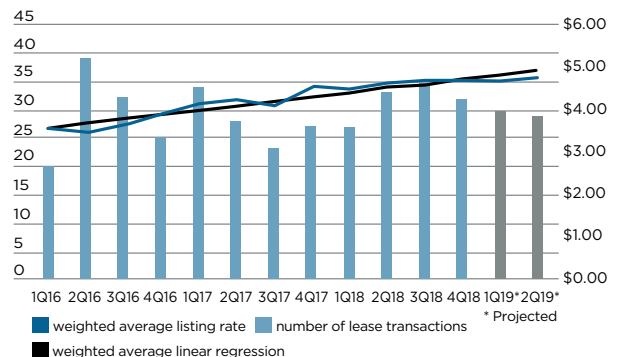
Not every company, however, has the means to distribute their own product throughout their territory. This is where third party logistics (3PL) companies come into play. West Michigan is home to a number of these, and we see the 3PL industry growing in 2019. In 2017, FedEx built a new 340,000-square-foot distribution center and warehouse at 3466 Shippers Drive NW in Walker. In the spring of 2018, Same Day Delivery leased space at 3378 3 Mile Road (a former FedEx facility). At the end of 2018, Surface Logistics leased 74,000-square-feet at 5738 Eagle Drive.

The industrial real estate market currently has a historically low vacancy rate, under 5 percent, and the unemployment rate in the Grand Rapids-Wyoming metropolitan statistical area was a mere 2.6 percent in the fourth quarter of 2018. This means companies are operating at near-maximum capacity, while at the same time the **labor pool is stretched thin**. This shortage of warehouse labor is raising the competition to retain employees, with firms raising wages as well as building warehouses with more amenities. Labor shortages will also increase the usage of automation in distribution in the coming years, and developers will need to be cognizant of automation machinery requirements when building new distribution centers.

The labor shortage isn't limited to warehouse workers. As automation increasingly fills voids left by lack of basic labor, **skilled labor** to operate and maintain technology becomes necessary. Companies in other countries have launched dual-training programs, where the apprentice splits time between the classroom and the workplace. A number of organizations in West Michigan have begun a serious push to educate the next generation of workers about the opportunities available and have initiated training programs prior to entering the workforce; however, there is still a serious talent gap that needs to be addressed in order for manufacturers in the region to grow.

A national theme, which will eventually trickle into the West Michigan market, is international trade. While the apparently successful United States/Mexico/Canada Agreement (USMCA) negotiation is welcomed news, the escalating trade disputes between the United States, China and Europe remain a concerning headwind. Any growth in domestic manufacturing from the USMCA could be mitigated or even overtaken by increased **tariffs** on products manufactured in the U.S. This could shift some foreign automaker manufacturing away from the U.S. to Asia, which could eventually make its way down the pipeline and affect Tier II and Tier III suppliers in West Michigan. In addition, as GM and Ford shift their business models away from the traditional automobile to **autonomous and electric vehicles**, they have threatened to close a number of existing plants and eliminate more than 38,000 salaried jobs between the two companies in order to restructure. Suppliers who have preemptively adapted to this paradigm shift and have invested in technology and skilled labor to provide new-age parts will have an advantage over those who haven't. These shifts in the automotive industry will likely have an impact on industrial real estate in West Michigan in 2019.

Figure 1: West Michigan Industrial Transactions and Listing Rate Trends



Source: Colliers International Research Department

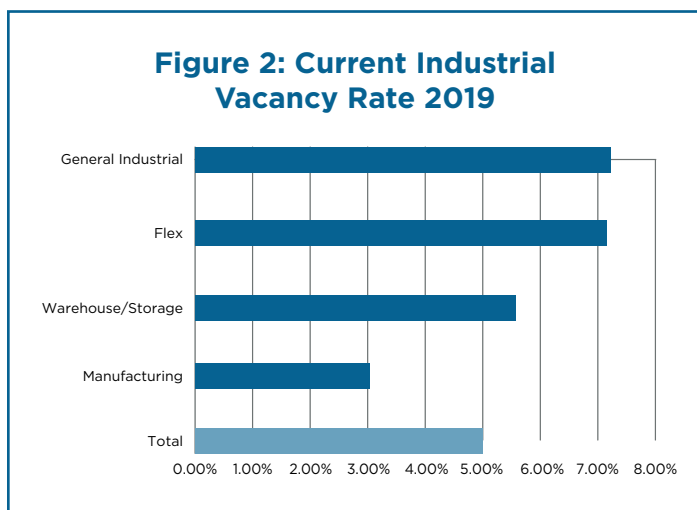
With such low available inventory, **new construction has increased**. However, making the financial numbers work has been a real challenge for companies. Input prices continue to rise and have been impacted by international trade. Lack of construction workers is creating a shortage of available contractors and sub-contractors, which is driving up prices. New energy efficiency regulations are adding to the price-per-square-foot construction cost. When looking at replacement costs, the sticker-shock of new construction has been prohibitive to companies in many cases. Companies are often times opting to make the best of the space they have, moving to whatever other space they can make work, or in many instances, just adding onto their existing building. Investment in automation rather than real estate is also something that companies are doing in order to grow production without an increase in space demand. Any construction that does happen will likely be build-to-suit for these reasons, rather than speculatively built. When new construction does happen, a theme we have seen this year and will likely see going forward is building not only to fit a company's needs but also creating space for future expansion. This allows for short-term landlord flexibility while reaping the benefits of construction economies of scale.

As we look ahead, the short-term forecast for industrial real estate is robust, thanks to a strong economy and e-commerce trends. Further out, trade disputes and growing labor shortages represent rising headwinds. The U.S. and local economies continue to fire on most cylinders, despite mounting headwinds. Economic growth for the year should again be strong, though the recent pace will not be sustained much longer. Job growth remains very strong but continues to ease as we are nearing full employment and wage growth is reaching its targets, and the Federal Reserve Board will continue its pace of moderate hikes through next year in its quest for a soft landing in 2020 or 2021.

### Office Forecast

As the national economy has continued a slow but steady recovery over the last eight years, West Michigan's office market has steadily grown as well. Each quarter has seen positive net space absorption while vacancy has decreased by more than 10 percent during that time. The downtown office market continues to see both development and redevelopment with the city's core expanding in all directions. The suburban medical office market continues to thrive as well. Heading into 2019, it is expected that the market will continue to stabilize and face some economic uncertainty, but largely continue its positive momentum. As West Michigan builds its reputation nationwide, we expect national companies to grow their presence in the area, while regional companies also make decisions to position themselves for the future.

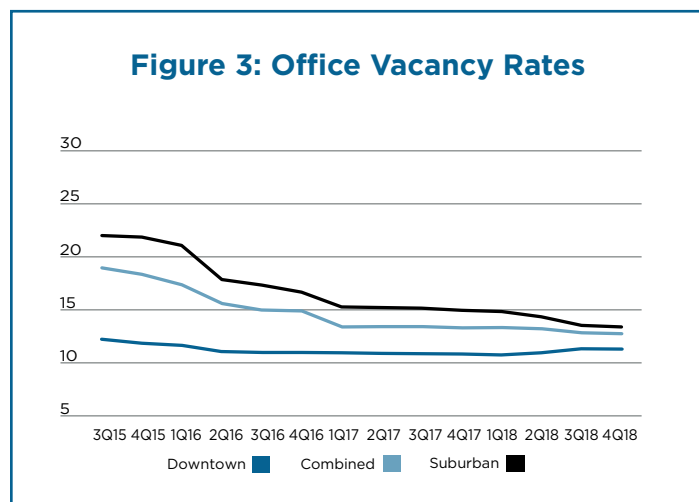
**Figure 2: Current Industrial Vacancy Rate 2019**



Source: Colliers International Research Department

Industrial land sales should continue to be active, and **investor sentiment** in the product type will again be very positive. As we reach the peak of the market, some current owners will look to exit and take their gains, while out-of-market investors who have exhausted all of their opportunities in major markets will continue to look towards secondary markets like West Michigan and view it as some of the last remaining places to get yield. The problem facing sellers is where to roll the proceeds into, as options are scarce and with stock market volatility and capital gains tax implications, exiting the commercial real estate investment market can be unappealing to some.

**Figure 3: Office Vacancy Rates**

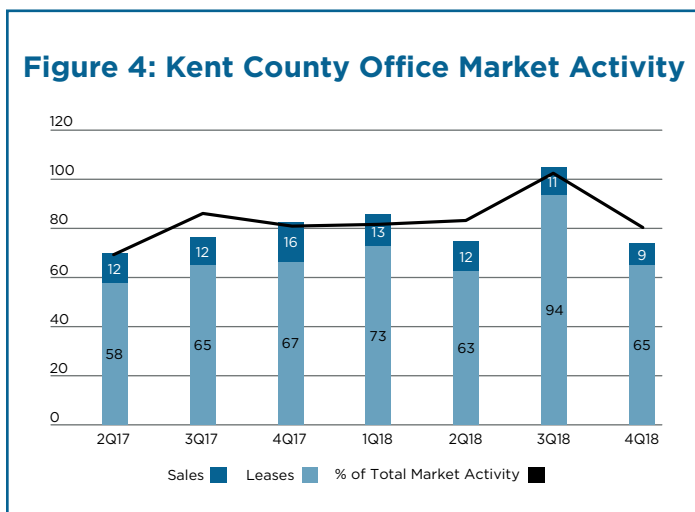


Source: Colliers International Research Department

Despite a slow start to the year, Gross Domestic Product (GDP) growth for the United States throughout all of 2018 is expected to reach more than 3 percent, which would be the highest rate since 2004. Meanwhile, the economy continues to create new jobs at a healthy rate — averaging just under 200,000 nonfarm payroll jobs per month over the past year. Grand Rapids has benefitted from this more than most metropolitan areas in the state and now has an unemployment rate of approximately 2.5 percent. As we move into 2019, we expect job growth to slow slightly, however, it is expected that growth will still be positive. Although we are nearing full employment, the labor

participation rate, which is a calculation of those 16 years or older who are employed or actively seeking employment, is expected to increase. Michigan has been below the national average since 2003.

West Michigan continues its battle for qualified workers, which is causing many companies to re-examine their office space. **A theme we talked about in last year's forecast, and expect to continue to manifest itself in 2019, is that of flexibility.** This means flexibility of working from the office or from home, or even from a coworking space. It also means flexibility of the building itself. Many buildings now offer services such as exercise rooms, small conference rooms, cafés, dry-cleaning, or pet-friendly environments. Amenities keep people in the building, allowing them to complete tasks like exercise and eating, or even dry-cleaning or pet services, without having to leave the premises. As office spaces evolve, the importance of creating environments that cater to a multi-tasking generation are growing in importance.



Source: Commercial Alliance of Realtors West Michigan

Office space as an investment has always been risk and reward. As trends of open-office, coworking, evolving retail co-tenancy, and increasing amenities start to characterize office buildings, functional obsolescence has become a reality. Some building owners have invested in updating buildings to meet current demands, but not all are able to do so. In this competitive landscape for working talent, **companies are increasingly interested in space that will differentiate themselves and be more attractive to employees.** In 2019, we see this movement continuing to increase.

Coworking is another trend to keep an eye on in 2019. On a national level, an estimated 55 million square feet of space is occupied by coworking space. Coworking space is office space that is leased out to individuals or a small group who desire a small or flexible space, often on a short-term basis, without signing a larger master lease. There are currently at least 10 coworking locations in Grand Rapids, and this number could grow in 2019.

### Five Coworking Trends for 2019

- Technology – access cards, space management software, room booking systems, time trackers, and lower staffing overhead allow for almost full-time access in some cases.
- Coworking Programs – multiple coworking companies participating to allow users to subscribe to and utilize various companies at various locations.
- Space Design – design continues to become more engaging and inviting, adding to the allure of these spaces.
- Additional Services – babysitting, dog-sitting, yoga classes, and relationships with other providers like banks and accounting firms increase the benefit.
- Corporate Buy-in – Coworking had been primarily used by freelancers, solo entrepreneurs, and start-ups, but now larger corporations are exploring coworking spaces for their employees to offer flexibility.

There has been some tenant movement over the past year, and we expect a continuation of this theme in 2019. Companies like Chemical Bank and Van Wyk Risk Solutions – both joining law firm Warner Norcross and Judd, LLP in the new Warner Building at 150 Ottawa Avenue NW – as well as insurance company Acrisure, and accounting firm BDO all made notable moves in 2018. Law firm Bodman PLC secured a long-term residence at 99 Monroe Avenue NW and Lighthouse Insurance leased 30,000 square feet on Grandville Avenue downtown. In the suburbs, Keller Williams Realty East moved their headquarters from 630 Kenmoor Avenue SE to 1555 Arboretum Drive SE in Cascade. Many companies are looking for space, but quality options are becoming somewhat limited. New construction is a natural solution. However, cost of construction continues to climb, so while many office users desire to own, building new has become a challenge. **We continue to benefit from investment and commitment to the community, something that helped insulate us from the previous downturn,** and something that has propelled us to where we are now.

The medical community on East Paris, informally known as “Medical Mile East”, has continued to grow. The three-building Heritage Pointe development has been completed within the last few years and was leased to Mercy Health, Foot and Ankle Specialists, West Michigan Eye Care Associates, and Total Health Chiropractic. A fourth medical building nearby will house Bengtson Center, which is moving from the Woman’s Health Center in 555 MidTowne Street, near downtown.

Also taking place in 2019 on the city’s west side is the construction of a new \$20 million Consumers Energy building at 501 Alabama Street just off Bridge Street. The six-story building will house more than 275 employees, and according to a company press release, “shows continued commitment to a prosperous, growing Grand Rapids and West Michigan region.” The building is expected to be completed by early 2020.

West Michigan Center for Arts and Technology has also moved from 98 Fulton Street E to 614 First Street NW, part of the new Rockford Construction development that includes the Bridge Street Market. In 2019, we look to see who will fill the balance of the office portion of that development, which still has nearly 30,000 square feet available.



The overall vacancy and absorption trends in Grand Rapids are very similar to what we are seeing nationwide. We predict 2019 will show similar signs of growth albeit at a slightly slower rate. As companies continue to ride out the positive economic wave, office real estate should reap some benefits this year, despite some challenges and a bit of potential economic uncertainty. Regardless of some obstacles, we envision **2019 being a prosperous year** and foresee the West Michigan office market continue to mature and compete with larger regional cities.

## Retail Forecast

The retail landscape has recently been stigmatized by big-box store closures and the increased popularity of online shopping. Many have predicted the demise of brick-and-mortar and have seen store closures as a sign of physical locations becoming less relevant. In West Michigan, Sears, MC Sports, and Family Christian Bookstores have closed, yet retail vacancy has dropped below 8 percent. This past year was characterized by **creativity and finding new ways to utilize old space**. As the retail landscape changes, prime locations still remain a vital component to retail placement.

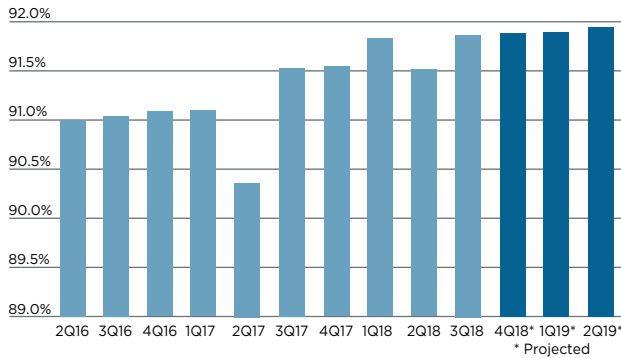
In 2018 many of the historically active retail corridors experienced growth, notably Alpine Avenue, East Beltline, and 28th Street SE with Woodland Mall continuing its \$100 million renovation. New retailers include department store Von Maur, Black Rock Bar & Grill, Urban Outfitters, Altar'd State, and a new 20,000-square-foot Recreational Equipment, Inc. (REI). Woodland Mall has been a staple in the community, and as The Shops at CenterPoint have undergone its transformation, the mall has re-imagined itself as well as a way to compete.

As large retail stores vie to stay relevant, we are also seeing smaller, newer stores – many of whom started online – step into physical space. Last year we talked a lot about physical stores gaining an online presence, however, we are now seeing that trend reverse. **For retailers, an omni-channel approach is vital.** This allows customers to experience the brand via multiple avenues, which includes a digital and physical approach. According to the International Council of Shopping Centers (ICSC), when a company opens a new physical store, it equates to a 37 percent increase in online traffic for the brand within the market, something referred to as the “Halo Effect.” ICSC also reported that almost 70 percent of shoppers who purchased items online to pick up in-store, ended up purchasing at least one more item at time of pick-up. As many brands started with the less-overhead route of e-commerce, several have quickly realized the importance of a physical presence and have supplemented with actual stores. According to Colliers retail advisor Chris Prins, “Brick-and-mortar stores are more essential today than ever before. A lot of people can sell a product online. ‘Brands’ are built by being able to touch, and feel, and experience. It’s about identity.”

Many landlords are also evaluating the identity of their shopping center. With record-low vacancy near eight percent in our main corridors, **owners are now concerned with creating the right tenant mix to enhance their center and the shopper’s experience.** Where in the past, landlords were welcoming of almost anyone who was willing to sign a lease, now we see groups of tenants coming together that complement each other. The Village at Knapp’s Crossing is a development we saw take shape this year with a tenant mix that has grown to have a common theme. Orangetheory Fitness, Clean Juice Organic Juice Bar, Neurocore, and Woodhouse Day Spa have helped create a wellness dynamic that customers identify with.



**Figure 5: Retail Occupancy Rates (with projections)**



Source: Colliers International Research Department

The holiday shopping season is always an indicator of consumer confidence and a sign of retail market health. This past shopping season was, by initial indications, the strongest in more than six years. On average, more than 30 percent of overall retail sales occur over the November and December months. It has been estimated by accounting firm Deloitte that this season of spending grew by as much as 5 percent from last year, whereas online shopping grew by approximately 20 percent. While the online percentage grows, much of this shopping is still done in stores.

Logistics of delivering packages to consumers is a new challenge that many online retailers are tackling. Amazon opened a new fulfillment center in West Michigan, and other third-party logistics companies are following suit.

Discount stores are also heating up. Aldi, Dollar General, TJ Maxx, and Marshalls have all made moves, and we expect more of this to occur within the product type. Luxury is doing well, too. It's the middle companies that are more commoditized due to lack of specialty products that are facing a fierce competition for market share.

Construction activity should remain positive in 2019, despite costs. **The value of locations at "the corner of Main and Main" is at a historical high, yet availability of these sites remains low.** Downtown, the Bridge Street and Stocking Avenue development has broken ground on a 9,000-square-foot retail addition, and Studio Park will continue work on its mixed-use development.

Creativity by landlords, tenants, and advisors is at a premium. **Outlots have grown in value**, and the value of splitting off parcels for retail use should remain a growing trend. We saw this with Chick-fil-A opening a location in March on an outlot in front of the former Toys-"R"-Us at 3445 28th Street SE, and recently, Christian Brothers Automotive purchasing an outlot in front of Kmart at 4111 Plainfield Avenue NE.

We look for 2019 to be a plateau of the retail market. As big box stores fill, others will start to see their demise. Local stores will continue to thrive, while national brands continue to look into our market for the first time.

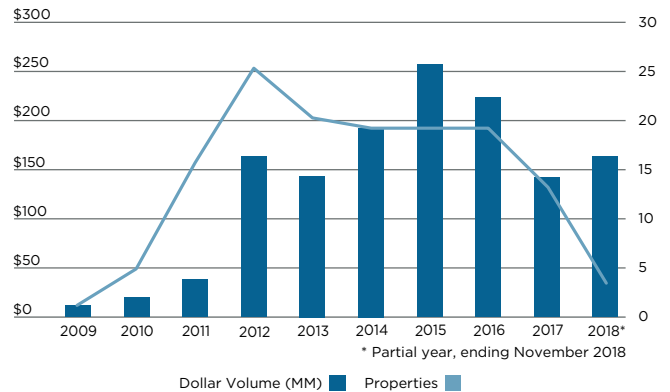
## Multi-Family Forecast

Limited product seemed to be the main theme in 2018, leading to increased competition with deals that were available. It has been a seller's market as **there have been far more interested buyers than sellers**, allowing sellers to keep pricing and terms firmly in their favor. Multi-family units in Grand Rapids recorded a rolling 12-month average sale price of \$69,430 per unit as of November 2018. Just 12 months prior, the average was \$95,405 per unit, though this number was bolstered by the outlier of The Ridges of Cascade transaction. Without that outlier in the data set, the average price per unit in 2017 was \$61,585.

The average interest rate for recorded transactions in West Michigan was 4.63 percent in fourth quarter 2018 - compared to 4.09 percent just a year prior - a 13 percent increase. Interest rates are relatively low compared to historical rates, but they have been showing a gradual upward trend in our local market these last five years. These rising interest rates have an impact on home affordability, which can be beneficial to apartment demand. **As the cost of borrowing goes up, prospective single-family home buyers can afford less, so may elect to remain renters for longer.**

We will likely see the conditions of 2018 recur in 2019. Pricing may temper off a bit, however, buyer demand will persist as companies from the coast and major metros chase higher yields in markets such as West Michigan, relative to their own backyards.

**Figure 6: West Michigan Sales Volume # of Properties and Dollar Value (\$MM)**



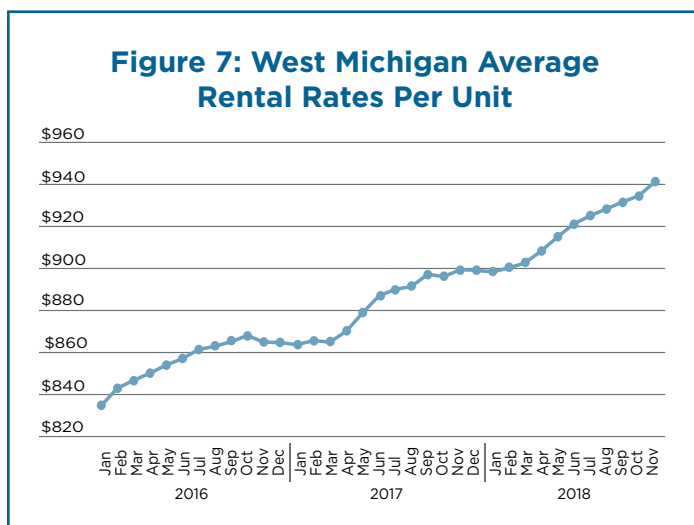
Source: Yardi Matrix

Between this year and last, **apartment sales made up one-third of all investment sales in West Michigan** with \$141 million in sales volume reported from Real Capital Analytics. There have been a number of prominent multi-family investment sales in the region this past year. One of the largest transactions in West Michigan was that of the combined purchase of Ramblewood Apartments and Woodlake Apartments for \$144 million by New York-based Torchlight Investors. Additionally, Waters House Apartments at 500 Fulton Street E in Grand Rapids was closed by Colliers' very own Matt Jones, Associate Vice President of Multi-Family Investments. This property sold for \$10.25 million

and consists of 107 apartment units, common areas, a pool, and 125 parking spaces on-site.

On the development front, just south of Waters House Apartments is the site of the newly completed Heritage Place at 50 College Avenue SE. This \$14 million four-story development brings 86 units of apartments to the downtown area. 601 Bond is also nearing completion as a 16-story, 202-unit building in the North Monroe neighborhood. On-site amenities will include the Skyview Club with a rooftop deck, fitness center and lounge, and 220 parking spaces.

West Michigan’s multi-family market has been quite active in 2018, **with more than 1,500 units completed** throughout the year. More than 2,500 units are planned or currently under construction.



Source: Yardi Matrix

Six low-income housing projects scattered throughout Grand Rapids are planned to break ground in 2019 after the state of Michigan approved \$5.9 million in state tax credits. The tax credits will help finance the projects and allow developers to offer qualifying tenants below-market rental rates. The six projects are: Franklin Apartments and Grandville Apartments, part of the Plaza Roosevelt project, being built by Dwelling Place; Edge Flats on Seward, being built by Wisconsin-based Common Wealth Development Corporation; Tapestry Square Senior Living Center being built by the Inner City Christian Federation on South Division; West Garfield Apartments, being developed by LINC UP; and Ferguson Apartments, a restoration and renovation project being done by Dwelling Place.

Along with these new apartment developments comes a new residential rental application ordinance in the City of Grand Rapids. The new ordinance intends to improve application affordability for residents and deter predatory collection of application fees. Any property owners with units in Grand Rapids who charge an application fee should familiarize themselves with this new ordinance, if they haven't already.

According to the U.S. Census Bureau, the population of Grand Rapids grew by 1.3 percent between 2016 and 2017. The demand for apartment development is due in part to this rapid population growth. Downtown is becoming “the” trendy place to live with its growing number of amenities. A strengthening economy and the development of nicer, newer apartment units is the source of rising rental rates. The average monthly rental rate in Grand Rapids at the end of 2018 was around \$940 and has been showing an average escalation of 4.1 percent annually over the last three years.

**Living downtown means close proximity to businesses and entertainment.** Accessible parking is an especially valuable amenity downtown that many developers are incorporating into their projects. We are seeing more mixed-use projects assembling downtown as developers seek a competitive edge to draw occupancy. One example of this is the much-anticipated Studio Park development, scheduled to open this fall on the city block between Oakes Street SW, Ionia Avenue SW, and Cherry Street SW. The \$140-million project will feature a nine-screen movie theatre, 138-room hotel, 230 residential units, 40,000 square feet of retail and office space, and a 750-space parking ramp. On the Westside, The Hendrik is now leasing 116 market-rate apartments above the Bridge Street Market. At the same development, ICCF is also partnering with Rockford Construction to provide 64 additional apartments, 51 of which will be affordable-rate. Despite all the new supply coming online downtown, we still feel like there is room to grow.

The downtown hotel market is one potential bubble we could see forming in 2019, with many being built at the same time. This was sensed when Hinman Company’s development plans for 10 Ionia Avenue NW were scaled back from a 42-story hotel and apartment complex to a 13-story building featuring first-floor retail and a 12-story Marriot Residence Inn. Other developments include Embassy Suites by Hilton at 710 Monroe Avenue NW, Staybridge Suites by Holiday Inn at 942 Front Avenue NW, a 130-room AC Hotels by Marriott at 50 Monroe Avenue NW, a 160-room Hyatt Place Hotel at 150 Ottawa Avenue, and Studio Park’s 155-room Canopy by Hilton. There has also been a proposed 24-story hotel tower development between the Windquest Building at 201 Monroe Avenue NW and DeVos Performance Hall next door at 303 Monroe Avenue NW, which would bring an additional 400 rooms downtown.

A lack of new development will continue to keep pricing in the landlord’s favor. While there are some development deals that will be completed, current construction costs are prohibitive to consummate new deals, which may keep rents steady or even improve them. Demand will continue to be steady on the rental side and there is not a massive pipeline to offset the current supply and demand curve. New inventory that does come to the market this year will not hinder demand, which should continue to bode well for landlords throughout the year. ■

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