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Kalamazoo romances biotech

Faced with the loss of much of the science-based industry that has supported it, the Michigan community is striving to reconstitute its formula for prosperity.

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KALAMAZOO, Mich. -- This community of 230,000, halfway between Chicago and Detroit, has been jolted by two mergers over the past eight years involving its biggest employer.

By fall, it faces the loss of hundreds of highly-educated, highly-paid scientists, as Pfizer Inc., the drug company, moves the bulk of its research and development activity out of the area.

Kalamazoo is a lot like many smaller cities in the Midwest feeling the pinch of hard times in a difficult economy.

But since late 1998, its leaders have been aiming to fashion a small-city version of such biotechnology hotbeds as Boston or San Diego.

They are looking to create an economy that relies far less on the largesse of companies with headquarters in distant cities--an economy that renews itself when successful people reinvest locally in innovators who start new companies.

Scientists are the lifeblood of any such effort, and the possibility of losing so many of them has pushed Kalamazoo into a frenzy of activity that suggests a community responding to a natural disaster, or the Potawatomi Indian translation of the city's name, which means "place where the pot boils."

A new lab and office building to house start-ups is opening this month, and some have taken to calling it "Noah's Ark"--a lifeboat for displaced Pfizer talent.


There is talk of offering scientists a year's free rent to start companies there.

A local banker is mobilizing venture capital. Lawyers and business consultants are volunteering advice.

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To appreciate the magnitude of the changes in Kalamazoo, it is necessary to understand the former Upjohn Co.'s paternalistic legacy in a well-endowed community with traditional values.

Kalamazoo is a place where houses of worship ring the downtown square--"churches with steeples like hatpins," wrote poet Carl Sandburg.

At Upjohn, founded in 1886, traditions included collegial twice-daily coffee breaks, at 9:15 and 2:15.

The company's large drug manufacturing plant--now Pfizer's biggest, with 3,500 employees working in shifts round the clock--let workers out early on summer Fridays to spend time with their families.

Employees picnicked and golfed at a company park. Company barbers cut their hair.

When Kalamazoo's central business district fell on hard times, Upjohn bought the struggling downtown hotel in 1990 and renovated it.

Wealth from the drugmaker--inventor of Rogaine and Xanax--combined with that of another homegrown success story--medical device maker Stryker Corp.--helped cushion the area's loss of paper mills and manufacturers.

Then came Upjohn's merger with Sweden's Pharmacia Corp. in 1995, followed by Pfizer's buyout of Pharmacia, completed in April.

Seeing the handwriting on the wall after the Pharmacia deal, community leaders were ready in 1998 to focus on a future built on biotech start-ups.

Enter Barry Broome, an economic development official recruited from Toledo, Ohio.

"He hits the ground and the place starts to shake," says Don Parfet, a fourth-generation Upjohn heir.

A sign taped to Broome's door in the cramped offices of Southwest Michigan First, Kalamazoo's non-profit economic development agency, reads, "Bull, China Shop."

On a recent morning, working near a big blue banner, "Keep Kalamazoo and Pfizer Strong," Broome was exchanging blunt words by telephone with Pfizer executives in New York.

He is pressuring them to provide money, equipment and contracts to displaced scientists.

A tired-looking Pfizer scientist waited to meet with a volunteer patent attorney about negotiating an agreement with Pfizer to spin out his research.

Another scientist had been up until 2 a.m. working on his business plan. Broome is keenly aware that these high-powered PhD's have little entrepreneurial knowledge, so he has assigned them business, legal and financial advisers. Some are eager to start companies because they do not want to uproot their families.

"We're excellent scientists, and some of us have a business sense," said one, who said his Pfizer severance would be in jeopardy if he were named.

Yet even Broome acknowledges that Kalamazoo's biotech initiative is "incredibly risky" because most start-ups fail. He hopes to blunt the high failure rate by luring scientists who want to provide services for

corporations such as Pfizer, as well those who want to create compounds or devices--far riskier undertakings.

Since Broome arrived, Southwest Michigan First, with 11 employees and a \$1.6 million annual budget, has generated more than \$225 million in business investment, creating more than 1,600 jobs.

His biggest victory so far is not a biotech company, but a Target Corp. regional distribution center employing 900.

"I'd fund six guys with a backhoe if they created jobs," Broome says.

Entrepreneur Julie Stock recalls telephoning Broome in December 2000, not long after she and her husband, Gary, sold their software company, InGenius Technologies, to a California company.

"Can you be here in 10 minutes?" Broome asked.

He listened to her plans for Nexcerpt, a Web-based news clipping service.

"Terrific," Broome told her. "I'll find you the money."

He arranged a \$100,000 grant to buy equipment and put her on a speaker's list for the first of Kalamazoo's ongoing "Investing in Innovation Forums."

Attending the event was Chicago's Arch Development Partners, a University of Chicago spinoff that raised its first fund largely in Michigan.

Arch and others backed Nexcerpt with \$1.15 million. The company now has seven employees.

"What we need are small, profitable, dynamic companies that allow people to be creative and spin off their own enterprises," Stock says. "That's exactly what needs to be happening here."

Not content with survival

Community leaders have sounded a similar theme.

"Survival is not enough," Jack Hopkins, chief executive of the Kalamazoo Community Foundation, told supporters at an annual breakfast. "The entrepreneurial spirit of William E. Upjohn and Dr. Homer Stryker is alive and well."

If anything, Upjohn and Stryker wealth is even more important for Kalamazoo's future. Take Parfet, the Upjohn heir. He offers that rarest of commodities in the Midwest: "seed" capital to finance ventures at their earliest stages.

"The nature of the start-up world is that it's always right there on the precipice of greatness or shutting down," he says.

Parfet, who made his career at Upjohn, persuaded five former Upjohn-Pharmacia executives to join him two years ago at Apjohn Group LLC (the Welsh version of his family's name), which invests in Midwest biotech ventures.

"We can make money right here," he says, leaning forward as if he is sharing a secret. "We don't have to go to

Boston to make money."

He sounds like a rabble-rouser when he talks about another important ingredient: talent. He sees it spinning out of companies such as Pfizer.

"Employees are increasingly disillusioned by placing their fate in the hands of corporate America, by having to dance to Wall Street's tune of short-term profits rather than good science," he says.

Apjohn is one of three venture capital firms operating in Kalamazoo, along with Arch and T-Gap Ventures.

Kalamazoo also is tapping into the brain trusts of colleges and universities. It is within a 2 1/2-hour drive of Ann Arbor's University of Michigan, Madison's University of Wisconsin and Chicago's University of Chicago and Northwestern University--which collectively get billions in government research grants.

Kalamazoo has three campuses including private Kalamazoo College, a community college and Western Michigan University, as well as two medical centers.

"You've got smart people and you've got money," Broome says. "You can win with that."

Talking fast and walking with a bit of a swagger, he arrives late to lunch in a private room at a downtown club in a restored brownstone.

His bustle jars the genteel quiet. No sooner does he sit down at the head of the table than his cell phone rings. He takes the call without apologizing.

His luncheon partners--lawyers and a banker in dark suits--sip iced tea in a sunny room with tie-back curtains while planning a new \$25 million seed fund. They talk with the enthusiasm of conspirators cooking up an audacious plot.

"What I came to appreciate about this community is its ability to get things done," says Timothy Lathe, chief executive of National City Bank of Michigan/Illinois.

When Broome and others asked him to invest two years ago in a venture fund sponsored by Arch, his bosses at National City Corp. in Ohio politely declined, saying it didn't fit the bank's investing profile.

"We're a metal-bending, manufacturing bank. This was high-tech, bleeding edge start-up companies," Lathe recalls.

But Broome kept up the pressure. Lathe's bosses finally relented, saying "If you want to do it, it's your neck."

Lathe committed \$1 million of his Michigan-based bank's money--a move that encouraged others to follow.

Two-thirds of the initial \$10 million Arch raised for its first fund came from Michigan.

"They've rewritten the [technology investing] map of Michigan, and to a certain extent the Midwest," says Arch managing partner Tom Churchwell, one of Kalamazoo's biggest boosters.

"They've made it an easy place to come to. If you need help of almost any kind, you pick up the phone," he says.

Management team supplied

Afmedica Inc., which is commercializing patents to treat scar tissue, is a good example. Parfet supplied a management team as well as money.

The firm's founder is local physician Timothy Fischell, co-inventor of drug-coated stents, used to keep arteries from closing, marketed by Johnson & Johnson.

Recruited to Kalamazoo's Borgess Medical Center six years ago, he built a \$2 million home on 3 1/2 acres adjoining a nature preserve. He has also put his own money into Apjohn and T-Gap's funds.

"You scratch my back, I scratch yours," he says. "They're good, smart, honest people."

But building a biotech start-up community takes many years.

When the new \$12 million laboratory and office building opens this month at Western Michigan University's Business Technology and Research Park, it will house a handful of local biotech start-ups, as well as an unknown number of Pfizer scientists.

The number depends partly on Pfizer. Pfizer's chief executive, Henry McKinnell, has said the company is not opposed to supporting spinoffs and start-ups, but any decisions require a business perspective.

"The community has to understand," says Midwest spokesman Rick Chambers, "we simply can't throw money out there in the hopes these start-ups will prevail."

Meanwhile, there is a healthy amount of skepticism about Broome's effort, as well as some complaints that Pfizer's scientists are getting more attention than others who lose jobs.

Even so, many longtime residents are behind the effort.

"It's an idea that could reinvent Kalamazoo," says downtown property owner Stephen Tyler, owner of Little Cities Gallery. "That's not a bad thing."

Other cities, groups run the tech race

What some other cities are doing:

- Peoria: Year-old PeoriaNEXT helped start four businesses and has six in the pipeline. Focus is material sciences and life sciences. Budget includes \$1 million for research, commercialization and an incubator.
- Milwaukee: TechStar, a collaboration of five academic institutions in southeast Wisconsin, has co-founded 9 companies that employ more than 50 people. Takes equity in exchange for advisory and management services.
- Indianapolis: Central Indiana Life Sciences Initiative is raising \$100 million to invest in venture capital funds that finance Midwest start-ups, focusing on Indiana.
- Chicago: Non-profit advocacy group iBio has more than 100 corporate members focused on making Illinois and the Midwest a leading life sciences center.

The group started talks Friday with Pfizer Inc. executives about the pending shutdown of the former G.D. Searle & Co. operations in Skokie, Mt. Prospect and Elk Grove Village, which employ 1,500.

"There's keen interest in turning this disappointment into something positive," said iBio President David Miller.

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