
THE MOTOR CITY: REBUILDING DETROIT'S IMAGE POST-BANKRUPTCY¹

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Often referred to as the “Motor City,” Detroit built its reputation as the automobile manufacturing capital of the world and was frequently referred to as the epicentre of the U.S. car industry. Henry Ford, founder of the Ford Motor Company (Ford), introduced the first moving assembly line in Detroit during the early 1900s.² Numerous other carmakers such as General Motors (GM), Chrysler, Chevrolet, Dodge and Cadillac soon joined the competition, and Detroit quickly became a global hub for automobile production. However, during the economic crisis of the Great Depression, many car manufacturers either merged or went bankrupt, and ultimately the Big Three within the industry — Ford, GM and Chrysler — remained. These powerhouse automobile brands tremendously boosted Detroit’s economy, enriching the city to become a major metropolitan area with considerable clout and wealth during the mid-twentieth century. The city’s surging economy attracted thousands of workers, building Detroit’s population to a peak in 1950 of 1.85 million.³

However, what followed was a long, slow decline. The fatal blow for Detroit came in 2008 after a disastrous global recession and subsequent implosion of the U.S. car manufacturing dominance in auto design and performance. Furthermore, a shift of middle-class inhabitants to the suburbs in Michigan and the escalating crime rate gave Detroit the unfortunate title of “murder capital” of the United States. The deteriorating infrastructure and weakening economy took its toll on the city over the years; by 2012, the population of Detroit had dropped to almost 700,000. In July 2013, the poor economy pushed Detroit into bankruptcy, worsening the image of the city even further. A year later, the city was struggling to attract investors and creditors and faced a major problem: how could it rebrand itself to attract businesses, investors, tourists and inhabitants?⁴

A GLIMPSE AT DETROIT'S PAST

Detroit was first settled in the early 1700s by a group of French explorers led by Antoine Laumet de La Mothe Cadillac. The explorers surrounded Fort Detroit with a palisade of logs, protecting their valuable fur trade post from the British. In 1760, after years of wars between the British and French, Fort Detroit was surrendered to the British. During the American Revolutionary War (1775 to 1783), the British fought for control of Fort Detroit (which was now known as Detroit). Even though the British lost to the

colonists, they were reluctant to give away their Great Lakes fur trading post to the Americans and did not relinquish control of the area until 1796.⁵

Detroit officially became incorporated as a city in 1815. Following the invention of the steamboat and the opening of the Erie Canal in 1825, which allowed quick transportation to and from major U.S. cities such as New York, Detroit became easily accessible, which contributed to a rapid increase in its population. Detroit was the last stop of the “Underground Railroad,” the symbolic name given for a route, not an actual railroad, which slaves utilized to escape to Canada from the U.S. South in the mid-nineteenth century. During this time, Detroit was flourishing from trade in copper, iron and lumber, which contributed to industrialization of the city.⁶

Ford launched the American automobile industry in the late 1800s. Competing with many other automobile factories, Henry Ford led the industry with his motto, “Help the Other Fellow.” His strategy was based on the belief that helping others obtain jobs and keeping his employees pleased would result in more motivated employees and, consequently, more efficient automobile production. Thus, he gave his employees a \$5 starting wage, more than double the average wage of an employee at the time in the United States. He hired a variety of individuals, including ex-convicts and the disabled as well as the most advanced and experienced workers. This generated an influx to Detroit of immigrants from all over the world, especially from Syria and Lebanon,⁷ along with various U.S. states. To allow for a smooth transition of these immigrant workers into the country, Ford began an English Language School. These innovative tactics allowed his company to produce what was known as the first “affordable” automobile ever directed toward the middle class. The automobile industry in Detroit was a boon for the city’s economic growth.⁸

In addition to Detroit’s well-documented automobile industry, its music scene also played a big part in its history. Most notably, in 1959, Berry Gordian Jr. founded the Motown Records label, a recording company that heavily influenced the music industry. The music included jazz, pop and rhythm and blues (R&B). Among many other bands and performers, The Jackson 5 headlined by Michael Jackson, Stevie Wonder and the Supremes all recorded under the Motown Record label. To date, it had produced more than 100 number one hit songs worldwide and ultimately achieved such stardom that many now referred to Motown as a new genre of music.⁹

Despite the prosperous music industry, Detroit’s financial struggles began in the 1950s. The Big Three began to open new manufacturing facilities elsewhere in the United States and around the world and closed many of the plants within the Motor City, contributing to over 100,000 jobs being lost. Race tensions led to street rioting that climaxed in the 1967 Detroit Riot that resulted in hundreds of injuries and casualties, over \$30 million in damages and approximately 2,500 stores looted or severely damaged. Consequently, many families and businesses relocated, seeking a safer community.¹⁰

With increasing economic volatility, Detroit found itself in the early 2000s in a financial hole. After having the highest per capita income in the 1960s among all cities in the United States, by 2014 Detroit had a per capita income of \$15,261, nearly 65 per cent less than the countrywide average. Tax rates were two times higher than neighbouring regions, and, even more troubling, 50 per cent of all property taxes were not paid in 2013. This was due to the high level of predatory lending by ambitious mortgage brokers. In the first years of the twenty-first century, banks were very lax and approved mortgages to almost anyone, even those who were unemployed and had little money. As a result, the sub-prime mortgage crisis was born, and around 2008 the effect was evident when companies that relied on these mortgage payments started collapsing when they could not afford to pay their bills.¹¹

Detroit had a well-established reputation as a city with a high crime rate, and rightly so. In 2012, the city's homicide rate of 54.6 per 100,000 inhabitants was more than 10 times the national average, ultimately earning Detroit the Forbes Award in 2012 for the most dangerous city in the United States.¹² In 2013, despite a 14 per cent drop in the homicide rate, Detroit still had 332 homicides, third overall in the country. The Motor City had just one homicide less than New York City, which had a population more than 11 times its size. In addition to Detroit's dreadful economy, the disturbingly high crime rate scared away many potential investors and inhabitants.¹³

DETROIT FILES FOR BANKRUPTCY

After decades of financial deterioration, in March 2013, Michigan Governor Rick Snyder declared Detroit to be in a state of financial emergency. Subsequently, the governor appointed Kevyn Orr, a successful bankruptcy lawyer, as the city's financial emergency manager. He would have the power to oversee Detroit's financial operations and recommend a bankruptcy filing if necessary. Orr first negotiated with creditors to accept 10 per cent of what they were owed, to no avail. After exploring other options, again unsuccessfully, Orr recommended the city file for bankruptcy.

Detroit filed for Chapter 9 bankruptcy protection on July 18, 2013, making it the largest U.S. municipal bankruptcy ever filed. The city acknowledged several reasons for the filing: a shrinking tax base caused by the declining population, the high cost of retiree pension plans and government corruption. After the filing was first ruled unconstitutional and ordered withdrawn on July 22 by a state judge, a federal judge overturned that decision just three days later.¹⁴

Detroit's intention in filing for bankruptcy was to erase at least a portion of the debt the city owed, which was estimated to be a staggering \$18 to \$20 billion. Of that amount, more than \$9 billion was attributed to unfunded retirement health care obligations and pension liabilities and approximately \$6 billion to the Detroit Water and Sewage Department. The remainder included swap payments Detroit owed to banks such as UBS and Bank of America and bonds the city previously issued to pay for various city departments, services and pension plans (both secured and unsecured).¹⁵

On December 3, 2013, Federal Judge Steven Rhodes declared Detroit eligible for Chapter 9 bankruptcy. The crucial ruling meant Detroit successfully proved that it was financially insolvent and was authorized to become bankrupt, requirements that determined its eligibility. Although Rhodes claimed the city did not meet another requirement — that it was to negotiate with its creditors in good faith¹⁶ — he admitted such negotiations would be unreasonable considering the city had over 170,000 creditors.¹⁷

Despite state law prohibiting pension cuts, because this case was a municipal bankruptcy, Rhodes noted that pension cuts could be applied and that creditors could be forced to accept as little as 10 cents on the dollar from the city. If Detroit decided to proceed with these drastic financial cuts, it risked its credibility and, ultimately, its ability to attract new families, businesses and investors. Nonetheless, the Motor City had no other choice. The historic bankruptcy ruling paved a fresh start for a city that had been financially plummeting for over 60 years.

DETROIT NEIGHBOURHOODS

Throughout Detroit's existence, several communities had emerged, including Mexicantown, Greektown and Corktown. Each community had its own history, architecture and unique ethnic diversity. Most

significantly, despite these neighbourhoods all being within Detroit's boundaries, each had a unique economic potential.

Mexicantown was one of Detroit's newest neighbourhoods, being anointed with the name by a public relations campaign that subsequently generated a surge of Mexicans entering the region in the 1990s. The community was one of Detroit's most diverse, with approximately 50 per cent of the population being of Hispanic origin. Despite Detroit's recent economic collapse, Mexicantown was highlighted as one of the city's few bright spots. The neighbourhood was rich in multicultural restaurants and new, vibrant looking buildings. It had also seen a steady increase in job openings, and its overall financial stability made it a model for how Detroit wished to operate as a whole. A community centre, the Ford Resource and Engagement Center, opened in June 2013, offering many services and activities for surrounding residents including bilingual services, dance and art classes and classes provided by the University of Detroit and University of Michigan.¹⁸

Home to several buildings whose architecture featured ancient Greek mythological creatures such as Pegasus, Greektown had been around since the late 1800s. Following the settlement of the first documented Greek resident Theodore Gerasimos, an influx of Greek immigrants came to the city in the early twentieth century. Despite its name, this part of Detroit was also dominated by residents of many other ethnicities such as Polish, Italian and Lebanese. This community was primarily commercial and entertainment rich, containing one of Detroit's three casinos, the Greektown Casino Hotel.¹⁹

Corktown was known as Detroit's oldest neighbourhood. Its name came from the fact that many of its original settlers had emigrated from County Cork, Ireland in the mid-1800s. The community was mainly residential, with a large portion of homes having a classic, federal-style architecture. However, it would soon be home to Detroit-founded Quicken Loans, an online retail mortgage lender, which began construction on a 66,000 square foot technology building slated to be completed in January 2015.²⁰

REVIVING THE IMAGE OF DETROIT

How could a city facing outrage from residents and investors, a city in an atrocious financial state where 40 per cent of all traffic lights were non-functional, attract new investors? This was the dilemma that Detroit faced.²¹

Detroit had to develop a new vision for itself. Mike Duggan was elected mayor in November 2013. As former medical chief of Detroit's Medical Center, Duggan had seen first-hand the suffering that the population had gone through and knew what changes were long due to help revitalize the city. His electoral platform made clear that his priorities were to improve the city's infrastructure, especially the dreadful lighting system, work on faster response times by the police and fire departments and deal with the 78,000 abandoned structures the city was home to.²²

The greatest evidence of Detroit's declining financial state was its crumbling infrastructure, especially its poor traffic and bridge lighting; close to half of the citizenry in the Motor City do not work. This problem was attributed to the lack of employees working with the Detroit Public Lighting Department. Compared to 700 employees in the 1970s, there were now only 85 employees, an insufficient number for a city that had over 10,000 street and bridge lights. Also, 20 per cent of the lighting system was largely outdated; these lights ran on the same circuit — when one light went off, so did many others in a chain reaction.²³

Detroit's transportation system was also in trouble. Although the city owned roughly 400 city buses, only half of them worked; the city cited a lack of mechanics as the root of the problem. Moreover, thousands of buildings and a large portion of land were sitting vacant as a result of the 62 per cent decline in population since the 1950s. In 2013, the police department took on average 58 minutes to respond to calls, more than five times the national average. Clearly, a lack of capital had plagued this city for years. The bankruptcy gave Detroit potential money at a critical time.²⁴

Detroit's vision to grow had come with a need to correct past errors. For the Motor City, this mainly involved diversifying the types of jobs available. Although the Big Three had experienced a major resurgence since the 2008 recession in which they suffered financially, only to be bailed out by the government, Detroit focused in building its economy beyond the car manufacturing industry. Using the Big Three as a stable building block, the city valued the importance of bringing in a flock of new entrepreneurs and businesses. Expanding the job sector was a fundamental goal in Detroit's mission for a stable future.

THE RESURGENCE

Although a lot of negative press had plagued Detroit over the last several years, the Motor City could not yet be written off. Despite decades of financial problems, one of its biggest assets was its own residents, especially those who had always lived in the city. Many of them took matters in their own hands: community members worked together to demolish empty houses and clean up vacant land, private companies donated money to help revive communities and many others helped in the rebuilding process, giving Detroit a measure of hope.

Detroit's future growth was dependent on going beyond the Big Three — and, luckily, a new influx of high-tech start-ups and other manufacturing companies significantly boosted its economy. Shinola was one of the most recent additions to Detroit's core. Founded by Stephen Bock in 2011, Shinola was a manufacturing company that specialized in watch-making, while also producing leather bags and custom bicycles. In 2013, Shinola opened a 30,000 square foot manufacturing centre in the historic Argonaut building, former home of GM's research laboratory. Bock placed heavy emphasis in marketing products as "Made in Detroit," a distinction that few competitors could match. The company paid more than minimum wage and grew quickly; by 2014, it employed more than 200 labourers, a big jump from 10 when it first opened. In 2013, Shinola manufactured an impressive 45,000 watches that sold for between \$450 to \$1,000 and had plans to produce a startling 500,000 annually by 2015. Although still relatively new, the company eyed expansion within the United States and in major cities globally, such as Paris, Berlin and Hong Kong. Despite not nearly having the financial impact on Detroit's economy as the Big Three, Shinola provided potential investors and businesses optimism that they could succeed in this debt-ridden city.²⁵

One of the most significant contributors to Detroit's resurgence was Quicken Loans Inc., the largest online mortgage lender in the United States. The company, founded in 1985, relocated from the suburbs of Michigan to Detroit in August 2010, settling in a 250,000 square foot building in the heart of downtown. In addition to injecting a wealth of new tax-paying dollars into the weak Detroit economy, the company's founder, Dan Gilbert, also owned Bedrock Real Estate Services, which renovated various apartments in an effort to revitalize the city's infrastructure, especially in the downtown core. Gilbert stated the following on why he relocated to Detroit:

Detroit has the bones, the infrastructure and the people, to be a very special city. We have to do a lot of clean up, then we have to start playing offense. The part that is difficult is here already. Look at these buildings. It's laid out well; there are parks. It's like a lot of great hardware with no software.²⁶

To aid in his efforts of revitalizing the downtown core, Gilbert was a strong advocate for the new light rail system, which began construction in December 2013. The \$140 million project was expected to relieve the city of the urgent need of new and improved transportation services. Despite just having relocated to the Motor City a few years ago, it was evident that Gilbert and Quicken Loans were instrumental to Detroit's revival.²⁷

Detroit's casinos played a vital role in the city's mission to restore financial stability. The city had three major casinos — Motor City, MGM Grand Detroit and Greektown Casino Hotel. Being the fourth largest casino market in the United States with revenues exceeding \$1.4 billion, Detroit received more than \$200 million in tax-paying dollars and payments for public safety from these gambling institutions, a huge source of revenue. More than 7,000 jobs were created and tourism was considerably boosted as a result of these casinos, all of which opened up near the beginning of the twenty-first century. Most importantly, contrary to what was originally a major hurdle in approving casinos in Detroit, crime rates were not affected by the addition of these gambling institutions, which could lead to more casinos opening in the near future in hopes of further improving the city's economy.²⁸

Many companies were leveraging their relationship to Detroit, and to the surprise of many, the strategy worked. For instance, a recently founded health care information technology company, GalaxE.Solutions based out of New Jersey, used Detroit in its marketing tactics. The company had expanded to Detroit and attempted to encourage other companies to follow suit and avoid using cheap but risky overseas labour through its slogan "Outsource to Detroit." Furthermore, Chrysler in 2011 put the spotlight on the struggling city through a Superbowl commercial and got tremendous results including winning numerous awards and receiving over 15 million views on YouTube. Detroit's underdog status had many rooting for its resurgence and provided great publicity for a city that had been dominated by negative press.

Due to the city's lackluster economy, the stunningly low housing prices began to catch the eyes of investors. It was not uncommon to see houses selling for a few hundred or a few thousand dollars in the Motor City. Numerous homes made the news in the summer of 2013 when they each sold for less than a shocking \$50. Luckily, the situation was improving; for instance, in April 2014, Metro-Detroit home sale prices increased 24 per cent.²⁹

A SET-BACK

The Detroit bankruptcy caused nationwide coverage, but very rarely did the city make international headlines. That changed in March 2014, when the Detroit Water and Sewage Department (DWSD) announced it would begin cutting off water supply to residents who had unpaid bills that topped \$150 or were at least 60 days overdue. This historic announcement sparked outrage. The United Nations (U.N.) began a probe into the situation and determined the cut-off in water supply violated human rights by failing to provide people with a necessity. The U.N. even considered entering the city and intervening to make sure that the water was turned back on where necessary. Critics were loud and clear that one of the most frustrating issues regarding this cut-off was consistency: the city selectively chose *not* to cut off water to some large businesses. For instance, the Joe Louis Arena, where the Detroit Redwings hockey team plays, owed more than \$80,000, yet it still had running water.

Regardless of the response by the U.N., the DWSD maintained that it would continue cutting off water supply. It claimed that many warnings were given out to customers that such action would be taken if bills were left unpaid. It certainly did not help that water bills saw a nearly 120 per cent rise over the last decade,³⁰ in a city where 40 per cent lived in poverty. By September 2014, roughly 40 per cent of the homes in the Motor City were expected to be without water.³¹ This water cut-off crisis created a severe health hazard of widespread dehydration and lack of sanitation, fueling the risk that disease would start and spread. Most ironically, Detroit was adjacent to one of the greatest sources of freshwater in the world, Lake Michigan. In the midst of attempting to rebrand and revitalize its image, this incident was indicative of a struggling and corrupt city.

CONCLUSION

Despite some renewed hope over the past year with new businesses and investors flocking to the city, Detroit remained in a disastrous economic state in 2014. Although the city was approved to file for bankruptcy, it still faced dozens of appeals from labour unions that could take years to solve. Even if the bankruptcy proved to lower the vast amount of debt the city owed, it could not soon repair its financial situation. By comparison, Orange County, California was home to what was once the biggest municipal bankruptcy in 1994, and yet, it was still not expecting to completely pay off its debt until 2017. To add to Detroit's misery, it had debt more than eight times larger than what Orange County once had.³²

Evidently, if Detroit were to succeed, it needed to develop a new vision. Being home to the Big Three was a superb foundation for its economy, but it was necessary to take the next step and diversify the job market. This would prevent the kind of chain-like reaction in the future that occurred in 2008 when Detroit collapsed along with the collapse of the Big Three. If Detroit had any hope to succeed and rebuild, it must work on improving its safety, education system and poor infrastructure. The challenge for the Motor City was enormous — the “murder capital” must considerably rebrand itself in hopes of reviving what was once a lucrative economy.

ENDNOTES

- ¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of the city of Detroit or any of its employees.
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