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Executive Summary: Best Performing Cities: An In-Depth Study of Digital Microbusinesses

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A white paper based on the Milken Institute's "Best-Performing Cities Index" and microbusiness activity from the GoDaddy Venture Forward Initiative

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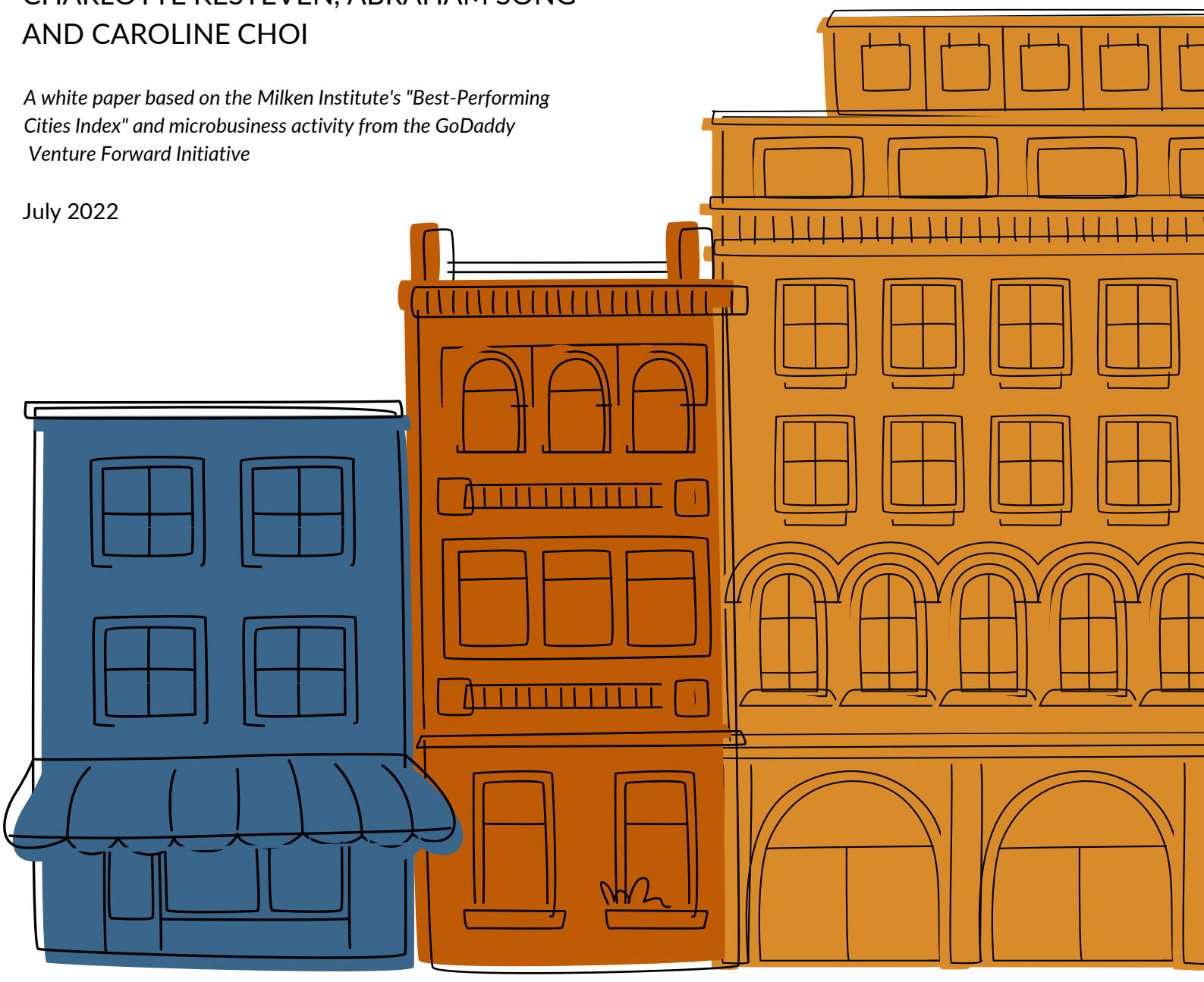

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For the past three decades, the Milken Institute has served as a catalyst for practical, scalable solutions to global challenges by connecting human, financial, and educational resources to those who need them. Guided by a conviction that the best ideas, under-resourced, cannot succeed, we conduct research and analysis and convene top experts, innovators, and influencers from different backgrounds and competing viewpoints. We leverage this expertise and insight to construct programs and policy initiatives.

These activities are designed to help people build meaningful lives in which they can experience health and well-being, pursue effective education and gainful employment, and access the resources required to create ever-expanding opportunities for themselves and their broader communities.

ABOUT THE CENTER FOR REGIONAL ECONOMICS

The Milken Institute Center for Regional Economics produces research, programs, and events designed to inform and activate innovative economic and policy solutions to drive job creation and industry expansion.

Venture Forward
By GoDaddy

ABOUT GODADDY VENTURE FORWARD

Venture Forward is a multiyear research effort by GoDaddy measuring the impact of online microbusinesses across the United States. Its results reveal the outsized economic impact of everyday entrepreneurs and lay the groundwork for policymakers and elected officials to build stronger, more inclusive local economies. If you are interested in the Venture Forward data, please contact the team via email at ventureforward@godaddy.com.

INTRODUCTION

The Milken Institute's Best-Performing Cities (BPC) index tracks the economic performance of approximately 400 metropolitan statistical areas (MSAs) across the United States. It uses an outcomes-based set of metrics to help explain the geography of economic opportunity and evaluate the performance of these cities relative to their peers, indicating where employment is stable and expanding, wages and salaries are increasing, and businesses are thriving. The best-performing metro areas bring together skilled workers, investment capital, and consumer demand, providing a framework to sustain local economic growth—particularly in high-tech sectors.

The past year clearly demonstrated that the success of local economies is subject to the influence of national economic trends, as shown by the nationwide spike in unemployment due to local business closures during the COVID-19 pandemic. However, the top-performing metro areas leveraged their assets to remain competitive and generate inclusive economic opportunities for residents.

In this year's edition of the BPC index, high-ranking large and small cities demonstrated relatively strong concentrations of high-tech industry relative to their peers, as well as strong job growth. Among large cities, in particular, the top performers also performed better than the median on measures of housing affordability and short-term job growth. These measures were often a strong indicator that access to opportunity was resilient in the face of the economic shock presented by the pandemic. However, the BPC index does not account for other characteristics of local economies that can provide this foundation, such as a dynamic small-business ecosystem.

During the pandemic, some lower-ranking metros on the BPC index had high levels of activity among microbusinesses and entrepreneurs, but these did not register on the high-tech economic indicators included in the index calculation. More than any previous crisis, the pandemic showed that these businesses are a valuable measure of economic prosperity and essential to the fabric of communities across the nation. However, many of these businesses still do not have a prominent voice in local policy, thus limiting their contributions to discussions about economic recovery.

IMPROVING ECONOMIC OPPORTUNITY THROUGH MICROBUSINESS

In light of these trends, the Milken Institute Center for Regional Economics worked with the GoDaddy Venture Forward (VF) team to analyze how the characteristics of metro area microbusinesses shaped their communities' resilience to economic shocks and their potential for future growth.

GoDaddy's Venture Forward initiative was established in 2019 as a multiyear research effort to quantify the economic impact of approximately 20 million microbusinesses across US counties, metro areas, and zip codes. The digital microbusinesses included in their research are commercial endeavors, nonprofits, and issue-specific campaigns that have web domains with attached services, such as an online store. As the VF initiative seeks to understand the role of microbusinesses in local economies, its research shows that such businesses contribute substantially to overall growth rates, raising median household incomes above the national average and mitigating the fallout from downturns such as the one experienced during the COVID-19 pandemic. And while some microbusinesses have a brick-and-mortar presence, their online activity can also provide a much broader scope of economic opportunity because it does not necessarily rely on physical proximity to customers.

EXECUTIVE SUMMARY

The purpose of this report is to combine results from the Best Performing Cities Index (BPC) and GoDaddy's Microbusiness Activity Index (MAI) to examine what may be happening in the economies of a selection of cities in the two rankings. Essentially, we wanted to look at the impact microbusinesses may be having in the economies we selected, and how that activity may or may not be captured in BPC, and try to better understand what is happening in these local economies.

It is our hope that the findings can inform policymakers and local leaders in their understanding of economic trends, to allow them to better design programs with the circumstances of their unique economies in mind.

THE INDICES

Best Performing Cities

Milken's Best Performing Cities Index (BPC) is an annual index which compares economic activity across 400 large and small cities in the US. It ranks cities on measures including jobs growth, wage growth, high-tech GDP, high-tech industry activity, broadband access, and housing affordability.

Microbusiness Activity Index

GoDaddy's Microbusiness Activity Index (MAI) comprises three subindices: infrastructure, participation, and engagement. Updated quarterly, the MAI was developed in partnership with UCLA Anderson Forecast economists, and provides the most up-to-date snapshot of microbusiness health and performance. This is done through one score distilling over 15 signals measuring the infrastructure in place for businesses to take root and thrive; the participation of local entrepreneurs in creating these ventures; and the engagement levels of local entrepreneurs with their target markets.

METHODOLOGY

The analysis divided the cities in the BPC Large Cities index into four different segments, high rank and low rank (2022) and high change or low change (from 2021 to 2022). This report examines the results for a selection of cities in each of these four quadrants. The top level results for the cities are shown in the table below.

TABLE 1: MICROBUSINESS ACTIVITY INDEX – SUBINDICES AND AVERAGES

	MAI Index	Engagement	Participation	Infrastructure
Average	102.95	96.28	101.92	106.13

This report cross-examines Milken Institute's 2022 Best Performing Cities (BPC) and GoDaddy's Microbusiness Activity Index (MAI). Our method relied on year-over-year change in BPC rankings between 2021 and '22 to identify trending cities. Cities were divided into four segments: high rank and rising, high rank and falling, low rank and rising, low rank and falling. Specifically, this report examines a small selection of cities in each of these quadrants, identifies commonalities and differences, and makes policy recommendations for cities in those segments.

The top level results for the cities in this report are shown in the table below.

TABLE 2: CITIES DISCUSSED IN THIS REPORT

City	BPC change	Quadrant	MAI Result
Akron, OH	+26	Low rank, rising	103.56
Detroit-Dearborn-Livonia, MI	+28	Low rank, rising	103.91
Columbus, GA-AL	+39	Low rank, rising	99.23
Lubbock, TX	+91	High rank, rising	109.72
Lincoln, NE	+54	High rank, rising	113.09
Spokane-Spokane Valley, WA	+41	High rank, rising	103.67
Deltona-Daytona Beach-Ormond Beach, FL	+30	High rank, rising	103.76
Asheville, NC	-92	Low rank, falling	103.57
Tulsa, OK	-61	Low rank, falling	104.25
Baton Rouge, LA	-36	Low rank, falling	100.87
Pittsburgh, PA	-26	Low rank, falling	104.93
Atlanta-Sandy Springs-Roswell, GA	-26	High rank, falling	108.23
Nashville-Davidson-Murfreesboro-Franklin, TN	-17	High rank, falling	106.12

HIGH RANK & RISING

Cities discussed in this segment were Lubbock, TX, Spokane-Spokane Valley, WA, Deltona-Daytona Beach-Ormond Beach, FL, and Lincoln, NE. Notably, cities within this quartile shared high rankings in four key categories: 1-year and 5-year jobs growth, 1-year wage growth, and broadband access. However, these cities shared relatively moderate rankings in high-tech concentration, LQ count (number of high-tech industries), and housing affordability. On the microbusiness activity index, cities in this quadrant scored higher than the national average in participation and infrastructure, but lower in engagement.

It is interesting to note that while these cities showed higher-than-average infrastructure scores in the MAI, this score – which measures human capital and digital infrastructure access – did not translate into a high BPC score in high-tech concentration or LQ count. That is, these cities have the digital infrastructure to support high-tech industry but have not yet capitalized on that opportunity.

Recommendations

- Improve access to affordable housing
- Promote new investment from high-tech industry but advertising the high opportunity in terms of tech infrastructure and workforce.

HIGH RANK & FALLING

The cities examined in this section were Atlanta-Sandy Springs-Roswell, GA, and Nashville-Davidson-Murfreesboro-Franklin, TN. Both of these are traditionally strong economies with a heavy dependence on tourism: Nashville being one of the most important music cities in the country, and Atlanta being home to the world's busiest airport (although it lost this status briefly during the pandemic). It seems likely that the return of tourism will return these cities to their previously thriving state; however, working to improve industry diversity will improve both cities' future resilience and reduce the potential impact of a similar downturn in future.

Microbusinesses in this segment reported needing assistance getting their small businesses online. They also were more likely to report that their cities already have policies in place to support them. Assisting local businesses in setting up an online presence not only helps them grow their business, but also allows them to access customers further afield and reduces their dependence on the local economy, potentially improving their resilience in the face of another pandemic.

Recommendations

- Reduce dependence on the tourism industry:
    - Support small businesses in non-tourism industries
    - Encourage continued high-tech industry development
- Maintain policies already in place supporting small business owners
- Expand business support to provide assistance in setting up their online presence.

LOW RANK & RISING

Cities discussed in this segment were Detroit, MI, Akron, OH, and Columbus, GA-AL. These are cities that have endured structural change, and have gone through periods of high unemployment. Slowly but surely, they are making a comeback by reinventing themselves and adapting to the new demands of the global, knowledge economy. These cities described here had low broadband access but ranked high in terms of housing affordability, particularly Detroit (8th) and Akron (15th). Microbusinesses in this quadrant were important contributors to city growth. Nearly 90% of online ventures were commercial in nature, higher than in any other city-type. They were more likely to be registered as Limited Liability Corporations (LLCs) than anywhere else. And nearly 90% either started their microbusiness while working somewhere else, or left their prior job to start working on it. These

trends suggest that access to affordable and reliable broadband infrastructure has helped some individuals build wealth through supplemental sources of income and for others, became an avenue to pursuing new entrepreneurial ventures.

Recommendations

- Improve broadband access
- Address the "Skills gap" to help modernize the workforce
- Pursue more public-private partnerships as well as industry-university partnerships to build a region's competitive edge
- Provide technical assistance to ensure new businesses are digitally-enabled

LOW RANK & FALLING

Cities discussed in this segment were Tulsa, OK, Pittsburgh, PA, Baton Rouge, LA, and Asheville, NC. These are cities not known for a high-tech industry presence, and have gone through periods of high unemployment. Three of the four cities described here had particularly low broadband access (around 25%), and microbusiness owners surveyed revealed that they did not view an online presence as essential. Microbusinesses in this quadrant were also more likely to be new, and to report licensing/permitting as the biggest hurdle they face.

Recommendations

- Improve broadband access
- Streamline the permitting and licensing process
- Provide technical assistance to ensure new businesses survive long term

CONCLUSION

A particularly notable finding was the pivotal role that broadband infrastructure can have in promoting economic opportunities and unleashing entrepreneurial potential within local economies. Cities that ranked in the top 10 also had very high rankings in broadband access.

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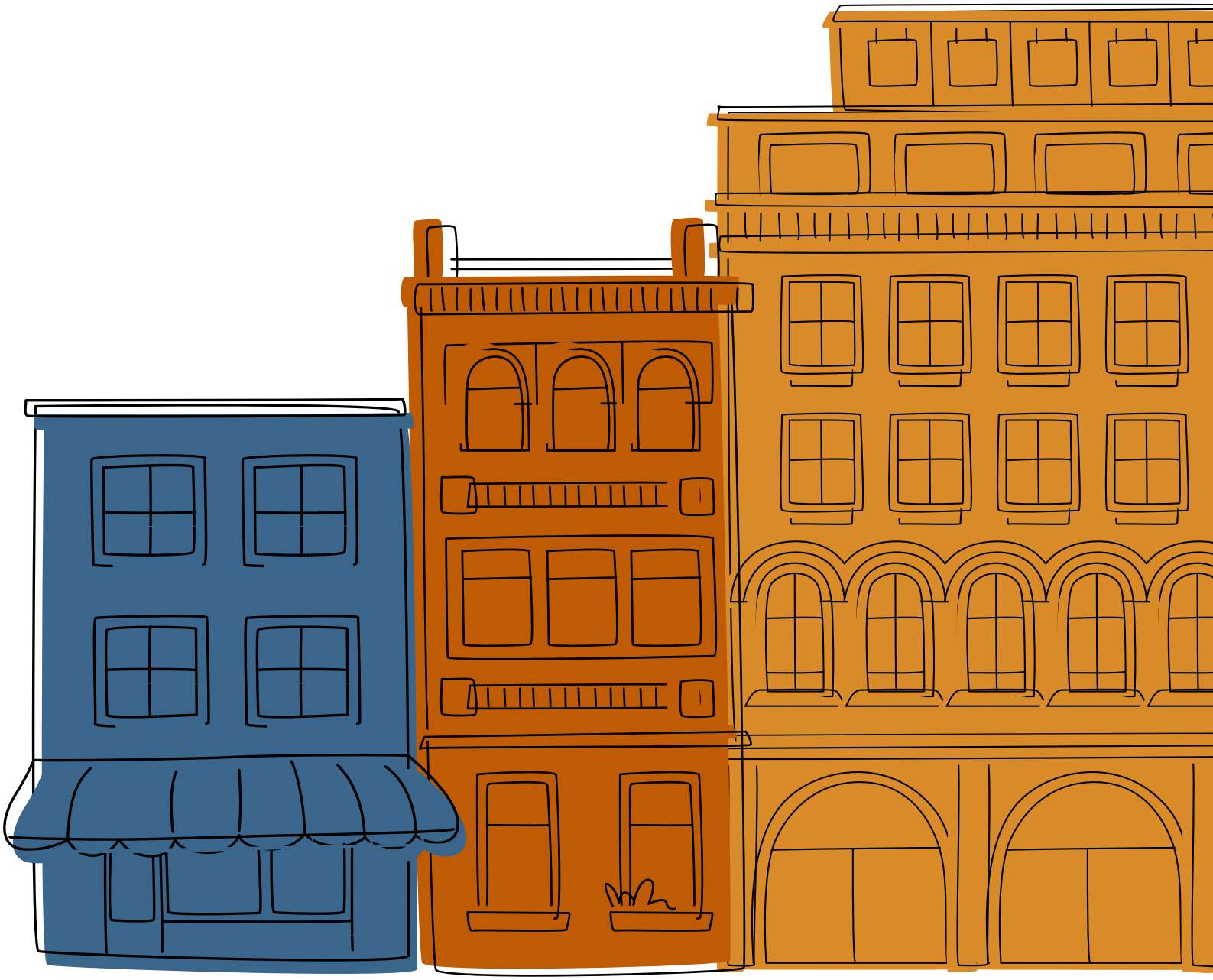

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