

## **Growth-Oriented Entrepreneurs**

## Special Recognition



*Christine Hamilton-Pennell*

This paper would not have been possible without the pioneering work and contributions of Christine Hamilton-Pennell with Growing Local Economies. Christine is a leader in entrepreneur-focused economic development. She was a critical contributor in the ground-breaking Economic Gardening work in Littleton, Colorado and has significantly advanced the field's understanding of entrepreneurial talent and especially growth-oriented entrepreneurs.

## Growth Entrepreneurs

Not every business owner wants to grow his or her business. Most self-employed and “lifestyle” business owners are satisfied if they can make a decent living for themselves, and maybe hire a few other people. Most small businesses serve a local geographic area and do not have a market footprint outside the region.

These small, local businesses are very important to a community. In addition to creating a modest number of jobs, they contribute to the quality of life and availability of amenities that make the community a more desirable place to live and work.

Growth-oriented entrepreneurs (GOEs) have different attitudes and goals for their ventures. They usually know at the outset that they want to grow their business. They may express this as a desire to hire more employees, increase their capital expenditures, explore new markets outside the region, or open new franchises in other locations. Growth-oriented entrepreneurs have recognized a market opportunity and have decided to create and grow an enterprise (profit or non-profit) to pursue it.

As Robin Lasher, Director of the Navarro County Texas, Small Business Development E2, puts it, “Most small businesses equate growth with supporting the business and themselves. A very different perception and understanding of growth extends beyond the backyard to new markets. [Growth-oriented companies] probably think about all this from day one, but for most small businesses, I think it starts as a foggy notion.”

Growth-oriented entrepreneurs have both a strong desire for growth and the potential capacity to realize sustained growth. These entrepreneurs want to scale up their businesses and seek to reach external markets, thus expanding the economy of the region by bringing in new wealth in the form of investment, jobs and careers, and tax base. This new wealth then “recirculates” throughout the local economy and stimulates the growth of local businesses.

## The Impact of Growth Businesses on the Economy

Startups, defined as businesses in their first year of operation, have played a critical role in U.S. employment growth dynamics, and are an important factor in creating local jobs. As a group, however, businesses that survive the start-up stage usually create more net jobs than start-ups. Studies show that most of the sustained job growth in a community is generated by the expansion of existing businesses rather than start-ups or relocations of existing businesses to the community. It is the growing companies—business expansions—that have the greatest long-term economic impact on a local community or region.

A subset of growth-oriented entrepreneurs includes those who create break-out, high-growth companies that expand rapidly in terms of revenues and job growth. These business establishments represent less than five percent of all businesses, yet create upwards of two-thirds of all business growth and job creation. Additionally, these entrepreneurs generate up to 50% of all innovation within our economy. High-growth companies, while extremely rare, are nevertheless found in most regions of the country, and in every county. Most fast-growing enterprises are not in high-tech industries; they are widely distributed across all industries.

Most rural areas have very few high-growth entrepreneurs, and have limited capacity to assist them. But chances are very good that these communities have a much larger pool of local entrepreneurs who want to grow, and do not know how. Helping growth-oriented entrepreneurs create sustainable growth plans can dramatically impact the area's overall economic development progress.

## Business Stages

[YourEconomy.org](http://YourEconomy.org), a website created by the Edward Lowe Foundation, reports data on the composition and growth of the business universe in the United States over time. In this database, resident companies are broken out by stage:

Self-employed (one employee)

Stage 1 (2-9 employees)

Stage 2 (10-99 employees)

Stage 3 (100-499 employees)

Stage 4 (500+ employees)

Some entrepreneurship support strategies such as Economic Gardening have chosen to target Stage 2 companies as the focus for their efforts. In their report on "[The Significance of Second Stage](#)," Edward Lowe Foundation describes Stage 2 companies as those "that have grown past the startup stage but have not grown to maturity. They have enough employees to exceed the comfortable control span of one owner/CEO and benefit from adding professional managers, but they do not yet have a full-scale professional management team." In terms of numbers, "employee numbers and

revenue ranges vary by industry, but the population of firms with 10–100 employees and/or \$750,000 to \$50 million in receipts includes the vast majority of second-Stage companies.”

While Stage 2 growth-oriented companies do create a substantial number of new jobs, previous research has also shown that establishment growth (measured in terms of jobs or revenues) occurs among companies of all sizes. A more significant factor in firm growth is age of the firm rather than size. The younger companies are, the more jobs they create, regardless of their size.

In terms of developing community and economic development policies to support local entrepreneurs, the best target for small and rural communities is typically late Stage 1 or early Stage 2 companies that have the ability and desire to grow, and have a market (or potential market) outside the region or state. Some of these businesses may look like retail businesses, but they have opportunities to sell outside the local area (e.g., a pharmacy that discovered a niche in compounding and sells online in 48 states and several other countries). These late Stage 1 or early Stage 2 companies can fill the pipeline that will increase the numbers of late Stage 2 companies.

## **Community Strategies for Supporting Growth Businesses**

The ‘sweet spot’ for most community entrepreneurship support programs is to target entrepreneurs who have started a venture that is between one and five years old and want to grow it, regardless of its size. These ventures aren’t necessarily “high-tech,” but they have developed some sort of innovation in their product, process or delivery method. They also have a potential or actual market outside the local economic region, and create quality, living-wage jobs.

Typically, these are late Stage 1 and early Stage 2 growth-oriented entrepreneurs. By providing support and help at this crucial phase, these entrepreneurs will be more likely to make good decisions that will allow them to remain viable and sustain their growth to reach the next level.

Finding these entrepreneurs is the tricky part. They may start out as a home-based business, or look like a secondary business such as a local retail or service business that is exploring an outside market through the Internet or franchising. A community must leverage its networks of existing entrepreneurs, small business professionals, and business organizations to locate appropriate target businesses.

Once a community has identified potential growth businesses, these key questions will help clarify whether an enterprise fits the bill:

- 1.** Do they have a niche where they are competitive?
- 2.** Are they committed to growth?

3. Are they actively exploring creating an external market footprint?
4. Are they “coachable” and willing to act on the information and advice they receive?

## Entrepreneurship Support Strategies

Growth-oriented entrepreneurs have specific needs: access to capital—both human and financial; access to strategic coaching and technical assistance; access to appropriate facilities and high-quality infrastructure; a friendly tax and regulatory environment; market intelligence and access to external markets; and a trained workforce. They seek to create strategic alliances with other business owners and supply chain managers, and to develop the capacity to manage their enterprises successfully in a global marketplace. Communities can best support their growth-oriented entrepreneurs by addressing these needs.

## Technical Capacity Building

Every growth-oriented entrepreneur has a set of issues that must be addressed to allow them to grow. Quality coaching services, such as the eCoaching Program of e2 Entrepreneurial Ecosystems, helps GOEs connect to appropriate technical assistance resources—either in the community or accessible elsewhere—that can address their specific technical needs. The ability to develop a strong local referral network and to access appropriate professional business services in areas such as finance, legal, and accounting, is an essential part of doing business in any locality. Growth-oriented entrepreneurs typically want to connect with their peers to gain from their wisdom and experience, so strong local entrepreneur networks are also essential to the success of these entrepreneurs.

## Capital Access

Recent reports indicate that the recession has slowed business activity and decreased demand for financing (e.g., less growth = less demand for financing). Conventional wisdom suggests that a lack of access to capital has produced the slower growth. But the challenge may be more complicated. Cash availability is at an all-time high, and the cost of money is at an all-time low. But fears about the economy, including the possibility of a longer recession and higher investment risk, have created a tighter capital supply market, and business planning requirements have become substantially higher.

Identifying available commercial lenders, micro enterprise programs, angel investors and government financing programs (e.g., SBA, USDA, CDBG, state) all become important to increasing capital access for growth entrepreneurs. Better market intelligence and scenario testing can reduce the risk for both capital providers and entrepreneurs who want to scale up their businesses.

## Market Intelligence

Helping entrepreneurs create strong business plans is widely accepted as a good practice. However, business planning often suffers from inadequate or inaccurate market intelligence. This is particularly true for those entrepreneurs who want to reach external markets.

Market intelligence is a process that enables growth-oriented companies to access and use high-level technical expertise and strategic market information to explore new markets and growth strategies. It provides access to accurate, timely and actionable information gathered from primary and secondary research sources, as well as strategic advice from small business professionals. This is to enable an entrepreneur to ask better strategic questions, make more focused market decisions, avoid costly mistakes, and successfully grow his or her enterprise. Creating access to competitor research, customer profiles, market opportunities, suppliers, distribution channels, legal, pricing and branding information is all part of market intelligence support.

Market intelligence is critical to the development of a good business and capitalization plan. It also allows an entrepreneur to create new market scenarios and assess the risk involved, so that a new strategy can be tested in the marketplace. Market intelligence is a discipline practiced by all Fortune 500 companies; smaller growth-oriented companies also need to practice it to gain a competitive edge in their market space.

## Infrastructure

The vast majority of entrepreneurs can live and grow their ventures anywhere. This is particularly true of growth entrepreneurs that create businesses with an external footprint. Physical infrastructure and quality-of-life considerations play strongly into an entrepreneur's choice to stay or locate in a particular rural community.

Regional infrastructure issues—both physical and quality of life—are also fundamental to the success of local entrepreneurs. Physical infrastructure considerations include access to water, wastewater services, roads, power and telecommunications services, and adequate transportation logistics. In terms of quality of life, entrepreneurs want to live and raise their families in safe communities with good schools and higher education opportunities; quality housing; strong cultural and recreational amenities; vibrant local retail and service businesses; and accessible healthcare, child care, and elder care services.

The bottom line is that you can help your community grow by creating a strong community infrastructure and bringing together relevant technical resources to support your local growth-oriented entrepreneurs. In a rural community, community

development and economic development are two sides of the same coin, and both are needed to help a community create new hope, increase wealth and expand choices.

## Case Study

### Solar Roast Coffee, Pueblo, Colorado

Solar Roast Coffee was started by two brothers, Mike and Dave Hartkop, in Pueblo, Colorado. They had developed a solar technology to roast coffee beans, and wanted to take advantage of Pueblo's abundance of sunshine. Since opening their first retail shop in downtown Pueblo three years ago, the brothers have launched three additional retail shops in the area. They are also wholesaling their organic solar-roasted coffee to more than 50 additional locations throughout Colorado and the West.



The Hartkop brothers have received support from several sources in the community to assist them in growing their business. Christopher Markuson, Geographic Information Systems (GIS) manager for Pueblo County, operates an Economic Gardening program for the county, which is located 115 miles south of Denver. He and his small staff provide GIS maps, reports, and market analysis to help businesses across the county grow and succeed. Says Markuson, "We analyzed the data [Solar Roast] collected, and determined who their core customer base was (daytime populations within about 1 mile of the coffee shop), as well as competitors within the state and underserved areas where expansion would be fruitful. We also gave them business contact information for potential wholesale sales opportunities, traffic count information for a variety of places (wholesale potential), and some demographic analysis of other areas. And, I've steered them toward some funders that they're working with now on their next big phase of research development."

Solar Roast also received a \$100,000 grant from the Pueblo Economic Development Corporation. The Hartkop brothers plan to use the grant to hire an additional 10 employees, which will allow them to concentrate more on marketing and other aspects of the business. They plan to move their roasting and distribution headquarters to downtown Pueblo. The company's fifth-generation solar roaster soon will be assembled on the rooftop of their store. The newest version, "Helios V," will allow the company to meet the rapidly growing demand for their organic coffee, and will also provide the coffee shop below with electricity and hot water during off hours.

The brothers hope to find local manufacturing outlets for the specialized "heliostat" mirrors used in the solar-collection portion of the roasting operation and sell them to

companies or individuals interested in using them for other solar-thermal energy purposes.

Plans also call for a cooperative relationship with Colorado State University-Pueblo students who are interested in studying the roaster's technology for other applications. City Councilwoman Judy Weaver, the council's PEDCo board representative, said the half-cent sales tax grant to the young but growing company is a prime example of "economic gardening"—the practice of helping small, local companies create primary jobs. This kind of assistance not only grows jobs, it provides additional exposure for Pueblo through the company's Internet marketing. PEDCo officials say it's something they haven't done much of in the past, but plan to do more of in the future.

Sources: Emily Vines, "Pueblo County, Colorado Grows the Economy with GIS," *ERSI ArcWatch*, January 2010; emails and interviews with Chris Markuson May, 2010; *Pueblo Chieftain*, <http://www.esri.com/news/arcwatch/0110/pueblo-county.html>.

## Case Study

### Keyscaper, Tualitin, Oregon



Toni Thom, CEO of Strategic Printing and Manufacturing Solutions Inc. and Keyscaper.com, received market intelligence assistance from the Portland-Vancouver Regional Partners' Economic Gardening Program to help grow her business. "In 2009 our company introduced a line of custom printed keyboards called Keyscaper," she reported. "In the depths of the recession, we were spending immense energy keeping our core business afloat. We hadn't the time nor the resources to do our own market research. Our confidence was at an all-time low."

Initially skeptical that the Economic Gardening program could help their company, Thom decided to participate. Thom found that the Economic Gardening staff really understood their business, and were able to provide them with strategic market information and analysis. Thom reports the results of the assistance they received. "Upon implementing their recommendations, Keyscaper's sales skyrocketed from a few thousand dollars a month to over \$100,000 in October 2010, and continue to grow in 2011. Soon we were selling directly to retail outlets like Best Buy and to companies like Google and Boeing through a new partner, Ovation Worx, to which the program connected us. The results speak for themselves: Sales growth in our Keyscaper line combined with core business growth allowed us to add 16 positions, increasing our staff size by 50% in one year."

Source: OregonBusiness, <http://www.oregonbusiness.com/contributed-blogs/5486-homegrown-jobs-for-oregon>



\*View a YouTube [video](#) of Toni Thom testifying before Oregon’s House Committee on Transportation and Economic Development (March 18, 2011) on the impact of the market research services provided to her business by the Portland-Vancouver Regional Partners’ Economic Gardening Program.

### Further Reading on Growth Companies

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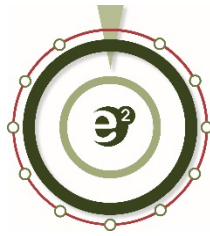
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## How e2 Can Help

**e2 Entrepreneurial Ecosystems** can help communities increase prosperity through entrepreneur-focused economic development and ecosystem building through:

- **Mentoring.** We mentor and coach new practitioners seeking to pursue entrepreneur-led development.
- **Analytics Support.** E2 helps communities and regions understand their entrepreneurial potential through research. Please view a sampling of our research tools at: <https://www.energizingentrepreneurs.org/solutions/start.html>
- **Fostering the eMovement.** We support the national entrepreneurship movement along with our partners including the **Federal Reserve Bank of Kansas City, SourceLink, Edward Lowe Foundation, Kauffman Foundation, and NetWork Kansas.** Together, we continue to advance the foundational ideas of building entrepreneurial ecosystems and entrepreneurship-led economic development.

**Our emerging vision includes the following solutions:**

- **e2 Institutes.** Explore our new generation of e2 Institutes where teams come together, learn from each other and explore the expanded world of strategies, tactics and resources needed in entrepreneurial ecosystem development work.
- **National e2 Resource Network.** e2 offers a resource network capable of connecting those seeking help with those who can help across North America.

**e2 Entrepreneurial Ecosystems** (formerly the Center for Rural Entrepreneurship) is led by Don Macke, who has more than 40 years of community economic development and policy experience. We have a national team of practitioners, both inside and outside e2, who bring research, coaching, incubation, market intelligence and other expertise to this work.

## Questions & More Information



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The mission of **e2 Entrepreneurial Ecosystems** is to help communities and regions connect, learn, and share best practices for building sustainable entrepreneurial ecosystems across North America. With more than 25 years of field experience, particularly in rural America, e2 is the preferred resource for communities of all sizes wanting to pursue prosperity.

For tools and resources, visit our online library at  
<https://www.energizingentrepreneurs.org/library/>.

To learn more about e2, go to [www.energizingentrepreneurs.org](http://www.energizingentrepreneurs.org).

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