

Key No. 6 Growth Entrepreneurs

Growing Entrepreneurial Communities

Background & Introduction

This month's Thought Paper focuses on the topic of growth entrepreneurs and their role in the process of growing entrepreneurial communities. This is part of our 2013 series addressing the [keys to local economic development success](#). Each month, we will address one of these keys in a Thought Paper. As is always the case, we want to hear from you. Please send us your insights, questions and push back by emailing me at don@e2mail.org.

Top 10 Keys

- Key 1 – [Local Responsibility](#)
- Key 2 – [Smart Game Plan](#)
- Key 3 – [Robust Investment](#)
- Key 4 – [Entrepreneurial Development Systems](#)
- Key 5 – [Sustained Effort](#)
- Key 6 – Growth Entrepreneurs
- Key 7 – Attributes of an Entrepreneurial Community
- Key 8 – Immigrants & New Residents
- Key 9 – Real Regional Collaboration
- Key 10 – Civic & Social Entrepreneurs

For More Information

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Growth Entrepreneurs – Who are they?

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. The majority of small businesses serves a local geographic area and does 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.



Check out the case study of [Solar Roast Coffee](#): a growth-oriented entrepreneur.

Growth-oriented entrepreneurs (GOE’s) have a different attitude 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 Center 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 the majority of 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.

Growth-oriented entrepreneurs have possibly the greatest potential for generating and sustaining economic development outcomes including new job investment, jobs and tax base expansion.

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 startup stage usually create more net jobs than startup businesses. Studies show that the majority of sustained job growth in a community is generated by the expansion of existing businesses rather than startups 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 percent 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, 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)**

Great Resource

Check out your business community's profile at:

www.youreconomy.org

Brought to you by the Edward Lowe Foundation of Kitty Litter fame.

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Some entrepreneurship support strategies such as Economic Gardening have chosen to target Stage 2 companies as their focus for their efforts. The 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 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 visible and sustain their growth to reach the next level.

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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 help clarify whether an enterprise fits the bill:

- **Do they have a niche where they are competitive?**
- **Are they committed to growth?**
- **Are they actively exploring creating an external market footprint?**
- **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 E-Coaching Program of the Center for Rural Entrepreneurship, helps GOE's 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, etc.) 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 business.

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 of 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 the 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, but 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.

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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 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.

Conclusion

Across North America communities are searching for the right development formula that will lead them to a new era of prosperity. The Great Recession was a real hit and will enable a new economy to emerge. We are convinced that focusing on your community's growth-oriented entrepreneurs is a corner stone of any development game plan.

Next Installment

In our next paper on Growing Entrepreneurial Communities to be released in August 2013, we will focus on Key No. 7 or Attributes of an Entrepreneurial Community.

Questions & More Information

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The Center for Rural Entrepreneurship's vision for rural America is one of vibrant communities and regions that embrace entrepreneurship, that find new sources of competitive advantage in their inherent assets, and that invest in a new more sustainable future for both present and future generations. The Center's mission is to help our local, regional and state partners achieve this future by connecting economic development practitioners and policy makers to the resources needed to energize entrepreneurs and implement entrepreneurship as a core economic development strategy.

To learn more about the Center's history and program areas, go to www.energizingentrepreneurs.org.

The Rural Policy Research Institute (RUPRI) provided founding support to create the Center for Rural Entrepreneurship in 2001. RUPRI's mission is to provide independent analysis and information on the challenges, needs, and opportunities facing rural people and places. The work of the Center for Rural Entrepreneurship, along with other centers and collaborations, helps RUPRI achieve this mission. To learn more about RUPRI, visit www.rupri.org.