



Keeping Up with the Gazelles, Part 2: Why Gazelle Founders Set Sail

In interviews with four dozen founders of fast-growing companies across the Southeast, Atlanta Fed researchers identified three general paths that these entrepreneurs followed. *Economy Matters* staff writer Charles Davidson profiles some of the prototypical gazelle founders.

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Editor's note: This article is the second in a series of articles that explores the findings of the Atlanta Fed's Gazelle Project.

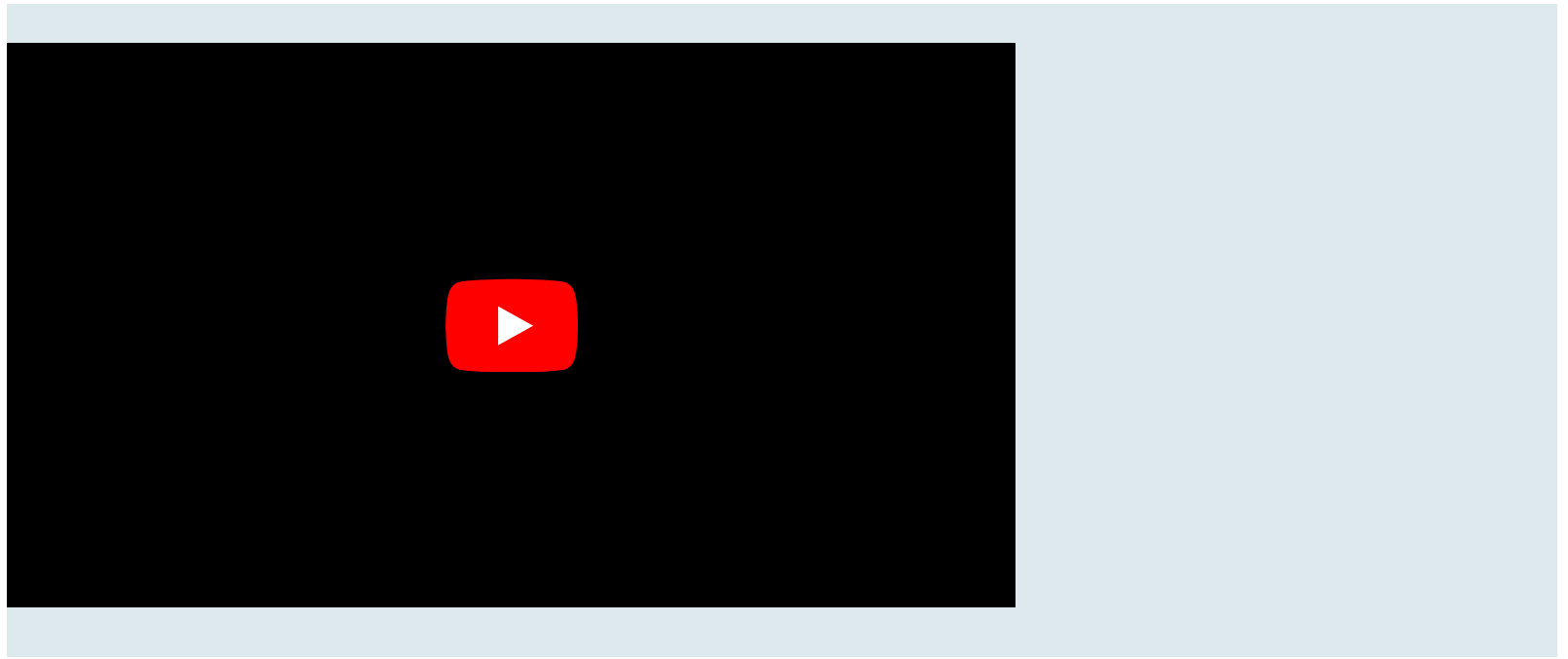
About the Gazelle Project

The Gazelle Project collected qualitative data in a series of face-to-face interviews with southeastern entrepreneurs who started their businesses within the past 13 years. The project was spearheaded by the Atlanta Fed's John Robertson and Ellyn Terry. This series of articles will summarize the results of the project. Articles will examine a decline in business formations to set the context; firm founders' motivations and experience; the role of social capital, including social and professional relationships, in building gazelles; and the financing of gazelles.

The Atlanta Fed's Regional Economic Information Network (REIN) staff interviewed dozens of entrepreneurs across the Southeast to gather information about three broad areas:

- **Human capital:** The skills, knowledge, and experience of the individuals involved in launching and building the businesses.
- **Social capital:** The network of social and professional relationships that the founders use to identify and access resources.
- **Financial capital:** The financing the founders used to begin operations and to fund growth.

The Atlanta Fed's interest in small business focuses on three related issues: the role of small business in job creation; the role of small business in local economic development, and the role of the banking system in small business financing.



To be sure, a variety of forces motivates firm founders. And they certainly didn't all envision building a high-growth company. Although this *Economy Matters* series does feature serial entrepreneurs and those who left jobs seeking intellectual stimulation and greater autonomy, many gazelles became entrepreneurs by chance. Some were laid off, and starting a business was their best and most available option. Others sought to rebalance family and work, and business ownership afforded them the lifestyle they wanted.

In terms of archetypes, roughly equal numbers of gazelle founders in the Atlanta Fed study fell into each of these broad categories.

The Captain Who Loves to Sail

These inveterate entrepreneurs love sailing their own ship and are constantly on the lookout for a business opportunity.

These entrepreneurs relish owning and operating an enterprise. Some in this study even said they believe there is a repeatable formula for creating a successful business. "Running any business is the same," said one serial company founder. "The only difference is the product you sell."

Staff in the Atlanta Fed's Regional Economic Information Network (REIN) held extensive conversations with more than a dozen such serial entrepreneurs. In many cases, these veteran entrepreneurs grew up in families with a history of starting businesses.

"This was just baked into their DNA," said Terri Gafford, REIN director at the Atlanta Fed's Birmingham Branch. "A lot of it really is, if you grow up around this, you know how to make these things happen."



Scott and Kathy Green have owned several companies over the years. Click "Born into a Family of Sailors" below to read their story.

Born into a Family of Sailors



Scott Green was born to be an entrepreneur. His family founded a jewelry and catalog retail business in 1895, and it lasted 100 years. *Not* starting a business of his own seemed an utterly foreign notion.

"There was just a sense of that's what you did," said Green, owner of Creative Concepts Inc., a wholesale candy company based near Birmingham, Alabama.

Growing up among entrepreneurs, he didn't have to look far for a business role model. His first was his grandfather. What profoundly impressed Green was not his grandfather's business acumen so much as his genuine interest in people.

"He cared about the conversation," Green said. "I try to listen more than talk, and he was the best I ever knew at that."

Of course, succeeding in business requires more than a pleasant personality. Green knows that first-hand. Before he and his wife, Kathy, founded Creative Concepts in the late 1990s, they owned a kids' pizza parlor. (Husband-wife teams were common among gazelles the Atlanta Fed studied. Indeed, among U.S. firms in general, the percentage co-owned by a male and female rose to 18 percent in 2007, up from 12 percent in 2002, according to the latest [Survey of Business Owners](#) from the U.S. Census Bureau.) The original location prospered, but adding a second led to complications. After struggling for five years, the Greens shuttered both locations.

Hard lessons learned

Green said he learned several lessons from that experience. For one, the Greens had jumped into a fiercely competitive game; there are tons of companies peddling family entertainment. Second, Green found that expansion can be difficult. The second pizza store's location proved to be "a dog," as Green put it. In retrospect, the Greens as well as their capital were stretched thin across two locations. He figures that if they had pumped resources into the original, profitable pizza location, the business probably would have continued to flourish.

After closing the pizza parlors, the Greens immediately looked for something new to run. They quickly settled on what would evolve into Creative Concepts. It was surely no overnight success. The Greens burned through \$15,000 in savings and ran up \$35,000 in credit card debt. Scott's grandmother cosigned loans. Green built decks and took various odd jobs as they got their start-up off the ground.

They navigated a grueling process to secure a Small Business Administration (SBA) loan, he said. It took the Greens years to rebuild their battered personal credit ratings. This pursuit tested the best traits Green said he brings to the business—energy, creativity, and tenacity.

"It was painful, really challenging," Green said of launching Creative Concepts. "No one gives you anything..

That experience was typical among gazelles the Atlanta Fed researched. In the Atlanta Fed's study of four dozen founders of high-growth companies in the Southeast, 75 percent reported using personal savings to start their company. Similarly, the Greens' difficulty securing an SBA loan is the norm among entrepreneurs, according to the Atlanta Fed's Gazelle Project and recurring small business [surveys](#).

The firm's main product is a confection of granulated sweet and sour flavors called Pucker Powder, which is consumed from a plastic tube. Creative Concepts sells dispensers—mainly to gift shops and resort operators—and those customers in turn use the dispensers to create their own blends of colors and flavors of the sugary powder. The powder has proven popular internationally, as Green and company have won customers in Canada, China, the Middle East, Russia, and South America.

Focusing on what matters

With a growing business come more worries. The Greens juggle details of running a business with staying current in their industry. To escape the daily grind last year, they spent a month in a rented mountain cabin. Green took his laptop and said he accomplished plenty. Most of all, he escaped the minutia that, he said, "drives me absolutely batty."

"Working on design and development," he explained, "will bring dollars to the table versus me worrying about, 'Is everyone wearing a hair net?' "

Now that Creative Concepts is established, with more than 30 employees and annual revenues of about \$5 million, Green focuses on designing new types of candy dispensers, which is the aspect of the business he enjoys most.

Using 3-D printing and computer-aided design technologies, Green tweaks, redesigns, builds prototypes, and finally decides what to take all the way to manufacturing. A real key in design, Green said, is knowing when to abandon an idea. "You can't get your heart in it so much that it won't work in a team environment," Green said. "We live that on a daily basis; what we're trying to accomplish is bringing innovation to what we do..

So far, so good.

The Crew of a Commandeered Ship

They begin down an entrepreneurial path with an event such as a layoff or management

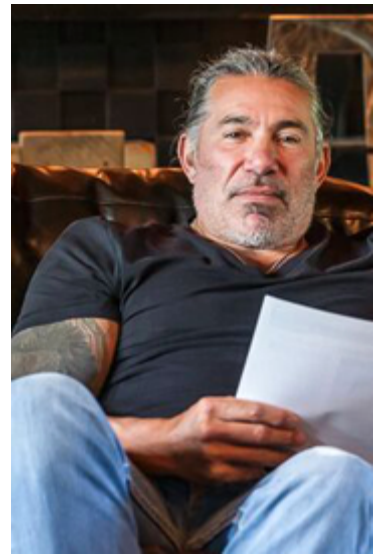
shakeup at their employer.

After events overtook their career ship, these founders launched their own vessel. Within this category of founders, two-thirds started companies related to their experience—often what they viewed as a better version of their former employer.

In fact, the entrepreneur with a detailed plan informed by experience was far more common in the study than the risk-taking swashbuckler seeking to build an empire, said Laurel Graefe, the Atlanta-based REIN director. Gazelle founders in the study tended to be confident and to trust their instincts, but they are also realists.

"The companies often ended up being cautious, measured outcomes," Graefe said. "There wasn't once a case where someone sat down and thought—'Oh, I want to make a lot of money. Or I want to start a fast-growing company, what sort of thing should I do?'—and went into it with a blank slate. It was always someone who had some type of specialization, and more often than not it was someone who was highly specialized in an area."

Mark Molinari is a longtime software developer and consultant. After the dot-com bust in the early 2000s, he found himself jobless. Unable to find work, he and a partner launched a firm that helps companies outsource information technology projects to Mexico. Click "[Thrown Overboard—and into a Job at a Liquor Store](#)" to read his story.



Thrown Overboard—and into a Job at a Liquor Store



Photograph by Kendrick Disch

Liquor stores are generally not considered fonts of great ideas.

But Mark Molinari was desperate. With a wife and two kids to support, he had left a stable job at the software giant Oracle in the late 1990s to take a higher-level position at a smaller software maker. Then he left that firm in 2001, assuming he'd find another good information technology (IT) gig, as he always had.

Bad timing.

The dot-com bubble burst, rattling the IT industry. Molinari couldn't find work. Several months on, having exhausted the family's savings, and lost a house and cars, he took a job stocking shelves at a liquor store in suburban Atlanta for \$10 an hour.

At least he had time to think. During this period, Molinari wrote the business plan for what became a full-on gazelle, 4th Source. The firm creates software and handles other IT projects mainly for health care companies, doing most of the work in Mexico. In its offices near Cancun, 4th Source employs 400 people.

Why not Mexico for offshored IT jobs?

During Molinari's stint stocking shelves, a former Oracle colleague offered him a chance to return. He did, and later invited the colleague, Rick McKay, to join him 50-50 in 4th Source. They cobbled together their startup on the side while working at Oracle.

Molinari's startup idea grew from his work in Oracle's consulting business. In his second tour with the company, he said, the mission was to shave clients' costs—but maintain quality—by sending software development and systems integration work to India.

Managing IT work half a world away is challenging

Offshoring was widespread early in the 21st century. Still, sending delicate work halfway around the world proved to be difficult, Molinari said. Differences in time zones, culture, and business mores complicated matters.

Writing software and blending IT networks are "very intimate endeavors," Molinari said. "There's trust, time frame, competency, deliverables—all of which are very easy to measure and tweak when you're sitting across the table from someone, and nearly impossible to do with someone you've never met in a location you've never been to."

Although wages overseas were much lower than in America, the work often required more people than initially anticipated, and technical and financial failures were common, Molinari said.

To be sure, India remains the dominant player in the still-growing market for offshored IT services. But the kinds of snags Molinari described were not exceedingly rare, according to [The Handbook of Global Outsourcing and Offshoring](#), a 2011 book by Leslie Willcocks of the London School of Economics and Political Science, Julia Kotlarsky of the Warwick Business School, and Ilan Oshri of the Rotterdam School of Management. Projects with teams collaborating from different locations "face major challenges on various fronts, including cultural differences, language barriers, national traditions, values and norms of behavior," the authors wrote.

Molinari wondered if moving the work closer to the United States represented a better way, both geographically and culturally. Canada? Too expensive. Mexico? The country was noted for manufacturing, but not sophisticated technology work.

Therein was the opportunity, Molinari figured. Mexico boasted a large, educated middle class who liked working with American firms. "We put a flag in the ground and said we think it's going to work," he said.

Mexican outpost offers low wages, and it's near the beach

In setting up a Mexican office, Molinari and McKay steered clear of Mexico City. Instead, 4th Source set up in the city of Merida, which offered a couple of significant advantages, according to Molinari. Fewer nearby IT firms to poach employees means less wage inflation than in Mexico City, where most foreign firms locate outposts. Second, Merida is near Cancun, so American clients and prospects don't mind visiting and then hopping to the coastal resorts.

Initially, 4th Source lined up a Mexican partner to hire local staff, a critical decision in the company's formative stages. Rather than paying its own employees every two weeks, 4th Source received invoices from the partner that it paid every 60 days or so. Stretching out payment times, and thus preserving cash flow, helped the fledgling firm find its financial footing, Molinari explained.

Today, 4th Source employs roughly 500 people, including 400 in Mexico, and generates more than \$25 million in annual revenue, according to Molinari. It no longer uses the local Mexican partner to staff its Merida operation.

Tax incentives lure HQ to Louisiana

Originally, Molinari's motivation for starting a company was straightforward: financial gain. He needed to support himself and his family. Secondarily, he embraced autonomy and an intellectual challenge.

In 2014 the company entered a new phase. Molinari and McKay hired a chief executive with whom they both worked at Oracle. The new CEO, Michael Wedge, is a Louisiana native and suggested moving 4th Source's headquarters from Atlanta to the New Orleans area to take advantage of generous state tax incentives, which include a 25 percent refundable tax credit on certain expenditures in producing software and a 35 percent refundable tax credit on Louisiana-based payroll. 4th Source plans to establish a software operations center alongside its headquarters in Kenner, Louisiana.

"We knew we were going to be ramping up somewhere, so why not ramp up there?" Molinari said.

And so 4th Source continues climbing the ramp Molinari began building at that liquor store more than a decade ago.

Hannah Paramore is a digital marketing specialist. After bouncing among Internet companies, she decided she needed something more secure to better provide for her family. Click "In Search of a Steady Income" below to read her story.

In Search of a Steady Income





Photo courtesy of Paramore/the digital agency

After a dot-com thrill ride through four jobs in two years, Hannah Paramore had an epiphany.

"It was the time and the market I was in," she said of her experience during the Internet boom and bust of the late 1990s and early 2000s. "I really crossed over emotionally into feeling like I was safer on my own."

A single mother raising two sons, she was determined to stay in Nashville and in the digital marketing industry. So she began doing web strategy consulting. A year later, Paramore's one-woman shop morphed into a digital marketing and advertising agency. A dozen years on, Paramore/The Digital Agency has 30 employees and a roster of high-profile Tennessee clients.

"I just didn't know how to do it"

At first Paramore's firm had no long-term strategy, no business plan, bank loan, investors, nor partners. "I didn't know I was starting an agency," she said. "There was probably a better way to do it, but I just didn't know how to do it."

Personality and business opportunity steered her toward forming a firm with employees, she said. On the business front, Nashville in 2002 was a fertile market for Internet consulting: the city lacked digital strategists and few companies truly understood how to exploit the Internet, in Paramore's view. Having lived in the city since she was five, and worked in online marketing for several years, her reputation helped her land work.

However, Paramore said she was not temperamentally suited to the consultant's approach of dropping in, advising, and then moving on. "Because I'm goal-oriented, I like to finish things," she said.

Still, parachuting into companies had its upside. Paramore discovered what she called a knowledge gap—most of her client companies didn't know how to use the web and digital tools generally to market or transact business. That gap was and remains Paramore's opportunity, she said.

Stressing personal responsibility

Paramore feels that an abiding sense of personal responsibility has allowed her company to continue to fill the gap. Accountability is foremost among the firm's core values, which adorn the office walls and are written into job descriptions. Putting the value into practice, Paramore said she does not tolerate passive-aggressive behavior.

"When I ask a question of somebody like, 'Have we delivered the proposal?' and, 'Did you include this in the proposal?' that really is the question," she remarked. "There's not another question behind the question. I've worked with passive-aggressive people who'd ask a question they know the answer to see if you're going to lie..

Such forthrightness, Paramore believes, is a business imperative. To help them move quickly with minimal direction, she encourages employees to be candid but tactful so as to avoid unproductive personality clashes.

"I value movement and activity," Paramore said. "I'd rather you be fast and wrong than slow and right..

On retaining young talent

Paramore/The Digital Agency recently moved into the arts district of downtown Nashville. Young employees wearing hip glasses circulate among curvy walls and fashionable furniture. To keep talented millennials engaged, the workplace "has to be like a rec center," Paramore said, with ping pong tables, a putting green, and a rooftop patio.

However, don't confuse the trappings for a party. Staff don't come and go as they please. They take ping pong breaks, but only at lunch and after hours. Monday morning meetings—no smart phones allowed—are mandatory.

Maintaining structure is important, Paramore believes.

"People are willing to do hard work as long as you communicate with them, give them responsibility, and hold them accountable," said Paramore, a classical piano major in college. "If they aren't comfortable with that, they don't need to be here. The people we have, they don't want someone else to come in and solve the problems with their client. They want to solve them themselves."

Paramore has certainly solved her problem of finding secure employment in the city and industry she loves. She just had to do it herself.

The Well-Traveled Lookout

These entrepreneurs are working comfortably as employees but choose to set sail on their own when they spot the right opportunity.

Many of these founders, like those in the "commandeered ship" category, launched companies in their current industry after identifying a market gap they thought they could fill. Others simply wanted autonomy. Most of these gazelle founders said they possessed an "entrepreneurial spirit," and about half of them had started businesses before.

"The one thing they all said was that they were scared going into it, but they knew they had to do it," said Gail Psilos, REIN director at the Atlanta Fed's New Orleans Branch. "They felt in their hearts it was something they could succeed at. And even if they couldn't succeed, they'd be heartsick if they didn't at least try..

David Miller was a contented employee at a large insurance company. He devised what he felt was a better way to sell insurance than the big firms employed. So he and his brother bought a one-office agency and expanded the business across multiple states. Click "[Remodeling the Insurance Industry: Firehouse Subs Style](#)" below to read his story.



Remodeling the Insurance Industry: Firehouse Subs Style



Photo courtesy of Brightway Insurance

After more than a decade as an insurance agent, David Miller had seen enough.

It's not that he struggled. He had ascended the ranks at one of the country's biggest insurance companies, eventually managing offices across multiple states. But Miller identified what he considered inefficiencies and outdated business methods. He figured he could devise strategies to sell insurance that were superior to those of the \$40 billion-a-year revenue firm that employed him.

"I realized there are just better ways of distributing the insurance product," Miller said.

He did something about it. In 2003 Miller and his brother, Michael, bought a 42-year-old Jacksonville insurance agency with a single office and three employees. They aimed to turn that Taurus into a Tesla.

To pull off a massive makeover, the Millers did not study and network strictly within the insurance industry. Rather, they examined what Miller called industry-changing companies such as Apple and Uber and joined franchising trade groups populated by restaurant chain operators.

A simple but radical concept

The Millers' concept was simple but radical for the insurance industry: let customers choose from multiple brands in one place.

"If you want something today, you go either online or to a brick-and-mortar store and have a choice of brands," Miller said. "Because of that you get good value and convenience. But in insurance, in this huge industry, for some reason that never happened."

The Millers instituted a storefront approach with their company, Brightway Insurance. They sell multiple insurance brands under one roof. In 2008, adopting lessons from successful chains such as Jacksonville neighbors Firehouse Subs, Brightway also adopted a franchise model to fuel expansion.

Trying to out-think larger competitors

Still, Brightway was a small, self-funded company scrapping for business with titans that spend \$1 billion a year on ads and buy naming rights to professional sports stadiums. "They might not have a great model, but they have a lot of money to push the boulder up the hill," Miller said of his firm's larger rivals. "We had to out-think them."

It appears to be working. Those household-name firms might not feel a real pinch from Brightway, but by 2012 Brightway had grown to \$257 million in revenues, with 115 offices. However, as many young firms do, Brightway hit a wall. Leadership was not equipped to steer the company beyond that size. Managers were feeling their way with little training, Miller said. Growth became much harder to sustain.

"We either were going to be stifled because we didn't have the infrastructure and expertise to go to another level, or we needed to transform our organization," Miller said.

Partnering to reach the next level

They chose transformation. The Millers upgraded the firm's infrastructure—starting with people, then information technology. Brightway hired two Fortune 500 company veterans as president and chief financial officer.

"If you're going to climb Mount Everest," said Miller, "it's a whole lot better to have someone with you who's done it before."

Brightway also formed an analytics team. Again, the Millers did not study the ways insurers scrutinize data, but rather the analytics methods of large retailers. Brightway conducts exhaustive customer satisfaction research, Miller said. The firm identifies exactly how often customers remain with the firm at different points in the sales and life cycle of their insurance policies and tracks which brands of insurance are most profitable. The Brightway home office shares that information with franchisees, who couldn't generate that kind of information on their own, Miller noted. The moves appeared to work, as 2014 revenues topped \$300 million, according to Brightway.

"It's not about what we think," Miller said. "It's about understanding what our customers think."

Alex Hernandez had a secure finance job in New York when Hurricane Katrina hit New Orleans. Having lived through Hurricane Andrew in Miami, he knew that a huge rebuilding effort would soon commence. Click ["An Opportunity Arises in the Wake of Hurricane Katrina"](#) below to read his story.

An Opportunity Arises in the Wake of Hurricane Katrina





Photo courtesy of Hernandez Consulting

Hurricanes are destructive forces of nature. Yet creation can rise from destruction.

Ask Alex Hernandez.

He was a teenager when Hurricane Andrew ravaged his native Miami in 1992. Even then, Hernandez noticed that the devastation triggered an influx of capital that fueled a burst of rebuilding. Thirteen years later, Hernandez was working at Citigroup in New York as he followed reports of the massive destruction caused by Hurricane Katrina. He realized a building surge similar to the one after Andrew was about to begin in New Orleans, and he wanted in.

Soon after, Hernandez began his construction management firm. He moved to New Orleans in 2006, mere months after Hurricane Katrina flooded much of the city.

"To me, Katrina was 10 times that size as far as devastation," Hernandez said in comparing the 2005 disaster to Andrew. "I said, 'There's opportunity there.' "

Hernandez knows what it means to miss New Orleans

New Orleans was familiar territory. He graduated from Tulane University in New Orleans before entering the Marines and then earned a Tulane MBA after his military service.

Starting a business was also no great leap. He's always had "an entrepreneurial bent" and had focused his graduate studies on entrepreneurship, he said.

Moreover, as a former Marine Corps logistics officer he understood the intricacies of government contracts, which are difficult to navigate and even harder to win. That understanding was critical, as nearly \$150 billion in federal restoration funds flowed into Louisiana. Hernandez Consulting's first jobs were subcontractor assignments on cleanup and reconstruction work with the U.S. Army Corps of Engineers and the Federal Emergency Management Agency (FEMA).

And with that, the firm hit the ground running.

Tough work, tough paydays

Hernandez's fledgling enterprise hauled trees from rooftops, waterways, and streets. It was grueling labor. Getting paid meant navigating bureaucratic thickets, Hernandez recalled.

The good news: that sort of government work was part of a process that would lead to bigger things. Government projects present bureaucratic challenges but also significant opportunity. For starters, the volume of federal money channeled to post-Katrina rebuilding was enormous. Second, Hernandez Consulting qualified for work under various disadvantaged business certifications.

For example, much of the New Orleans area qualifies as a historically underutilized business zone, or HUB zone under a Small

Business Administration program. Hernandez is based in one of many New Orleans census tracts designated as HUB zones. In addition, Hernandez Consulting secured work through programs designed to channel business to small, veteran-owned enterprises.

Still the firm had to prove itself. A major milestone came when Hernandez Consulting secured a bonding line. Bonding is a critical financial backstop that is required to win—and in some cases just to bid on—government contracts over a certain dollar amount. Bonding essentially serves as an insurance policy, a financial guarantee for the government in case a contractor fails to finish a job or pay its subcontractors.

"As a small business, it's very much a challenge," Hernandez said.

Growing and diversifying amid uncertain government budgets

The bonding lines start at a certain dollar level. For instance, a smaller company may be bonded to cover up to a \$150,000 government contract. As Hernandez completed bigger and more complex projects, insurance underwriters, which sell the bonding lines, gradually increased the firm's bonding limit. Hernandez's recent work, for example, includes a \$10 million Corps of Engineers project topping off part of the levee system, a \$6 million project rebuilding schools in New Orleans, and construction of an MRI facility at a Veterans Administration (VA) hospital in West Palm Beach, Florida.

Sufficient bonding capacity is especially critical to maintaining a backlog of work, Hernandez said, pointing out that if the dollar value of the firm's workload nears its bonding limit, it then becomes difficult to secure additional public projects. The company needs projects lined up for a year to 18 months to achieve financial stability, he said.

Mission accomplished. Hernandez Consulting employs 40 people and has been profitable each year since its 2006 launch, the founder said. The firm has expanded into Arkansas and south Florida and diversified its portfolio with more private sector work. Amid federal fiscal uncertainty, Hernandez feels his firm should continue to lessen its reliance on government projects.

Much of Hernandez Consulting's work comes from the Department of Defense and the VA. For now the work still flows. But he worries that the DOD and VA will eventually shift their spending priorities.

"I don't want to be looking to make a pivot in my business on that day," he said. "I'd rather start it earlier..

After founding his gazelle in the aftermath of a natural disaster, Hernandez aims to steer clear of financial storms.

Next in this series: Financing a new business is inevitably a challenge for gazelles. The next installment in the Gazelle Project series explores the various ways that founders of new firms secure financing.



Charles Davidson

Staff writer for *Economy Matters*



Ellyn Terry

Economic policy analysis specialist in the Atlanta Fed's research department
