

# Innovators and Job Creators

## Montana's Second-Stage Businesses are Thriving in a Down Economy

by Christina Henderson

**T**HE PROSPECTS FOR A QUICK RECOVERY from this recession may be bleak, but dotting Montana's economic landscape are businesses that are thriving despite challenging times.

As the downturn leads large corporations to freeze hiring and forces many mom-and-pop shops to close their doors, some growing companies are adding employees, expanding facilities, and raking in revenues at an impressive pace. These high-growth businesses are referred to by some researchers as "second-stage" companies, and a number of public and nonprofit leaders who serve Montana businesses are recognizing the importance of the businesses of this sector and developing programs to meet their needs.

The Edward Lowe Foundation, a nonprofit research and training center dedicated to supporting entrepreneurship, defines second-stage companies as privately held businesses that have between 10 and 99 employees, revenue greater than \$1 million, and a desire to grow. The foundation divides businesses into stages based on the number of employees. Relative to their numbers, second-stage businesses pack the biggest economic punch in terms of job creation.

In Montana, second-stage businesses made up less than 8 percent of business establishments between 2006 and 2008 but were responsible for the largest number of jobs – nearly 40 percent (Figure 1). Smaller Stage 1 businesses with between two and nine employees were also big employers in the state, with about 37 percent of jobs during the same period. Self-employed individuals made up around 40 percent of establishments, with just under 9 percent of jobs. Stage 3 businesses with between 100 and 499 employees and Stage 4 businesses with more than 500 employees are much less common in Montana, representing less than 1 percent of establishments combined and creating around 9 percent and 6 percent of jobs, respectively.

Altogether, businesses with fewer than 100 employees represented more than 85 percent of the jobs in Montana from 2006-2008. Small businesses have a bigger impact on employment in Montana than in the U.S. as a whole, where companies with fewer than 100 employees were responsible for around 73 percent of jobs (Figure 2).



## To Grow or Not to Grow?

Why do second-stage companies have an outsized impact on job creation? A key answer lies in their desire and capacity to grow. Though a common assumption is that most startup founders launch businesses in their garages with aspirations of building giant corporations, this is not usually the case.

Many people start businesses because they want to be self-employed, and creating jobs for other people isn't a priority. Some small businesses provide jobs in the community, but their growth is limited because of the trade areas they serve. One of every two new businesses in America is home-based, and almost half (46 percent) of new businesses that are founded and manage to stay alive for five years are started as and remain home-based businesses (Shane, 2008). In contrast, second-stage companies are engaged in sustained, profitable expansion.

## Higros

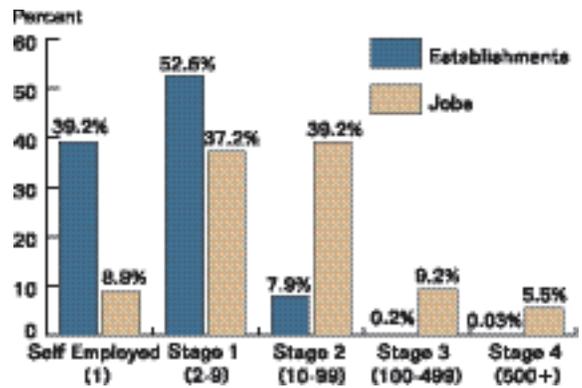
The idea that a handful of high-growth companies generate the largest percentage of jobs was first advanced by MIT economist David Birch in the 1980s and '90s. Birch found that rapidly growing firms, which he termed "gazelles," represented roughly 4 percent of all firms and accounted for 70 percent of all new jobs. Gazelles were better job creators than "elephants" like Wal-Mart or "mice" like the mom-and-pop store. Birch's work prompted extensive international research that confirmed many of his findings (Zumbrun, 2009).

A 2010 survey conducted in Pennsylvania of more than a half a million firms over a multi-year period – along with interviews of CEOs at 600 high-growth firms – also illustrated the outsized economic impact of high-growth businesses. The survey findings showed that in Pennsylvania's economy, 97 percent of job growth came from existing firms expanding rather than companies opening or relocating. Of the net new jobs added between 2006 and 2009, more than 90 percent were created by less than 1 percent of firms – a subset of high-growth companies referred to as "higros" (Kunkle, 2010).

The study found that higros shared a common set of traits. They were usually at least 10 years old and had more than 50 employees. Rarely were they start-ups or very small firms. Exceptional growth companies grew in diverse geographic locations – regardless of local infrastructure or labor markets. They operated in varied sectors and were more likely to be found in traditional industries than in high-tech clusters. Higros were more involved in global markets, more likely to add innovative services, and were four times more likely to relocate to sustain growth, though 90 percent of the time the new location was within 50 miles of the old one.

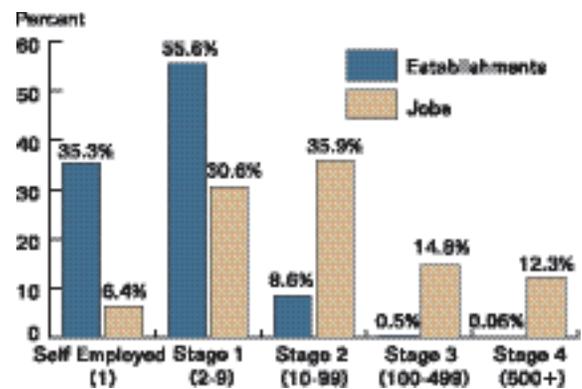
While researchers use slightly different terminology to describe job-creating companies, all point to essentially

Figure 1  
**Montana Business Establishments by Number of Jobs, 2006-2008**



Source: The Edward Lowe Foundation.

Figure 2  
**U.S. Business Establishments by Number of Jobs, 2006-2008**



Source: The Edward Lowe Foundation.

Table 1  
**Montana Business Establishments by Size, 2008**

Business Size (Number of Employees)	Total Establishments	Total Jobs
Self employed (1)	34,169	34,169
Stage 1 (2-9)	45,257	138,775
Stage 2 (10-99)	6,362	139,311
Stage 3 (100-499)	211	34,005
Stage 4 (500+)	21	21,999

Source: Edward Lowe Foundation, [www.youreconomy.org](http://www.youreconomy.org).

# Nomad Global Communication Solutions

## Company Propelled into Next Phase of Growth

Nomad Global Communication Solutions was born in a barn – a borrowed one at that. But the company’s four young founders weren’t fazed by manufacturing their high-tech vehicles in humble surroundings. Rather, their challenge was that the fledgling business quickly outgrew the barn and each subsequent location. It took six moves in nine years, but CEO Will Schmautz and his business partners have finally found a 25,000-square-foot building in Columbia Falls big enough to accommodate their fast-growing company.

The story of Nomad’s rise has become legendary in western Montana business circles. Schmautz, his brother Seth, and pals Shane Ackerly and Clay Binford were all in their 20s when they worked together as summer rafting guides in the Flathead. While helping to bus wildfire-fighting crews to remote camps, the men had the idea to develop a mobile command center that would help firefighters make phone calls home.

Convinced their plan could work, the foursome launched Nomad Global Communication Solutions in 2002. They scraped together funding for a prototype, collecting telephones, Internet, GPS, satellite hookups, and other technology.

During wildfire season, the partners rented out their new mobile communications center to various remote command



posts, but they soon discovered the real demand for their system lay in slightly different markets.

Nomad’s lucrative new business model involved custom-building mobile communication centers for disaster response, emergency preparedness, law enforcement, or military applications. The company assembled made-to-order SUVs, trailers, and trucks from the ground up, packing them with state-of-the-art satellite audio, video, and data technology tailored to each client’s needs.

Little did they know how fast demand for Nomad’s systems would soar. The partners were challenged to come up with adequate cash to fund the growth, to tackle the logistics of meeting new orders, and to develop enough skilled managers to lead the workforce. But Nomad cleared each hurdle along the way.

Schmautz attributes much of Nomad’s success to a network of supporters throughout Montana. “We have gotten

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the same pool of businesses and draw similar conclusions about their economic impact on communities. Second-stage businesses are high-growth businesses.

If high-growth firms are so profitable, how can we create more of them? High-growth companies share common needs and are generally underserved by typical economic development programs that focus on new startups, small businesses, or struggling companies. The Pennsylvania study found that higos faced similar challenges – for example, finding adequate space, funding expansion, developing management talent, overcoming delays in permitting,

marketing their services, and maintaining competitiveness as markets changed. High-growth businesses wished for easier access to information about available support programs and greater speed and efficiency from service providers. They wanted input into policy issues that affect their businesses but were often too busy working on their companies to advocate for themselves in the political sphere. Top leaders at high-growth companies also had a need to network and learn best practices from other high-growth firms – a need that is not usually met by typical business networking events.



**“ We have gotten amazing support at nearly every level. We started here because we have roots here. ”**

– Will Schmautz  
CEO, Nomad Global Communication Solutions

amazing support at nearly every level,” he said. “We started here because we have roots here. Three of the four founders were born in the Valley – Kalispell and Bigfork. Considering the logistical challenges, the Flathead Valley may not be the perfect place for a business like ours. But we thought we would have good foundational backing – bank relationships, help from business owners, etc.” This hunch proved true as local partners like Valley Bank and Montana West Economic Development have stepped up to help support the company’s growth.

Schmautz is also pleased with the response Nomad has had from state officials over the years. Senators Max Baucus and Jon Tester and Representative Denny Rehberg have visited the company and offered to help. Schmautz notes that Jon Tester has been an exceptional advocate, arranging meetings at the federal level that were highly effective in opening up new business opportunities.

In 2010, Nomad landed a contract with the U.S. Army Corps of Engineers to build 18 disaster response vehicles. Schmautz cites the deal as a defining moment that propelled the company into the next phase of growth. The Corps contract put Nomad on the map nationally and opened the door to six additional contracts with the Federal Aviation Administration, Department of Veteran Affairs, Bureau of Indian Affairs, U.S. Army Aviation Technical Test Center, U.S. Navy, and U.S. Customs and Border Protection.

From 2009 to 2010, Nomad’s revenues grew 265 percent. From 2010 to 2011, revenues were up another 65 percent. In 2008, the company employed around 30 people; today it employs almost 80.

Nomad’s current facility near Glacier Park International Airport is close to optimal and has room to grow, Schmautz says. That’s good, because the company is unlikely to slow down anytime soon. “When I consider our market and opportunities, it feels unlimited,” he said.

## **Taking Care of Home Grown Companies**

Montana’s leaders seem to be recognizing the significance of small businesses to the state’s economy and of providing resources and technical assistance to Montana entrepreneurs who want to expand their companies. Sen. Max Baucus hosts statewide economic development summits designed to connect Montana businesses with potential investors and partners and recently launched a “Montana Jobs Economic Engine Initiative” that “aims to elevate the profile of businesses creating jobs at a time when Montana needs it most.” Sen. Jon Tester launched a series of small business opportunity workshops in the state to

provide information and networking opportunities for Montana entrepreneurs.

The Governor’s Office of Economic Development provides a variety of business resources, including a Business Expansion and Retention (BEAR) program in partnership with the Montana Department of Commerce, the Montana Department of Labor, and Montana Economic Developers Association (MEDA). The BEAR program conducts free, confidential interviews with businesses throughout the state, assessing business needs and identifying state, regional, and local resources that can help owners improve or expand their companies.



## TicketPrinting.com Wheatland County's Largest Employer Lives Online

**H**arlowton, Montana, population 997, hardly seems a likely location for a fast-growing Internet company. But because of the great equalizing power of the World Wide Web, TicketPrinting.com has become a leader in the ticket printing industry, employing 25 people in Montana. With 18 workers at its Harlowton production facility, TicketPrinting.com is the largest commercial employer in Wheatland County. A handful of executives, software engineers, and customer service representatives work from various locations throughout the state.

Founded in 1997 by former IBM software architect Mike Yinger, TicketPrinting.com began with Yinger's desire to travel less and launch a business he could run from his home base in Bozeman. He approached the Bigfork Summer Playhouse and asked, "What's difficult for you?" Their answer? Ticket printing. So Yinger developed software that allowed customers like community theaters, small concert venues, or nonprofit groups to print their own event or raffle tickets. Buyers liked the software but had a hard time finding perforated ticket paper. So Yinger started selling that, too. Eventually he yielded to customers' requests that he print their tickets for them and opened a production facility in 2001.

Through the TicketPrinting.com website, groups hosting performances or fundraisers can choose a design, enter their event information, view a proof, submit payment, and have their tickets printed and shipped within a few days.

CEO and co-owner Lance Trebesch joined TicketPrinting.com in 2007, bringing nearly 20 years of experience in successful technology start-ups. Trebesch explained that in addition to the lower costs of being located in a small town, the workforce in Harlowton is a tremendous asset. "The ranching, small-town values of our employees are a real competitive advantage."

Effective online marketing is also crucial for TicketPrinting.com, as nearly 100 percent of sales come

through its website. The company was a frontrunner in its use of search engine optimization, a process that improves the visibility of a website. Trebesch targets between 30 and 40 keywords customers type into search engines when sourcing tickets for their events, and TicketPrinting.com holds the number one spot for essential search terms like "ticket printing."

Though doing business in Montana has many advantages, TicketPrinting.com has faced its share of challenges, too. Slow broadband speeds and not enough bandwidth to support the systems aggravates customers and affects the business adversely, Trebesch says.

Attracting good software engineers to Montana to help maintain and upgrade the technology behind TicketPrinting.com can be difficult, though Trebesch points out that even big companies like Google struggle to compete for such talent.

Raising the necessary capital to support growth has also been another challenge for TicketPrinting.com, Trebesch said. For Montana banks that are used to dealing with industries like agriculture, real estate, or natural resources, funding high-tech businesses is often perceived as too risky.

TicketPrinting.com has been a client of TechRanch, the business incubator in Bozeman, a relationship that Trebesch describes as instrumental in helping the founder firm up the business. The company is also connected to a network of business people throughout the state who have served as advisers and mentors.

TicketPrinting.com continues to thrive, expanding its services and its global reach. A new website called TicketRiver.com allows customers to set up accounts online where they can market and sell tickets to events. TicketPrinting.com has subsidiaries in the United Kingdom and Australia and plans to open another in Canada in the next month.

“Typically these businesses aren’t just trying to figure out how to keep their doors open. They are growing, and they’re trying to figure out how to manage that growth. They’re trying to find ways to be proactive in a down economy. ...”

– Chris Parson  
Director, Kalispell SBDC

A growing number of Montana economic development professionals are working with second-stage companies to meet their unique needs. Others have made a point of establishing relationships with job-creating companies over the years and helping them grow, even if they don’t use the term “second stage.”

## PeerSpectives

As director of the Kalispell Small Business Development Center (SBDC) serving Lake, Flathead, and Lincoln counties, Chris Parson has met with a lot of Montana businesses. Like his colleagues at SBDCs across the state, Parson assists entrepreneurs and small businesses with business plan development, financial management, marketing, and other technical skills. A few years ago, he noticed a segment of local businesses that was underserved – second-stage companies.

The SBDC has lots of tools for startups – first- and second- year businesses getting going – but not as many tools for those second-stage companies, Parson says.

“As I did my research, I started to figure out that peer learning is what these businesses want. They don’t necessarily have the time to go sit in classes, nor do they want to. They would rather learn from somebody who is facing the same challenges they do. There are lots of networking groups out there. But there isn’t the peer-on-peer learning environment they are hungry for.”

So Parson set out to create that type of environment. He attended an Edward Lowe Foundation retreat sponsored by the U.S. Chamber of Commerce where he learned about the PeerSpectives program for second-stage entrepreneurs. PeerSpectives brings together round tables of eight to 12 business executives from noncompeting industries who meet

monthly to share challenges and experiences with their peers in a confidential forum. Trained facilitators guide the CEOs through a structured protocol that encourages members to help each other by speaking from experience, rather than giving advice. Parson thought the PeerSpectives program would fit well in Kalispell and launched his first roundtable in September 2010 with 10 members from a variety of sectors – manufacturing, service industries, and retail.

The PeerSpectives sessions addressed a variety of topics initiated by group members, including how to hire the right person, how to deal with a business partner, what works in advertising and marketing, whether to buy a building, and how to plan for growth in a down economy. Participants indicated high levels of satisfaction with PeerSpectives on evaluations completed at the end of the year, and a majority of the inaugural class has signed on for a second year.

Parson has noticed that a desire and intent to grow is a key difference for the second-stage companies he encounters.

“Typically these businesses aren’t just trying to figure out how to keep their doors open,” Parson says. “They are growing, and they’re trying to figure out how to manage that growth. They’re trying to find ways to be proactive in a down economy rather than waiting for something to happen and being reactive. They haven’t relied on the Flathead Valley to be their only sales. They have figured out how to diversify beyond the immediate area. They spread their ability to serve more clients and are truly entrepreneurial. That’s what these second-stage companies do. They don’t limit themselves to one little area.”

In addition to expanding PeerSpectives in Kalispell, Parson is also helping to launch peer roundtables in other Montana cities. For more information, contact one of the following:

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## Economic Gardening

One economic development philosophy gaining traction nationwide is economic gardening. As opposed to a traditional “hunting” strategy of economic development that focuses on offering tax breaks or other incentives to attract companies from outside the community, economic gardening focuses on helping existing local businesses become larger (Edward Lowe Foundation, 2011). The idea is that businesses need the following things to grow:

**Information** - market intelligence such as high-powered databases, GIS software, or Search Engine Optimization tools to help develop growth strategies and find new customers;



## Big Equipment Company A Tractor Business Reborn

**T**he world's largest tractor was made in Havre, Montana, in 1977. Big Bud 747 weighs 100,000 pounds. Its 16-cylinder engine puts out 900-plus horsepower. By comparison, a John Deere 9630 has 530 horsepower and weighs 37,000 pounds. Big Bud 747 works 15 acres per hour; a typical tractor might cover 15 acres in a 10-hour day. Now owned by the Williams Brothers of Big Sandy, Big Bud is the star attraction at a farm museum in northeastern Iowa and draws 30,000 visitors a year.

Ron Harmon, the Montana entrepreneur who gave life to the world's largest tractor, bought the manufacturer Big Bud Inc. in 1975. Big Bud tractors were unique because they used industrial engines that could be changed or upgraded. Harmon improved the design so multiple components – engine, transmission, or drive train – could be pulled out and worked on.

Harmon's innovations led to big growth. In a few years, Big Bud Inc. employed 200 people in Havre and manufactured 120 tractors a year. But in the early '80s, the company's trajectory took a dive when a problem with a supplier delayed production by nine months. Big Bud Inc. fell into bankruptcy, and Harmon was forced to lay off most of his employees.

But the company stayed alive. Harmon credits the governments of Havre and Hill County, and especially Bear Paw Development, for getting Big Bud Inc. through

those hard times. "If not for Bear Paw's assistance, I think we would have lost all the Big Bud employees," Harmon said. "There wasn't anybody willing to finance anything. We had a huge amount of debt."

With help from Bear Paw, Harmon received three Community Development Block Grant loans and saved the company. He expanded to include a Case-International Harvester dealership, which he sold to Meissner Brothers in 1985 (now Torgerson's).

In 1994, Harmon left Meissner and established Big Equipment Company, specializing in refurbishing high-horsepower tractors. Thanks to the recession and Harmon's flexible design, Big Equipment created a profitable niche outfitting original Big Buds with new technology like auto steer, GPS, or systems that meet EPA requirements. Instead of buying a new tractor for \$300,000 - \$400,000, clients can buy a remanufactured Big Bud for \$100,000.

Big Equipment's workforce has grown from five to 18 since 2005. Revenues in 2011 were more than \$5 million. Harmon exports to nine countries and was named Montana Exporter of the Year in 2008.

Ron Harmon never gave up in the face of failure, instead reinventing himself and the Big Bud brand. He makes it clear he didn't do it alone. "Bear Paw Development supported us when no one else would. We need more of that in the state. Otherwise, it will be very difficult for anybody with a great idea to get it off the ground."

**Infrastructure** - both physical infrastructure and quality of life;

**Connections** - with other companies or resource providers that could facilitate their growth.

Economic gardening is taking root in Montana, too. The Montana Economic Developers Association made economic gardening the topic of their fall 2011 conference in Kalispell. The Bitter Root Economic Development District (BREDD), which serves Mineral, Missoula, and Ravalli counties, secured funding from the U.S. Economic Development Administration and others to explore how economic gardening might help grow local businesses and provide economic stability for the region.

According to BREDD's executive director, Marcy Allen, the organization's effort is targeting high-growth entrepreneurs, but some accommodations may be necessary to make the system work in a rural state like Montana.

"What we're finding out is that the traditional definition of second-stage companies – 10-99 employees, more than \$1 million in revenues – may be too limiting to a rural community," Allen said. "We're looking for companies that want to grow, are exporting something, and have established management. We may look at companies that are five people. We're trying not to stay within the confines of that traditional definition."

BREDD's emerging strategic plan will likely target two groups:

- Emergent Stage 1 or 2 entrepreneurs with strong growth orientation, and
- Experienced individuals actively engaged in or considering self-employment or venture startups.

One of the key characteristics of economic gardening is its focus on providing businesses with market intelligence, and Allen believes this is a crucial piece that's missing from the current entrepreneurial support system. BREDD's pilot economic gardening program is focused on enabling companies to use high-level expertise to explore new markets and growth strategies. For example, the team might help a business learn more about its competitors, create a marketing pitch for potential investors, or access a patent lawyer who can help them protect their intellectual property.

### **Bear Paw Development: Filling the Financing Gap**

Bear Paw Development has been helping businesses in northern Montana for almost 25 years, serving Hill, Blaine, Liberty, Chouteau, and Phillips counties and the Fort Belknap and Rocky Boy's Indian Reservations. The organization's director, Paul Tuss, says he works with a variety of businesses, from startup companies whose founders have good ideas to the other end of the spectrum – very mature companies that

are looking for additional markets and new ways to grow their companies.

One need Bear Paw fills for growing businesses is providing gap financing – loaning money to entrepreneurs with plans to start or grow businesses who, for various reasons, are unable to get all their financial needs met by the private market. For example, a business owner may have a difficult credit history or be in an industry that is perceived as risky by a traditional bank and thus not be eligible for a large enough loan. This service has proved crucial to many businesses on the Hi-Line launching and expanding.

"If you look at the portfolio of current projects that we have in our loan department, we have anywhere from 65 to 80 active companies that are using financing from Bear Paw Development to meet their business growth needs," Tuss says. "That doesn't count the multiple companies that have used our financing and graduated and are getting their current needs met by a bank. Over the years there are hundreds of companies who have been served." (see sidebar – Big Equipment Company: A Tractor Business Reborn).

### **Looking for Opportunities**

Though it may seem counterintuitive that an economic downturn is a good time to start or grow a company, Montana's second-stage entrepreneurs are proving that it's possible to create jobs and wealth, even in hard times. Professionals who work with these companies see this as an ideal time to step up and support Montana businesses with high growth potential.

"Now is the time – in a recession – where you see people looking for opportunities," says BREDD's Allen. "Economies like Silicon Valley were born in a recession. If we can develop a robust entrepreneurship system here, then we can capitalize on the opportunities they are going to create for new jobs and private investment." □

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