

What's a Gazelle?

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In a recent message on the Internet economic development discussion list, Elizabeth Starling asked, "What's a Gazelle?" "...is this a 'know-it-when-you-see-it' or has anyone calibrated the characteristics of gazelles?" I think these are excellent questions for economic developers to consider.

In my first response to Elizabeth, I indicated Blane, Canada Ltd. had identified 21 indicators that can be applied to a growth company. I was asked to elaborate on my answer. Before I blurt out a list of factors, a little background is in order.

The short answer to Elizabeth's question is, "a company that experiences an extended period of rapid growth." As Christian Gibbons noted, the term gazelle was coined by David Birch, Cognetics, Inc. to describe this type of companies ability to generate jobs. A gazelle is just a growth company that concentrates a great deal of it's growth into a short period of time. Microsoft, Intel, and Tellabs are well-recognized examples. Classic growth companies would be Caterpillar, Abbott Labs, and Nucore Steel. But, unlike these examples, a gazelle need not grow to be a huge company. In Green Bay, WI, American Medical Security essentially started out as two man operations. Since 1989, they have grown to employ 3,000 today and are now on the INC. 500 list. In Sparta, IL (population about 5,000), MedStar Ambulance, Inc. has grown from a one man operation to employ 140 people spinning out a payroll in excess of \$2.4 million.

Birch used the term gazelle to help him distinguish between three types of companies he was observing in his job generation data: fast growth companies, stable companies, and companies that generated no jobs. Gazelles were the very small percentage (3 - 5%) of the companies that were generating the most jobs in the economy. Opposite the gazelle is the "elephant". These are the large ponderous companies who Birch argues employ thousands of people but create very few new jobs. To finish the analogy, Birch picked the lowly mouse to describe those companies with little or no potential for generating new jobs. The "mice" are essentially the single location pizza parlor celebrating it's 15 anniversary or the self employed person. As Howard Benson, NCDS, is fond of saying, "there is a big difference between building a business and starting a business to replace a paycheck."

I believe there are at least four reasons economic developers should be interested in the gazelle question: to determine their impact over time on job growth as an economist/historian (David Birch), to create an information rich environment that will stimulate business formation and growth (entrepreneurship, Littleton EDC/Christan Gibbons), to assess value (Blane, Canada Ltd.), or to understand target marketing (Blane, Canada Ltd., "Economic Development Marketing for Results!" or "Race to Recruit").

I firmly believe there are factors other than total employment, which determine a company's value to a community. I believe too many policy decisions in economic development are made solely on employment numbers. Plus, how can we as economic developers help "manage" the local economy if we don't know where the growth is likely to come from? So, a couple of years ago as part of a business retention challenge from a colleague in upstate New York, Blane, Canada Ltd. set out to find a way to pick a growth company (including gazelles) out of a crowd of companies before they develop into visible, fast growth companies -- regardless of their present employment size.

Our purpose in trying to identify growth factors was to answer two questions:

Which companies have the strongest growth potential?

What is this company's long-term "value" to a community?

To identify growth factors we decided we wanted to step outside of economic development - we had already analyzed over 65 retention and expansion survey instruments and proved them to be of no value in our quest. Furthermore, we wanted to get away from the frame of reference of an economist - when they decide what they know, it is already too late to act on. When an economist knows it is a gazelle, those of us at the community level are probably looking at the rear end of a gazelle running away. We decided to take a look at these two questions from a variety of perspectives: an investment portfolio manager, an investment banker, a venture capitalist, a strategic information analyst, an exchange trader, and a military analyst. Why these perspectives? Because most of these professionals base their reputation on an ability to judge and forecast a company's value/growth. They have something at risk if they fail, personal income and professional reputation. The other group is confronted with an environment of incessant rapid fire change and disjointed information. Success for them depends on being able to make an accurate assessment quickly and move on.

Think of your community's economic base as an investment portfolio. Which companies will be your long-term producers, growing, creating jobs and increasing economic prosperity? Which companies are rock solid, churning out product year after year making few demands on the community, but offering little or no incremental growth? Finally, which companies are the dogs that will cause concern, aggravation, and even losses?

In our research, we identified 21 different variables listed below related to growth. Each of these variables tell us something about a company's growth potential and value. In the tool we have since created, these 21 variables encompass about 65 different datapoints (the range of possible answers).

Fourteen (14) of these variables are positive leading indicators. They include: product life cycle status, new product introductions, emerging technologies, investment in R&D, distribution of R&D expenditures (new product, improved product, or improved production), market, sales, planned expansions, export sales growth, regulatory changes, projected employment needs, projected utility service needs, jobs added, and space added.

Seven (7) of the variables are negative. They can reduce a company's growth potential or at a minimum present a significant distraction for continuing business on a positive growth course. Some of these variables are company specific, i.e. a union, while others are community specific, i.e. a mismatch between a company's skill requirements and the available workforce. These variables include: negative regulatory conditions, competition, merger/acquisition activity in the industry, union activity, changes in base technology, jobs lost, and access to specific critical workforce skills.

Are there other factors? Absolutely! Management is a huge factor in determining the growth potential and growth rate of a company. But an accurate assessment of management is difficult to pin down. The management factor in growth companies we are interested in as economic developers is an attitude, not an individual. Therefore, management's performance can best be assessed over time in terms of their impact on the company's performance. Christian Gibbons (Littleton EDC) has stressed his interest in personality type characteristics that can be measured in a Myers-Briggs test. These are valuable indicators. They can help identify an individual with the mental fortitude to build a business or perhaps a company. But, on a company level, information to make a judgement of this type is not readily available.

Why these 21 factors? Part of our challenge in designing a survey tool was to stick with simple (yes, no, and multiple choice), non-threatening questions. Open ended questions cannot be analyzed from one company to the next. Financial questions to provide one example can be threatening as a result, we decided they were out of bounds. For these two reasons, many good and interesting questions could not be used if our analysis was to work. To succeed in getting the information we need to answer our two questions (value and growth potential), required a fairly high level of efficiency in survey design.

In the end, what the 21 factors listed above and matrix analysis allows us to do is stratify companies in a defined economic base (community, region, state) into three categories of companies: growth, solid, "at-risk." But, as I said in my previous e-mail comment, the problem is distinguishing between a growth company and a gazelle. Speed is very difficult to judge or forecast in real time. Judging speed requires the passage of time and assessment of movement. So, in retrospect, it is easy to see gazelles if you know what to look for as David Birch now does.

As proactive developers we cannot wait as long as an economist is willing to wait. We need to make an assessment of the companies in our communities today. The best opportunity in my opinion is to drastically rethink business retention. Thus, the article we wrote, "Lost in the Twilight Zone: Business Retention Fails the Strategic Information Test!" (ED Review, Summer, 1996). It was written to shock, to challenge accepted practices because I believe we are squandering a unique asset, access to top company executives. The ED organization's good reputation and corporate good will get us in the door. A crisp suit, a broad smile, and a strong hand shake will get us through the first 30 seconds. But, the next 37 minutes are up for grabs and will determine if we walk away with the information we need to determine if this company is a gazelle, an elephant, or a dog (the mice will take care of themselves).

Interested in seeing a gazelle? David Birch's firm, Cognetics, Inc. has released a report listing the most likely places to spot gazelles. Titled, "Entrepreneurial Hot Spots: The Best Places in America to Start and Grow a Company" the fifth annual report on the emergence of small, fast growth companies (gazelles) identifies the 10 top large metro areas for gazelles:

- 1) Phoenix, AZ
- 2) Salt Lake City-Provo, UT
- 3) Atlanta, GA
- 4) Raleigh-Durham, NC
- 5) Birmingham-Tuscaloosa, AL
- 6) Nashville, TN
- 7) Orlando, FL
- 8) Indianapolis, IN
- 9) Denver-Boulder, CO
- 10) Washington, DC-MD-VA

The best small metro areas for gazelle's were:

- 1) Las Vegas, NV
- 2) Sioux Falls, SD
- 3) Huntsville, AL
- 4) Fort Wayne, IN
- 5) Lincoln, NE
- 6) Austin, TX
- 7) Savannah, GA
- 8) Springfield, MO
- 9) Boise, ID
- 10) Mobile, AL

The report (\$45) is available from Cognetics, Inc.,
<http://www.cogonline.com>, or 617.661.0300

Wishing you continued success!

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