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THE NEW ENTREPRENEURS | A CNBC SPECIAL REPORT

Surprising Cities Where New Businesses Are Built

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The popular narrative of entrepreneurship goes something like this: 'Ivy league grad flocks to Silicon Valley to start a high-tech company.' But there is a new geography of high-growth startups in America, and it tells a much different story.

In fact, the bulk of entrepreneurial growth is not found in Silicon Valley or even Boston, but in cities like Washington, D.C. and Salt Lake City, according to a [recent study](#) from the Kauffman Foundation. The study incorporates 30 years of [Inc. magazine's](#) rankings of America's fastest growing private companies.

"There is a lot of revenue and employment growth taking place outside of what we normally associate with growth. Tech isn't the only high-growth sector," said Dane Stangler, director of research and policy at Kauffman.

While Silicon Valley, Austin, Texas, and other traditional high-tech hubs can still claim dominance in that sector, demand for health care, manufacturing and other business services has put places like Indianapolis and Salt Lake City on the entrepreneurial map.

Why D.C. Won

Among large metropolitan areas, Washington, D.C. has the highest concentration of high-growth private companies, according to the Kauffman study. As it turns out, growing demand in the government services sector is ironically attracting the most private sector growth.

"The business of D.C. is government. But as government cuts back on spending, they're doing much less in-house. Instead, they are outsourcing and are more receptive to

working with startups,” said Jim Chung, director of the office of entrepreneurship at George Washington University. (*More: [11 Famous Entrepreneurs Teaching the Next Generation](#)*)

Chung’s observation is in line with government data. From February 2010 to September 2012, the [Bureau of Labor Statistics reported](#) a decline in government jobs of 470,000. Over the same period, the total number of private sector jobs increased by 4.7 million.

“The outsourcing trend is only going to accelerate, regardless of who is elected this November,” added Chung. For the founders of National Conferencing Inc., which ranks among Inc. magazine’s top growth companies, this is good news.

“We started in 2006 as a part-time Florida business with one event, providing advanced sales training for military recruiters. From that point forward, every event we planned led to new opportunities to provide more events for the federal government,” said CEO Paul Trapp.

Trapp and co-founder Stephen Davis, both military veterans, relocated in 2009 to the D.C. area to be closer to their government clients. The business already averages 70-80 events per week, but as the capital’s private sector growth expands, they are adding commercial clients to their roster.

And conferences are only a small sliver of the sector. Kauffman researchers put it this way: “Outsourcing of government services has fed the huge complex of fast-growing companies in the D.C. area.”

What’s feeding the other startup cities? As margins get squeezed, companies are heading to places where capital lasts longer.

Ranked among the study’s “surprise” spots, Salt Lake City is home to 57 high-growth Inc. 500 firms.



“We’re here because talent is cheap and space is cheap,” said founder and CEO of [CampusBookRentals.com](#), Alan Martin. As the name suggests, the Utah-based company rents textbooks to students across the country looking to avoid full price books they likely won’t need past a semester or two

Having started his business in 2007 in his garage, on debt from 15 credit cards, Martin needed low-cost

warehouse space and low-cost labor to get off the ground. He got both by incorporating near Salt Lake City and hiring graduates from local colleges. (*More: [An Apprenticeship to Rival Peter Thiel's?](#)*)

“By the end of 2010, we were in a 57,000 square foot warehouse, with well over 100 employees. As it is, we’re going to run out of space,” added Martin. The company took in about \$23 million in revenue in 2011.

Improvements in workforce and transportation have helped others in Utah launch businesses. But it is mainly the low cost of living and cost of doing business attributes that earned Utah 2nd place in [CNBC’s annual Top States for Business](#) survey.

Capitalizing on College

Garnering relevant skills and resources from local universities is also a common strategy among these entrepreneurs. But not just any school will do.

A key factor in entrepreneurial success rates is the number of local science and engineering graduates, according to the Kauffman study. This is the case in another surprise high-growth city: Indianapolis.

“Many CEOs in my portfolio of companies are alumni from the engineering school at Purdue University, Rose-Hulman [Institute of Technology], and Notre Dame,” said Stephen Hourigan, CEO of Elevate Ventures, a non-profit company that provides startup capital, and invests in Indiana companies. (*More: [Could the U.S. Run Out of Entrepreneurs?](#)*)

Indianapolis’ life sciences sector in particular, thrives on local university expertise, according to Hourigan. “One of the biotech start-ups we invested in was called Marcadia. They started with resources from Indiana University’s medical center. In less than five years, they sold that company to Roche for over \$500 million,” he added.

It’s not academic resources alone, however, that provide the boost. High-growth companies usually require investment capital — and in the case of Indianapolis, the state stepped in to help out.

Governor Mitch Daniels, as chair of Indiana’s Economic Development Corp., is a client of Elevate Ventures. According to Hourigan, their partnership is a reflection of the state’s desire to attract and support high-growth companies.

Taken together, entrepreneurs in these cities share common benefits: the presence of a skilled workforce, access to capital, and affordability.

While no single factor explains the new geography of high-growth firms, leading cities did see universities, government leaders and entrepreneurs collaborate with the common goal of growth. New companies, and new jobs, were the result.