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Executive Insights:
Adventures in Business Show That *Leadership* Is the Key

What kinds of employers have been growing jobs in Texas? Is it:

- Small companies?
- Startup companies?
- Young companies?
- Existing companies in any industry?

The answer: ***yes*** to all.

In recent interviews with CEOs across Texas, **all** of these differing employer types have been creating new jobs in Texas. It's not the type of company that determines whether it will be successful or struggle, according to the top executives interviewed. The key defining element that determines whether a company adds workers, according to the CEOs interviewed, is the ability of the **firm's leaders** to learn and adapt to ever-changing market conditions in the Texas economy and opportunities in their industry.

Executive interview conclusions

Companies are created for a variety of reasons. And company leaders choose to locate their headquarters in certain cities for a variety of reasons. Still, from personal interviews with company CEOs, a few trends have emerged:

a) The 4 to 5 year mark is a key period for growth for many companies. By their 4th or 5th birthday, potential customers have both heard a young company's name and realized that it has potential. As the young company becomes more accepted in the industry or local marketplace, the firm's executives see a sudden wave of business that triggers them to hire. And that hiring creates a "employment growth spurt."

b) Companies that grow tend to find a particular niche in the marketplace.

c) Business plans may be overrated. Half the companies surveyed did not start with a business plan and half did. And among those that did have a business plan, half of them ignored their plan and simply did what their customers wanted.

d) Growth companies are almost invisible to policy makers. CEOs of younger growing companies say they have no time to get involved with their local chamber of commerce or state business associations. Rarely can they name their elected officials nor have they met their local economic developers.

e) The U.S. economy or business cycle is the most influential factor for a company needing to hire more employees.

f) CEOs especially like that Texas does not have a personal income tax and say that Texas is a "business friendly" state.

In their interviews, Texas CEOs attributed their company's success to a variety of strategies with no one consensus. And their stories of the adventures they have in business in Texas illustrate the range of causes for employment growth and contraction in the current economy.

Having investors close and a business plan are important, but managing employee size may be more important

"We're in Austin because the talent pool here is exceptional. We're also here because our investors at Austin Ventures are right up the street," said Robin Thurston, founder and CEO of Austin-based software firm MapMyFitness Inc. "Anything my local governments or the state government can do to support and encourage the tech community will help so we can attract more potential workers here. We absolutely want more employees. We have 4 open positions now in Austin."

His company makes software for computers and mobile devices of joggers, cyclists, hikers and other outdoor fitness enthusiasts to interact and challenge each other.

MapMyFitness launched in 2006 and went through its first employment growth spurt four years later in late 2010 when two key events happened: venture capitalists from Austin Ventures invested cash into the company and MapMyFitness surpassed 3 million active users so advertising revenue rose.

Now with 15 employees in Austin and another 32 in Denver, Thurston said he spends all of his time managing his company's growth. And as the leader of a growing company, Thurston said that means he has no time for voicing his concerns about the state and region's business climate to the Greater Austin Chamber of Commerce or other business organizations.

Instead he's often investing his time going back to his business plan.

Growth companies need employees with growing skill sets often more than they need a business plan

Still, the importance of investors or a business plan is questioned by many Texas entrepreneurs.

"We had a detailed business plan and we never followed it," said Brad Graeber, CEO and co-founder of Powerhouse Animation Studios Inc., an Austin-based firm that makes cartoons for films, TV shows, video games and other media. Graeber and two partners were working for an old animation studio that went out of business. It wasn't the first time they were laid off. They decided to go into business for themselves.

"If I'd have known that all it took to keep a job for 10 years was to start a company, I'd have done it years ago. I always had jobs quit on me, and it was so frustrating," said Frank Gabriel, one of Graeber's partners and a Powerhouse co-founder. "This is more fun."

Gabriel and Graeber's company was started April Fool's Day in 2001 and remained a struggling 3-man shop for 4 years before the firm suddenly grew to 45 employees. After better understanding their industry and their management style, Powerhouse Animation

shrunk down to 38 employees, where the partners hope to keep it. And at that size they hope to not have to take on outside investors.

Other entrepreneurs like and need outside investors.

"We didn't have a business plan but we had a few PowerPoint slides to present," said Mark McClain, CEO and co-founder of security software maker SailPoint Technologies Inc. "We're in Austin because this is where our investors are and where our friends are."

SailPoint was started in 2005 with McClain, 2 co-workers and money from local investors Austin Ventures and Silverton Partners along with LightSpeed Venture Partners in Menlo Park, Calif. After the first 6 months McClain and his co-workers changed the direction of the company and by 2008 SailPoint reached 65 employees – mostly friends from previous jobs. SailPoint hit headwinds due to the global recession. In 2010, demand across the globe suddenly took off and McClain and company had to catch up by hiring in Texas and India, reaching 145 employees. McClain expects SailPoint to hit 190 employees by 2012 – and recruiting and retention isn't a problem because all employees own private stock in the company so that SailPoint can drive growth without needing more outside capital.

Executives at SailPoint and Powerhouse insist that getting employees who are highly trained and who show the initiative to continue to expand their skills is vital to growing the company. The idea is that employees whose minds are expanding help the firm expand into new products, services and customers.

Existing firms expand and contract based on the regional economy and fortitude of the owners

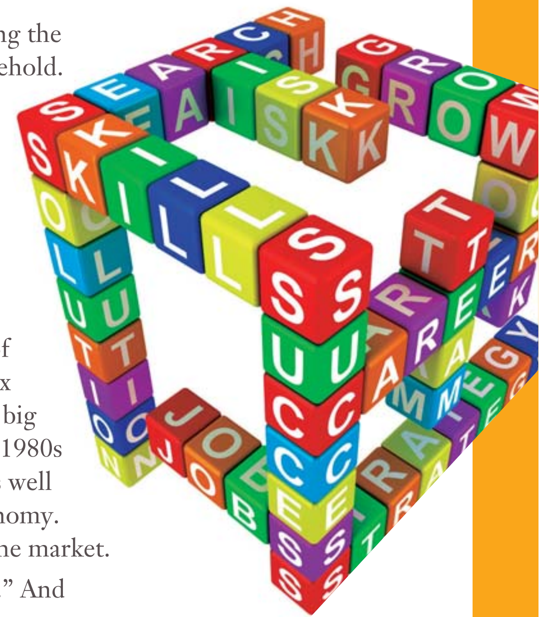
Economic business cycles and competition have always impacted building supplier San Marcos-based McCoy Corp.

In 1927, Frank McCoy, an unemployed merchant marine, was standing in a Houston employment office looking for a job when he overheard a man say he was looking for a roofer. McCoy raised his hand and said: "That's me." Soon after that, he moved his family from Houston to Galveston and started McCoy Roofing Company.

After World War II, McCoy's son Emmett returned to Texas and started a McCoy Supply Co., which supplied roofers with materials. Both companies grew. And by 1960, Frank retired and Emmett merged the two companies then changed the focus to building supply retail stores, which became known as McCoy's Building Supply.

Employment soon spiked. Two waves of growth came in the 1950s and 1960s as the middle class in Texas grew and housing development picked up.

"Then another growth spurt came in the 1970s with the energy industry helping the Texas economy and the pickup truck becoming the standard second car in a household. Suddenly people could haul building materials and my dad likes to say that's when do-it-yourself home improvement became socially acceptable," said Brian McCoy, current CEO and a son of Emmett.



"The market was really hungry for more accessible building supplies and new products," he said.

Those 1970s trends encouraged the family to expand and McCoy's Building Supply stores were built in mid-sized markets like Corpus Christi, Abilene, San Antonio, Austin, Tyler, Midland, Odessa, Harlingen and Brownsville. And each of those stores was a "cash and carry" store that didn't deal with credit. The sales mix was 75% to residential and ranch customers and 25% to contractors. Meanwhile, big box competitors Home Depot and Lowe's spread their stores across Texas in the 1980s and 1990s while McCoy's Building Supply stores moved into small Texas cities as well as surrounding states as the three companies battled amid a growing housing economy. Yet as McCoy's Building Supply reached 100 stores, the family saw problems in the market.

"We faced an identity crisis. The home owners thought we were just for "pros." And "pros" or the builders thought we were just for home owners," said Brian McCoy.

After 2000, the company executive team, led by Brian McCoy and his brother Mike, had to re-evaluate its strategy and operations, again. McCoy's Building Supply is down to 87 stores and 1,750 employees – with 1,600 workers in stores, lumber yards and plants in Texas.

"We haven't had a lot of job creation since the 1980s because we've been changing our business plan," said Brian McCoy. "We haven't had near the job creation in our company since the fall of 2008. And we're just now starting to hire people back [in mid 2011]."

"We are always excited when our business dictates that we need more employees. But, from a philosophical standpoint, we'd rather have fewer employees with more responsibilities," he said.

In recent years, the company upgraded its computer systems for better tracking and anticipating orders, inventory and costs. Those new processes mean the company needs new kinds of employees.

"We need somebody we can train on our systems. They have to be very computer literate. They need to be able to master the complexities of our product mix," said Brian McCoy, who points out that the company has 14,000 standard "stock keeping unit" products along with many more custom products.

McCoy's Building Supply also has a healthier customer mix of 70% contractors, 25% residential consumers and 5% ranchers. And many customers now buy on credit. McCoy's even delivers about 40% of its sales to customers. The company has further distinguished itself with lumber yards and even custom door production plants in New Braunfels and McAllen.

"We were on offense in the [1980s]. In the 90s, we were on defense. And now in the 2000s, we're back on offense," said Brian McCoy. "Are we tied to the housing cycle? Yes. But in addition to economic factors, we have ourselves to look to with regards to our success in the marketplace. So I think the economy and our decisions are equal in weight regarding our success."

New management can guide startups beyond the course of their entrepreneur

Bringing in new management or new investors can give some companies a second wind.

In 2008, Dennis Liebl was a veteran of Silicon Valley software startups who was asked to come to Austin and consult with LegalSpan. And Liebl thought he'd found gold.

LegalSpan was started in Phoenix a decade earlier by software programmers who did a project for the Arizona Bar Association to deliver online video. The company soon moved from Phoenix to Austin to be closer to a large population of software programmers familiar with video-over-Internet (VOIP) technology and to be closer to customers.

Early in a recession, in 2008, Liebl and Dallas-based private equity firm Teakwood Capital bought out the founders of the company, hired sales and marketing professionals, added more software engineers, and changed the name of the company from LegalSpan to InReach. Over the next 2 years, Liebl and his team increased the company's sales more than 20%. They also increased InReach from 22 employees to 50.

Liebl attributes the company's growth to a growing acceptance of using the Internet for learning as well as growing regulation requiring many professions to have constant continuing education.

A down economy also helped. Both the 2001-2002 recession and 2008-2009 recession brought in customers, he said. Law firms, banks and engineering firms saw their budgets squeezed so the first expense to be cut was the training budget, which meant cutting out-of-town travel for continuing education and conferences. Instead, these employers turned to InReach's online training. InReach could run continuing education trainings online for lawyers, bankers and engineers – and these classes could be done at night. That meant an attorney could spend billable hours during the day working for clients and stay late to handle continuing education requirements from his desk at night. Managers liked that and InReach saw sales go up as the economy went down.

Capital can be king for growing companies

Finding outside capital is critical for many growth companies in Texas. Finding a bank in Philadelphia to help his company grow has been critical to Georgetown-based retailer Sport Clips Inc.

With stores in 38 states, Sport Clips Inc. was recently named among the fastest growing franchises in America. And the Georgetown chain has become a dominant retail player by catering to an almost forgotten population: men with hair.

While other chains and single proprietors concentrate on the higher priced cutting of women's hair, the more than 880 Sport Clips stores only focus on hair styling services to men. That's been a lucrative niche as Sport Clips reached $1 billion in cumulative revenue in 2011 since starting in Austin in 1993.

"I saw that the old style barber shops were closing up, but we found men still wanted a place to get their hair cut and feel comfortable," said Gordon Logan, company founder and CEO. "We talked to a lot of men. Men don't want to be on display in a salon getting their hair cut and they often don't want to chat during a haircut. So we sit them in front of a TV and let them watch sports while they get a good hair cut. A lot of guys seem to like that."

Forbes magazine recently listed Sport Clips in its "Top 20 Franchises To Start" list, and Sport Clips made *Entrepreneur* magazine's "Franchise 500" list for the 12th year in a row.

Logan, 64, started the company in 1979. He reports that total revenues for the Sport Clips chain grew from $177 million in 2009 to $203 million in 2010. He anticipates 2011 sales of $235 million. The chain achieved $1 billion in cumulative sales for the company's history in the summer of 2011. At this pace, Logan said he anticipates hitting the $2 billion cumulative sales mark in 2015.

Much of that growth has come through expansion. Franchisees opened 60 stores in 2009 and 95 stores in 2010. Logan is opening more than 100 new stores a year. Logan also points out that the chain experienced same store sales growth of almost 10% in 2010 despite a tough economy. That's more than triple the industry average for growth.

The national financial crunch slowed growth because many franchisees were unable to get bank loans, Logan said. The Spirit of Texas Bank in Houston financed many franchisees, often with loan guarantees from the U.S. Small Business Administration. Logan and his team recently negotiated with The Bancorp Bank of Philadelphia to offer loans to Sport Clip franchisees through a unique $5 million loan pool, which could help the chain expand in the Northeast after recently moving into Pennsylvania, New Jersey and Connecticut.

Sport Clips is also opening its first store on a military base on the Marine Corps Air Station in Cherry Point, N.C. That military association is important. Logan is actively recruiting veterans by offering a 10 percent discount on franchise fees for veterans. Of the 325 current franchise owners of Sport Clips stores, 12% are veterans.

Hiring is tricky and critical, said Logan. Sport Clips stores, whether owned by the company or owned by franchisees, hire hair stylists and managers only through word of mouth. Logan said the company avoids posting job openings online, particularly avoiding Craigslist or state-run job boards, which he believes are only used by the job candidates with the worst work experience, the worst work histories and the worst work reputations.

Executives have differing views on employment growth patterns – and public policy involvement

There is no consensus opinion among Texas CEOs about how to add jobs to the economy. Experiencing a fast-growing national economy that evolves with continuing globalization is the only path that all CEOs interviewed say tends to create jobs.

Like the economic researchers, Texas CEOs also seem to have different schools of thought regarding factors for job growth. Some executives see hiring employees as a new expense while others see hiring as a sign of success.

A unique point they do agree on: growth companies are not involved in public policy.

Growth company CEOs say they tend not to get involved in government or even community economic development efforts. Growth company CEOs admit they spend their time managing their often young companies so they have little time for getting involved with chambers of commerce much less speaking up about public policy issues – even those issues that impact their firms.

Fun, fear and flexibility lead to job growth for Whole Foods

Texas has growth companies like it has oil wells, wind turbines and white-tail deer – in large numbers and all across the state.

One of those growth companies is Austin-based Whole Foods Market.

In just the first half of 2011, the grocery chain Whole Foods Market created 5,000 jobs across the United States, Canada and Great Britain. Whole Foods even put a store in Detroit, a city all other supermarket chains abandoned.

Yet Whole Foods' upper management seems to think different. They seem to see opportunity that others have not. That vision for innovation seems to be a common characteristic of Texas growth companies: these growth companies are being run at a time when the top executives are particularly energetic and entrepreneurial.

John Mackey, co-founder and now co-CEO, said his company is gearing up to add more than 20 new stores a year. Mackey points out that growth itself becomes a powerful incentive for executives.

"Growth is fun. Growth is challenging. Do not underestimate that as a motivation," Mackey said. "As you grow you create opportunities for your people to get promoted and make more money. That is fun. Your shareholders want you to grow. And your stakeholders want you to grow because there's something in it for them if you grow. Everybody loves a winner."

"Stakeholders" is a broad term for Mackey and the Whole Foods executives. He divides stakeholders into three tiers. The first tier of stakeholders is customers, employees and shareholders. The second tier of stakeholders is suppliers, local communities and the environment. And the third tier of stakeholders is made up of competitors, the media, political activists, labor unions and government entities. Mackey and his executive team say they make decisions – particularly their decisions to grow and add workers – if they can benefit each of these stakeholders.

"The trick is that you have to create value for all of those stakeholders," Mackey said. "That's good business. That's how you build up a company. If you're growing you're expanding the pie. That's the beauty of capitalism; it's not a zero sum game."

Whole Foods also continues to make *Fortune* magazine's list of the 100 best companies in America to work for – every year – and now has more than 65,000 employees. The executives at Whole Foods point out that their approach to business is not normal – and that is the key to their success.

Having started as a tiny natural food store in a garage in Austin in 1980, Whole Foods is now preparing to open 61 new stores from late 2011 through 2014. That is another way Whole Foods is not normal: most companies do not hit their biggest growth spurt in their 31st year.

Most mature companies also haven't made the adjustments that Whole Foods has. The 59-year-old Mackey insists he has more energy now in large part because he's adjusted the company's management structure to share executive responsibilities. In recent years he has given up the board chairman position to an outside director who is also a business professor. And he promoted his former president, Walter Robb, to be co-CEO.

"We've created more than 5,000 jobs [in 2011]," said co-CEO Robb. "We pursue our goals as a company and in that we create jobs."

Fear is also a powerful ingredient.

"A lot of business hiring is based on business people's confidence," Mackey said. "For business people, their biggest fear is shutting down. I've had to close stores. I've had to lay people off. That's painful. That hurts. And that is a motivating factor for business people."

Now he points out that the greatest challenge for his company and others is the general economy.

"One of the challenges in America is the uncertainty of where the economy is going. That uncertainty has a lot of people holding off decisions and sitting on the sidelines. There's the 'animal spirits' factor to consider," said Mackey, who is an avid reader of management, philosophy and economics books. 'Animal spirits' is an economic concept coined by economist John Maynard Keynes that states that aggregate economic activity is driven by waves of optimism or pessimism within a population. Mackey has new optimism.

"Whole Foods is pretty confident. We went through that economic hurricane (2008-2009) and we came out the other side stronger," Mackey said. "Whole Foods is anticipating growth."

Whole Foods adds new stores and store workers in anticipation of expected consumer demand. Mackey and Robb point out that their stores, which tend to sell locally grown foods that cost more than food at traditional supermarkets, appeal to a niche market of consumers who want those kinds of products. They also point out that the company adds administrative workers after higher consumer demand has been met, which is easier in Texas with a lower cost of business.

"Texas is a great place to do business. There's no other place I'd want our headquarters," Mackey said.