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New Orleans: A Startup Laboratory

Entrepreneurs are finding fertile ground for new ventures they think will help bring the devastated city back to life

by John Tozzi

In a fifth-floor penthouse office in the central business district, developers craft an online trading system to let companies sell their accounts receivable at a discount for cash. A few blocks away, a programmer builds a tool to send patients' medical data to doctors' smart phones in real time. On the other side of town, workers assemble a sleek modular home from aluminum framing and interlocking panels—no nails or screws required. At the end of the day, they might all head for a hip new nightclub near the waterfront.

This is not New York or Chicago, Seattle or San Francisco. This is New Orleans, two years after Hurricane Katrina, and these ventures represent a cross-section of the entrepreneurial spirit that has quietly blossomed in the city since the flood. New Orleans suffered a net loss of 2,951 employer businesses, or 30%, between the last pre-Katrina quarter and the first quarter of 2006, according to a new report from the Louisiana State University Economic Development Div. (Businesses reporting no employees were filtered out.) Over the last three quarters of 2006, however, New Orleans gained a net 968 employer companies, representing a return to about 80% of the pre-Katrina level.

A small but growing corps of young, ambitious, and passionate entrepreneurs are starting companies that could help the city's economic future. They are business owners who looked beyond New Orleans' traditional tourism, oil, and shipping industries to find fertile ground for their ideas.

"You really want to be able to invest in high-yield entrepreneurs in sectors like technology or film. Those are where you're getting your innovation," says Robin Keegan, director of economic and workforce development for the Louisiana Recovery Authority, the state agency coordinating the rebuilding. "You're also getting a level of company owner and a level of employer that really are committed to both the economic and civic purpose of the city."

Focus the Energy

Justin Brownhill, a 36-year-old London native who left a managing director post at Citigroup (C) in New York to co-found the New Orleans Exchange, the online receivables market launching early next year, is one such entrepreneur. "We are trying to focus energy on not just rebuilding the infrastructure and neighborhoods of the city. We are helping to focus the energy on small business and corporate growth and the economy," Brownhill says.

Brownhill and his cohorts' push will not erase the city's problems. New Orleans still has shaky infrastructure, rampant crime, political corruption, and just 60% of its pre-storm population, according to the latest estimates. Vast areas that were flooded remain nearly abandoned. So why would anyone start a business there?

The city's new entrepreneurs see a chance to reinvent the economy, to associate the Crescent City with innovation and technology, with new ideas that will spur growth. "Right now, New Orleans has extremely great long-term potential in the sense that we're crafting a new city," says Chris Brown, who took Plaine Studios, his digital design firm, from a part-time business to a full-time venture after Katrina.

Bargain Office Space

Startups in New Orleans also enjoy lower costs than in many cities—Brownhill says the New Orleans Exchange might pay 10 times as much in New York to rent the kind of loft space his company has. He also hopes to hire local talent out of Tulane, Loyola, and the University of New Orleans—candidates he says are often driven to Atlanta, Houston, or Dallas for jobs. Blake Killian, who left a small Internet startup to found his own online marketing firm, Killian Interactive, this summer, says Web-based companies have another advantage: Their businesses didn't suffer the same damage during Katrina that traditional companies did. "We just grabbed our laptops and headed to higher ground," Killian says.