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Minnesota businessman finds opportunity in tough times

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A year ago, as the financial and credit crisis loomed, Doug McGregor looked for a business to buy that would benefit from the hard times he saw ahead for banking.



Chief Operating Officer Jim Gleason, left, and CEO Doug McGregor guide WebEquity Solutions LLC from a downtown Omaha office. McGregor was looking for a business that would thrive in the recession when he found the firm with an Internet-based product that banks use to check credit.

His search led him to a small Glenwood, Iowa, company that had an Internet-based product used by lenders to evaluate the creditworthiness of borrowers. Banks were coming under pressure to tighten lending standards, and McGregor figured thousands would need to upgrade their software.

Rational Equity, a private investment firm that McGregor managed, bought the Glenwood company, ECI, last May. Renamed WebEquity Solutions LLC, the company has added 78 more banking clients, for a total of more than 450.

McGregor saw opportunity in a recession that government statistics now show started in late 2007.

Other entrepreneurs also are launching or expanding companies in what might seem a gamble that they can last until the economy recovers. They include a company that plans to bring outsourced computer programming back from India, and a business started by a couple in their home and bankrolled with their savings that imports gift items from Peru.

In the weeks ahead, the Money section will highlight some of these entrepreneurs in an occasional series.

The startups buck an apparent trend in the opposite direction.

Investments in new and expanded businesses in the eight-county Omaha metropolitan area dropped by \$897 million from \$2.4 billion in 2006 to about \$1.5 billion in 2007. Investments declined by another \$242 million to about \$1.26 billion in 2008, according to the Greater Omaha Chamber of Commerce.

The chamber gathers its statistics from companies' announcements and other unofficial sources. It said its figures may not include all startups and expansions.

Statewide, the combined number of new business corporations and limited liability companies fell for the second consecutive year, ending 2008 7 percent lower than in 2006.

The drop "is a reflection of some of our economic issues," including higher energy costs, said Secretary of State John Gale, whose office registers new businesses.

The root of those problems - subprime mortgages and "banks had fairly loose lending practices" - is the opportunity that led McGregor to ECI.

His target market is the 6,000 U.S. banks and 1,000 credit unions that have less than \$20 billion in assets. The 60 percent of those that he figures need to update their software represents a market totaling \$600 million to \$800 million.

McGregor's goal is to raise the revenue of WebEquity Solutions to \$100 million in five years. While he declined to disclose the company's current or past revenue, a World-Herald estimate made from figures available a few years ago puts 2005 revenue at \$10 million to \$15 million.

With bank examiners cracking down, better risk control provided by sophisticated software is critical, McGregor said. Automation assesses assets, collateral, cash and other measurements and tells the lender whether the borrower is a good risk.

"When we talk to a bank, we kind of open it up with, 'How are your examinations going? What have you heard from regulators?' We know what the answer is.

"If this goes the way it's showing trend, this could be the paradigm shift that moves the market to further

Doug McGregor

Who: CEO, WebEquity Solutions LLC, Omaha

Previous experience:

- Rational Equity investment fund, managing director
- SoftBrands Inc., managed mergers and acquisitions
- Epicor Software, general manager
- Athletic Technologies Inc. (recreation management software), founder
- Unisys Corp.

Education: Computer science degree, University of Minnesota; MBA, University of St. Thomas, St. Paul, Minn.

automation. And it's come much faster than we thought."

McGregor left Rational Equity in St. Paul, Minn., where he was managing director, to become chief executive officer of WebEquity Solutions last May. He moved his family from the Minneapolis-St. Paul area to Omaha in August.

Last month, he moved WebEquity Solutions from Glenwood to downtown Omaha, putting it within walking distance of the First National Technology Solutions data center, which hosts WebEquity's computer operations.

Nebraska financial incentives lured WebEquity Solutions to Omaha, he said, and most of its 35 employees stayed with the company.

McGregor credited ECI owner Gary Kruse with seeing the future in Internet-based software as a banker's primary loan tool. Kruse, who McGregor said retains a small stake in the company, launched the product in 2001.

"These guys were real pioneers," McGregor said.

Agricultural loans marked ECI's entry into the field. Financial institutions now also use the software for commercial, industrial, real estate and construction loans.

The Department of Agriculture, which uses the company's product in Farm Service Agency offices nationwide, is WebEquity Solutions' biggest customer.

The company is committed to serving the farm-loan market, McGregor said, but commercial loans will become an increasingly larger share of the work its software handles.

SunCorp, an Australian customer with \$50 billion in banking assets and another \$50 billion in insurance assets, uses WebEquity software for both ag and commercial lending, McGregor said.

Besides driving revenue to \$100 million in five years, McGregor expects to push the percentage of recurring revenue - the software is sold on a subscription basis - to "well over 80 percent."

It has been 38 to 40 percent.

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