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FEATURES

The New Instant Companies

Cheap design tools. Offshore factories. Free buzz marketing. How today's startups are going from idea to \$30 million hit -- overnight.

By Michael V. Copeland, [Andrew Tilin](#), [June 2005 Issue](#)

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The creation of a shoe is a far more complex endeavor than its appearance might suggest. Footwear companies can spend up to 10 months designing new styles, which retailers expect to see long before stocking them. So it might have seemed crazy that in May 2003, just eight weeks before they would need samples for their summer 2004 line, Jim Van Dine and his three partners were still debating the merits of Mary Janes.

The four were sitting in a conference room in Hayward, Calif., banging out the concept for Keen Footwear, their new shoe company. Everyone agreed on the core product, an athletic sandal with a protective cap at the toe. But Van Dine, hoping to make Keen more than a one-shoe wonder, argued for a broader array of styles, including clogs, slip-ons, and the strap-and-buckle design known as a Mary Jane. "We had one shot to get it right," he says. "I didn't want to just be a sandal company."

Rolling out so many shoes at such a late date would have been unthinkable for an established shoemaker, let alone a brand-new one. But Van Dine knew that Keen had at its disposal resources far more powerful than what has traditionally been within reach of a [startup](#). For one thing, one of Van Dine's partners, a guy with overseas manufacturing contacts, had already reserved capacity in two Chinese factories for massive production runs. Thanks to Van Dine's experience in the industry -- including 10 years at Reebok -- he knew there were plenty of freelance shoe designers who could quickly translate his team's vision into manufacturing specs. What's more, having helped stoke the hype that made Reebok's aerobics sneakers popular in the 1980s, he believed that Keen could make its brand a household name -- in enough households at least -- while spending virtually nothing on [advertising](#). In sum, four guys with a great idea, some good contacts, and a loan to cover initial inventory figured they could go head-to-head with [Nike \(NKE\)](#) in just 60 days.

Two months later a factory in [China](#) was churning out the clogs, the slip-ons, and, yes, the Mary Janes -- 16 styles in all. The rest is footwear history. According to Van Dine, in 2004 Keen sold \$30 million worth of shoes -- around 700,000 pairs -- with Mary Janes and other nonsandals accounting for 45 percent of the total. To put that in perspective, it took Teva three years to reach just \$1 million in annual sales. Within months of Keen's launch, some of the most highly trafficked hipster websites and outdoor-gear [blogs](#) were singing the brand's praises, generating free buzz worth hundreds of thousands of dollars. "You could say we were birthed full size," Van Dine says.

Keen's overnight rise reflects many elements of traditional brand building: a product customers love, a talented management team, even old-fashioned tactics like telling retailers the shoes are sold out just to stoke demand. But the company's swift transformation from industry nobody to brand somebody also makes Keen something else: an example of a new breed of product-oriented startups that's going from concept to contender at warp speed.

In apparel, toys, sports equipment, electronics, motor vehicles -- you name it -- small but savvy new companies are wedging themselves into established industries, unburdened by the fixed costs of infrastructure past. They're doing it with the help of resources never before available so cheaply to startups, like [outsourced](#) manufacturing, [Internet](#)-powered publicity, and robust design tools. To get to market fast, they farm out everything they can, from logistics and billing to sales and support. "This," says Timothy Faley, managing director of the University of Michigan's Institute for Entrepreneurial Studies, "is how the manufacturing moguls of the future are getting started."

Of course, if you're reading this magazine, chances are that like Van Dine, you've had an idea for a hit product. Maybe you didn't quit your job to pursue it because you didn't know the first thing about designing a prototype. Maybe you figured you could never come up with the scratch to hire overseas labor, buy advertising, and build a sales channel. Maybe you were just plain terrified by the thought of all the people you'd have to hire. Any more excuses? Here's how the new class of manufacturing entrepreneurs is launching instant empires, and how you can too.

STEP 1 DESIGN THE NEXT HIT PRODUCT

The first question for anyone who wants to build the next superstar widget is this: What's it going to look like? Arriving at an answer was

traditionally an arduous task, an age-old struggle between designers and manufacturing engineers to balance what's desirable and what's possible.

But the new army of hit makers is getting it done faster and cheaper than ever before. Take Kidrobot founder Paul Budnitz, who describes himself as a "decent artist and database programmer." Just three years after Budnitz began selling collectible dolls on the Web, sales of the figurines -- inspired by hip-hop culture and Japanese anime -- are on track to hit \$5.5 million in 2005. There are bustling Kidrobot stores in Los Angeles, New York, and San Francisco and a TV cartoon deal in the works. Aside from salespeople in the stores, Kidrobot has only 11 employees.

"Can we double the size of that hammer?" Budnitz writes in an [e-mail](#) to a man in China who's in charge of manufacturing a sci-fi Mexican wrestler dubbed El Robo Loco. Two days later an image of an electric-blue robot holding an extra-large mallet appears on a monitor in Kidrobot's modest downtown Manhattan offices. "That's better," Budnitz says.

To create new characters, Kidrobot's designers first sketch them using Adobe Illustrator, the off-the-shelf drawing program that goes for \$500 a copy. They produce six views of each toy, plus blowups of detailed areas like eyelashes. Then they move to Basecamp. Released less than a year ago by software maker 37signals, Basecamp is a Web-based application that links everyone who works on Kidrobot's toys -- from its New York City design team to manufacturers in China. Established toy companies spend tens of thousands of dollars shuttling designers around the world to iron out product details. Kidrobot pays about \$100 per month for Basecamp.

Once Budnitz is satisfied with the initial designs, his team uses Basecamp to share Illustrator files with engineers in China who transform them into clay or wax models. One week later the models arrive in New York. With Basecamp acting as the messenger, the two sides repeat the back-and-forth until the toys meet Budnitz's approval. The final design -- along with specs for paint and form-fitting packaging -- is then uploaded to Basecamp, and 30 days later finished toys march off production lines in China. "I can have as many as 40 toys in various stages of production at one time, and we can still manage all of these projects with just a few people," Budnitz says. "It's stupid simple."

So simple, he says, that Kidrobot can get a new toy designed, manufactured, and available for sale in four months. Mattel and [Hasbro \(HAS\)](#), hamstrung by massive product design teams and elaborate production procedures involving paper forms, consider themselves lucky to get a new toy out in less than a year, according to industry experts. Budnitz talks about those behemoths as if they were has-beens. "What we are doing in toys is almost like what [JetBlue \(JBLU\)](#) is doing to the major airlines," he says. "Our competition just doesn't move this fast."

In fact, affordable Web-based services like Basecamp -- part of the software category called product life-cycle management, or PLM -- are the key to ramping up quickly, especially if your product is complex. In 2002, Boston-based lighting manufacturer Color Kinetics, then a six-year-old startup doing \$16 million a year in sales, suddenly began winning big orders from hotels and casinos for its power-saving LED lights. But with engineers scattered between the company's Boston headquarters and a factory in China, design changes caused delays of up to a month.

Knowing such lag time could jeopardize the new business, engineering VP Fritz Morgan considered his options. "You can get an [Oracle \(ORCL\)](#) database and some fancy PLM software for hundreds of thousands of dollars, buy a \$100,000 server, and hire a full-time [IT](#) guy," Morgan says. "But we didn't have that kind of time or money." Instead, he connected Color Kinetics's employees -- 20 at the time -- on the cheap with a \$10,000-a-year PLM platform from Arena Solutions.

In just three years, Color Kinetics has scaled to more than \$40 million in annual sales and nearly 100 employees, but it still relies on Arena. The software tracks every design change, where it originates, and when it's implemented. Thanks to the technology, Morgan estimates that his team can now execute changes in just 24 hours. This year Color Kinetics will release more than 40 new lighting products, and Morgan says one reason is that Arena lets his team do what it does best. "We are experts in designing lighting systems of tomorrow, not in managing IT," he says. "I shouldn't have to put a server in a room and run it. We are debt-free and profitable because we haven't done things like that."

Another reason Color Kinetics is thriving, Morgan says, is that the company leaves the actual manufacturing of its lights to someone else.

That someone else is Joyce Yu.

STEP 2 GET SOMEONE TO BUILD IT

When you call Union Electric in Taiwan, a tinny-sounding rendition of "It's a Small World" plays through the phone system. Ain't that the truth, one can't help thinking, as a staffer tracks down Joyce Yu on one of her three [cell phones](#). Yu is an account rep for the company, her family's business. It's one of thousands of contract manufacturers in Asia that can bring a new product to market with unprecedented speed and efficiency.

Outsourced manufacturing has long been available to the big guys. But thanks to folks like Yu, it's now an option for anybody. Born and raised in the United States, Yu is as comfortable in North America as

HOW TO DO PRODUCT DESIGN FAST AND CHEAP

- 1 SKETCH YOUR VISION.** Kidrobot uses in-house designers, but freelancers are also widely available.
- 2 COMMISSION A PROTOTYPE.** Cheap software tools let specialists turn your designs into the real thing. Kidrobot sends sketches to clay modelers in China using Web-based software called Basecamp.
- 3 MOVE INTO PRODUCTION.** Once you're satisfied with the prototype, e-mail designs to a manufacturing partner. Factories in Hong Kong and mainland China make Kidrobot figures based on final models.

HOW TO FIND YOUR HIT FACTORY

she is flitting between her office in Taiwan, her shipping center in Hong Kong, and the Union Electric factory in southern China. In addition to Color Kinetics, Yu's clients include Brookstone, Discovery Channel Stores, and [RadioShack \(RSH\)](#). She has shepherded the manufacture of singing cake cutters, golf pedometers, and scads of digital recording devices. Through her, companies tap into some of the deepest manufacturing expertise on the planet -- at a third of what similar work would cost in the United States. "In the States they have such great ideas, but they don't know how to put those ideas into production and they don't have the infrastructure to do it," Yu says. "We do."

Surprisingly, her clients don't take that as an insult. According to Color Kinetics's Morgan, Yu is right: His people really aren't interested in how to best manage an assembly line to make lights. Yu's team of industrial designers and mechanical and electrical engineers can take an idea for a complex lighting assembly from Color Kinetics and have it ready for production in just two months. When the lights roll off the line, Yu can also drop-ship them to a wholesale customer -- even someone who has just bought them off the Web.

Of course, if you're looking to find a manufacturer for your idea, a [Google \(GOOG\)](#) search will deliver dozens of people like Yu. Experts say a better place to start, though, might be [eBay \(EBAY\)](#). Find a product that's similar to your brainchild and work backward to find out who made it, advises Larry Mangel, a veteran sourcer. Mangel says big companies also offer clues: He once tracked down the maker of [McDonald's \(MCD\)](#) Happy Meal trinkets and signed up the factory to make high-end chess sets.

Chicago-based Genuine Scooter, in fact, has mastered the art of blazing a trail in the wake of an established frontrunner. The three-year-old company makes Vespa knockoffs under the brand name Stella. Genuine founder Philip McCaleb had been running a scooter-parts business for nine years when in 1999 he heard that Piaggio, Vespa's parent company, was going to end its production alliance with LML, a scooter manufacturer in [India](#). After learning that tooling from the Indian-Italian partnership would still belong to LML, McCaleb began wondering if he could make a modified version of the iconic Vespa for less than the European original. "I thought, why not introduce an Indian factory to the notion of private labeling?" he says.

With a staff of three, McCaleb rolled out the Stella for \$2,699 -- 37 percent less than its Italian competitor. He anticipates selling all of the 2,500 bikes he'll produce this year and expects to move twice that many in 2006. That's not to say there haven't been bumps in the road, though. McCaleb warns that anyone interested in pioneering such an arrangement should be prepared to deal with cultural clashes. For one thing, he says, Indian consumers don't yet share the quality standards of their American counterparts. "I had to make several trips over there to explain things," he says. "If the paint on the bottom of the scooter isn't perfect, maybe an Indian customer won't complain. But an American wants a discount."

McCaleb eventually hired a man in India to oversee production, but if you're not tied to a particular plant or person, independent factory reps -- who have relationships with multiple plants -- are another great option. That was the route taken by Orbit Baby, a new car-seat and stroller maker co-founded by former Ideo designers Bryan White and Joseph Hei. Having never before run a company, White and Hei found that the biggest advantage of independent reps was the ability to find the right manufacturing partner quickly. "Sourcing in China is so relationship-based that it's really hard to jump right in if you don't have those connections," White says.

Orbit Baby turned to Hong Kong-based DB Tech, which took detailed notes on the startup's needs. Because Orbit Baby will have to worry about infant safety, the founders wanted factories with quality certifications and procedures to handle liability claims. They also needed a partner that could sew, work with aluminum, and craft plastic parts. DB came back with eight candidates, mostly auto-parts factories that had already made car seats for European companies. White and Hei jumped on a plane to China and toured all eight factories in four days. They began negotiating a deal with one of them in May and expect to have car seats on the market by September. Their advice to others: Look for plant executives who take an active interest in your business. "If the managers don't ask any questions," White says, "you know you're in trouble."

Of course, you'll also be in trouble if another group isn't talking -- the masses of potential customers congregating on the Web.

STEP 3 LEVERAGE THE HYPE MACHINE

So you've figured out how to design and build your hit product. Now you have to sell it. Yes, go to trade shows. By all means, meet as many potential customers as you can. But as an instant-company builder, you have to approach [marketing](#) just like everything else. That's right: Get others to do it for you.

In May 2004 the popular blog Cool Tools -- which gets 240,000 hits a day -- ran a post praising quick-drying Keen sandals as "a gift from above." Months later Diego Rodriguez, owner of a blog called Metacool, proclaimed, "All the cool kids are wearing them." Above Rodriguez's post was a photo of [Apple \(AAPL\)](#) CEO [Steve Jobs](#) hawking an [iPod](#) U2 Special Edition while wearing a pair of Keens. During the fall 2004 season, Keen sold 400,000 pairs of shoes -- while spending virtually nothing on ads -- in what is typically an off-season for sandals. "The goal was, get the shoes on as many influential feet as possible," says Keen's Van Dine.

For years marketers at even the biggest companies have been shifting dollars away from big advertising campaigns and toward [PR](#), hoping to tap the awesome power of word of mouth. But the blogosphere, along with myriad forms of online bulletin boards and social-networking sites, has enabled a quantum leap in the speed at which the masses can learn about, buy, and recommend new stuff. Even

HIT FACTORY

- 1 DO YOUR HOMEWORK.** Start with Google: Type in "China," "manufacturer," and your product and you'll get a list of factories. Or look on eBay for something similar to your gizmo and research who made it.
- 2 FIND A CONDUIT.** Overseas plants often have a liaison fluent in English. Independent reps can find a plant matching your needs but generally charge a 5 percent commission.
- 3 BUILD RELATIONSHIPS TOO.** Try to nurture long-term partnerships with factories. They'll eventually act less like contractors and more like allies, helping you to improve future versions of your product.

products from established companies, like the microchip-equipped Adidas 1, have gotten big boosts from blog mentions. White, the Orbit Baby co-founder, plans to show car-seat samples to the burgeoning legions of "daddy bloggers." "It's important what these guys think," he says. "Especially if you have any illusions of doing direct sales."

Of course, "going after" bloggers can backfire because they can smell a desperate pitch a mile away. But have no fear: If you have the next hot product, they'll find you. That's what happened at Freebord, a skateboard company founded in 2001 that still has just five employees. In November, 36-year-old CEO Bayard Winthrop got an e-mail from a designer in New York asking about Freebord's unique six-wheel rides. Winthrop e-mailed back a patient explanation.

The designer turned out to be Josh Rubin, owner of Coolhunting.com, which gets more than 125,000 unique visitors a month and has a readership that is 73 percent male and 81 percent age 35 or under. After Rubin's post about Freebord, traffic on the company's site exploded, increasing fivefold almost immediately. Sales jumped too, but it was the surge in awareness that really amazed Winthrop. "We weren't very well known, and suddenly everyone was checking us out," he says. "We heard from skaters and from [investors](#) who wanted in on the company." Overseas blogs then started writing about Freebord, resulting in two European distribution deals. Freebord still does no advertising and spends its entire \$1,800 marketing budget on stickers, but Winthrop says revenue will double this year to \$1.5 million.

And once they've gotten the word out, entrepreneurs can outsource shipping and warehousing to create instant distribution channels. Genuine Scooter's Stella models, for instance, have been featured on blogs ranging from Girlbike to Motorbyte. By turning over logistics to Chicago's AIT Worldwide, Genuine founder McCaleb built a network of more than 70 dealers in just three years. A Web application from AIT lets McCaleb track every scooter from the time it arrives from India until the moment it moves off a dealer's lot. "They tie all the trucking and inventory together for us," he says. "We don't have to touch the product."

Of course, even instant companies eventually mature to the point where they want more contact with products, suppliers, and customers -- when they start acting like bigger players. Keen, for instance, is now a 30-person operation with 11,000 square feet of comfortable office space near a marina just outside San Francisco. Most of its shoes are now designed and manufactured according to a timeline that's closer to what's normal for the industry. The company will launch a serious ad campaign this year.

But if Van Dine has his way, Keen will never be Nike. He continues to rely on freelance designers for fresh ideas and says that as much as 20 percent of Keen's styles will remain 11th-hour decisions to better catch trends. "I'm always pushing to go faster," he says. No matter what stage they're at, the new hit builders seem to agree that there are more ways to grow quickly than ever before. As Orbit Baby's Hei puts it, "It seems like everything is aligned for smaller folks like us now. I don't know why you would create a company any other way."

HOW TO CAPTURE THE BUZZ

Mentions in popular blogs can make a brand famous overnight. Here are some of the most influential tastemakers and products they've helped popularize.

BLOG NAME CATEGORY	DESCRIPTION TRAFFIC	HYPE RESULTS
GIZMODO <i>Electronics</i>	A guide to new gadgets and cool toys for tech lovers. <i>1.5 million unique visitors/month</i>	Three days after an endorsement from Gizmodo, hits at DiscHub's website jumped from 20 to 10,000. DiscHub founder Jonathan Bruck says the mention made his company a success.
MOCO LOCO <i>Home furniture</i>	One-stop browsing for enthusiasts of modern design and architecture. <i>170,000 unique visitors/month</i>	After Moco Loco wrote about Lionel Dimitri's \$4,900 aquarium, the tank landed on the cover of Robb Report Luxury Home magazine.
DAILYCANDY <i>Fashion/accessories</i>	Recommends must-have clothes and cosmetics. <i>1 million subscribers</i>	Ladies' Home Journal, O magazine, and Vibe called for interviews after Cheen Chandra's elegant Indian jewelry appeared on the blog.
TREEHUGGER <i>Environment-friendly products</i>	Highlights the latest in green products, from toilets to	When Treehugger wrote about Voltaic's solar-powered backpack, traffic to the company's website spiked from nothing to 5,000

rock-climbing gear. *30,000 unique visitors/month* visits in 24 hours. CNN, Discovery Channel, and Playboy all ran stories about the bag.

LUXIST
Luxury items

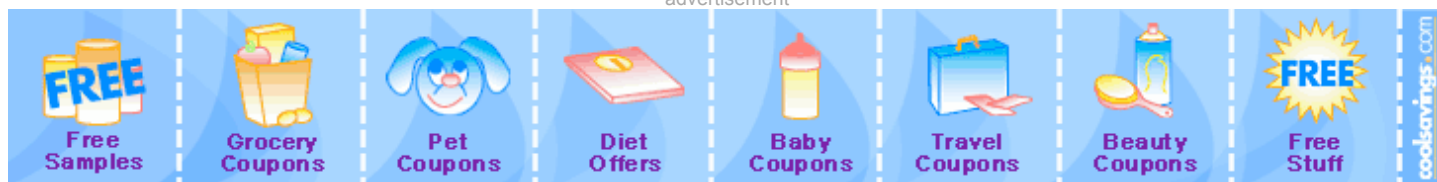
Previews stuff that celebs and wannabes are dying to get their hands on. *400,000 unique visitors/month* Traffic to the website of Ikon Vodka, a Canadian spirits company, jumped 400 percent to 300,000 hits a month after coverage by Luxist.

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