Inc.

How I Did It

Featuring the founders of **Casper, Burton Snowboards, Ring, Drybar, Udi's Gluten Free,** *and more*
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Get honest feedback from your team
PAGE 54

How Hello Fresh Conquered America
PAGE 78

Make the most of part-time workers
PAGE 58

"I thought I wanted to be a stay-at-home mom with my two kids."
Alli Webb
Founder of $100 million beauty empire Drybar

ON THE COVER
ALLI WEBB, FOUNDER OF DRYBAR, PHOTOGRAPHED IN LOS ANGELES BY RAMONA ROSALES

COVER: HAIR: JULIE PARKS; MAKEUP: CHRISTINA GUERRA; PROPS: ALI GALLAGHER; WARDROBE: HEIDI MEEK

PHOTOGRAPH BY WAYNE LAWRENCE

Ham It Up
New Jersey's Windy Brow Farms' Seasonal Ice Cream Collection features Taylor Ham and five other flavors found "only in Jersey."

 PHOTOGRAPH BY KELSEY McCLELLAN

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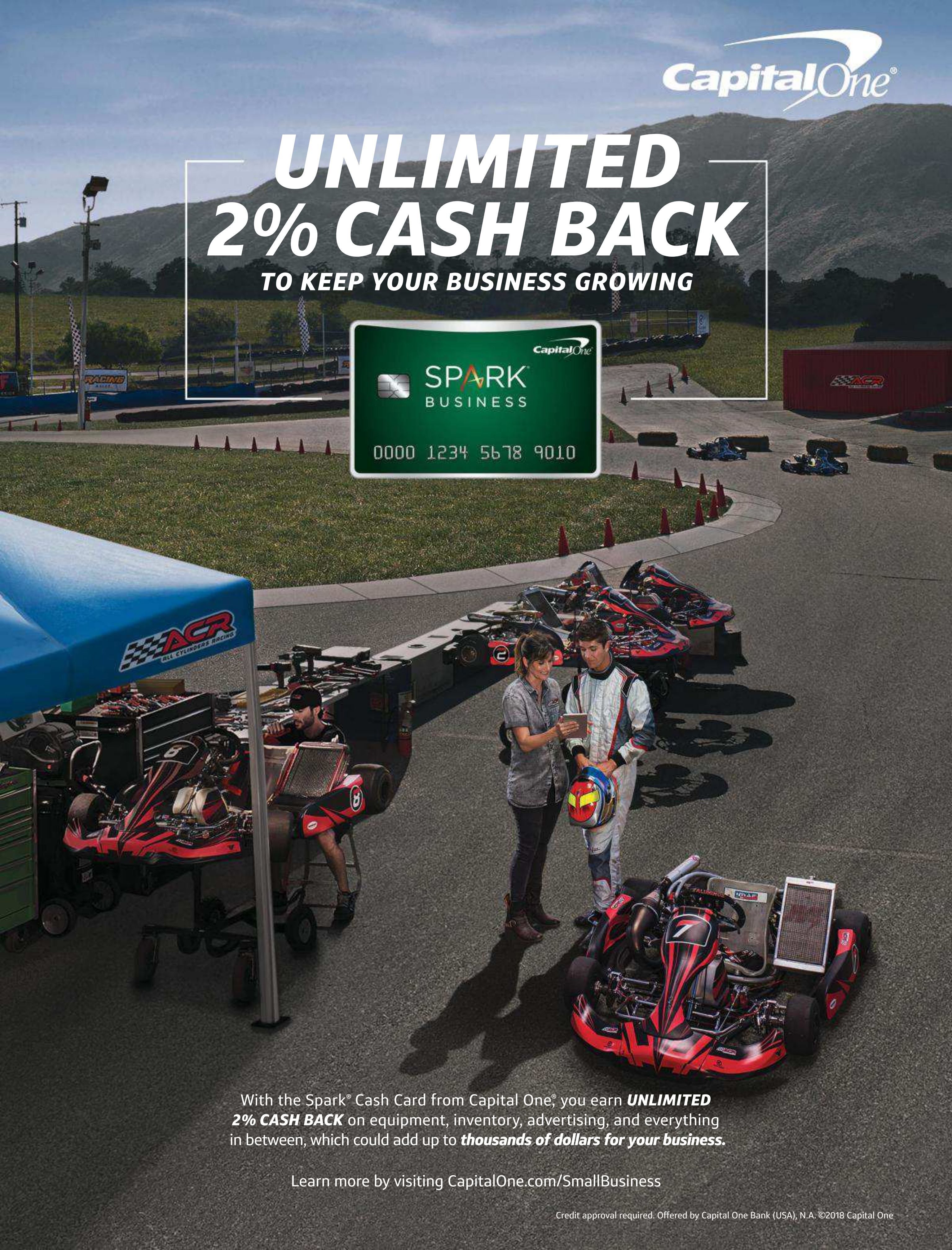
**2017 Mastio & Co. National LTL Carrier Report*

A Better Way
Phaedra Ellis-Lamkins, co-founder and CEO of Promise. The California-based company seeks to rework the bail system.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EDITOR'S LETTER

Tales of Tenacity

One of the most inspiring elements of *Inc.*'s annual conferences is hearing tales of tenacity from company founders who refuse to give up. Some of these stories get told onstage, like Slack co-founder Cal Henderson's describing, at this year's GrowCo conference, how a failed video game business turned into a multibillion-dollar software empire. But we hear just as many from attendees, like Merrill Crawford, who runs a successful plumbing company in Houston. Finding clients, Crawford says, is easy; finding good plumbers is much harder. Her hiring needs are so urgent that she has gone well beyond traditional recruitment channels; indeed, she is looking to retain an ad agency to help convince would-be employees that her business is a great place to work.

This issue of *Inc.* is similarly loaded with such stories. In our annual How I Did It package (page 28), you'll meet courageous entrepreneurs like Moe Momtazi, a winemaker who escaped from Iran's dictatorship with his very pregnant wife, each on a motorcycle. And Jamie Siminoff, the founder of Ring, who knew he couldn't give up on his business, because he'd be dead broke and unable to provide for his family. He sold his company to Amazon this year, reportedly for more than $1 billion. And, of course, our cover subject, Alli Webb, who went into business with her brother despite their parents' warnings. Drybar is now a nationwide sensation that recently opened its 100th store.

Despite talk of trade wars or inflation slowing down the economy, labor markets remain tight and hiring the right workers remains a pressing concern for many businesses. This issue addresses the topic in Leigh Buchanan's essay about worker training (page 13) and Coeli Carr's Tip Sheet on making the best use of part-time labor (page 58).

The founders of HelloFresh have also been tenacious. It is a supreme challenge for a non-U.S. company to enter the American market and beat out well-funded domestic incumbents (in this case, Blue Apron, Plated, and others). In the feature story by editor-at-large Burt Helm that begins on page 78, you will learn just how driven and resourceful a company needs to be to become No. 1 in its category. The fact that the meal-kit business presents specific headaches, including logistics and customer churn, makes the accomplishment even more remarkable.

There are dozens of qualities needed to make a business survive and grow. Too often, the public focuses on the wisdom of a CEO or the access to capital. But without tenacity, many of those other qualities won't matter much. At *Inc.*, we're proud to celebrate the tenacity of all the founders in this issue—and yours, too.

James Ledbetter jamesl@inc.com

FROM TOP: SHAYAN ASGHARNIA; ADAM SIMPSON


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RESIDUAL VALUE
AWARD

Launch

YOU'LL NEVER TRAIN IN VAIN

The way to win in business is to mold your workers to fit your culture.

BY LEIGH BUCHANAN

For most employers, she's the holy grail: the day-one-ready new hire. In she walks, pre-loaded with requisite skills. Just add caffeine and let her rip. But with unemployment at near-record lows, people like her are hard to find. Good. That scarcity is an opportunity.

In today's tight labor market, the talent-is-hard-to-come-by lament is near universal—and also potentially misleading. The problem isn't so much that employers can't find workers for jobs that require skills, some experts say. It's that employers want workers they don't have to train. That attitude may deny businesses a powerful competitive advantage. That's particu-

→

L | SIX **STATES** (Connecticut, Georgia, Kentucky, Mississippi, Rhode Island, and Virginia) offer tax credits worth from 5 to 50 percent of training-related expenses, according to the Aspen Institute.

MARK WARNER (D-VA)

BOB CASEY (D-PA)

DEBBIE STABENOW (D-MI)

One side of the aisle is offering help. In October, the senators above introduced tax credit legislation to increase spending on training lower- and moderate-income workers. In April, Congressman Raja Krishnamoorthi (D-IL) introduced a House version targeting small and midsize businesses with a 20 percent tax credit for new investments in training.

larly true for entrepreneurial companies, which rely on workforces' thinking and acting differently from incumbents.

Chad Laurans would agree with that. When he founded the Boston-based home-security company SimpliSafe in 2006, Laurans wanted to upend the industry with install-it-yourself hardware and no long-term service contracts. So he refused to hire anyone with industry experience. "We didn't want that baggage," he says. The venture-backed company—which employs about 600 people—hires from all levels of education. Training ranges from a month for call-center workers to potentially years for an engineer.

"Hiring people to do something they haven't done before is powerful," says Laurans. It's possible, he continues, that a day-one-ready hire "is going to be bored, or they are just not going to be driven."

As an entrepreneurial leader, "I really don't want fully skilled people, because I want it to be done my way," says Tom Peters, whose new book, *The Excellence Dividend: Meeting the Tech Tide With Work That Wows and Jobs That Last,* argues that training should be "investment No. 1." Companies willing to train new hires, Peters says, can simultaneously address needed skills and the business's distinct culture to produce employees who "do things in ways that fit our character." In his formulation, "the company with the best training wins."

The expectation that hires will hit the ground running emerged during looser labor markets when companies enjoyed a surfeit of choice. They also ran leaner, and so the appetite for anything less than prime talent abated. "Over the past 20 years, companies got very picky looking for people who were the exact right fit," says Todd Thibodeaux, CEO of CompTIA, a nonprofit trade association that trains and certifies people in a variety of IT skills. "They weren't interested in taking people who were entry level or were maybe 75 percent of the way there." Companies also hate the idea of spending to make workers day-one ready for someone else. "Employers are convinced if they train people they are just going to lose them," says Peter Cappelli, director of the Center for Human Resources at the Wharton School.

Of course, it is in the interest of a dynamic economy that businesses give workers their first shots, increase their value through education and experience, and then wave goodbye as they depart for better opportunities. But it is not in the interest of individual employers. Such concerns not only produce under-investment in training but also cause the proliferation of noncompetes, which these days extend all the way to beauticians.

But training makes workers both more likely to join and less likely to leave. Asked what attracts them to employers, Millennials ranked training third—above benefits, flexible schedules, and employer values—in a study by PwC. Research shows increased retention among employees who are encouraged by their prospects for advancement and feel obligated to employers who invest in them. And a well-developed training muscle allows companies to react quickly to shifts in demand—from SharePoint to Slack, for example—and update their own workforces in response.

Such advantages should persuade business leaders to stop viewing themselves narrowly as consumers of talent and focus on becoming producers. There's no reason entrepreneurial companies can't be as innovative about developing talent as they are about developing products and services. Some already are.

Techtonic Group, for example, is both software development firm and apprentice farm. The business, based in Boulder, Colorado, employs a cadre of apprentices whom it trains in multiple skills while simultaneously deploying them (with a more senior team) on client projects. After 1,000 hours of working with apprentices, clients can hire them onto their teams—they now possess ample evidence of their ability. Techtonic, which raised a $2 million round in April, is the first Department of Labor–registered apprenticeship provider for software development.

Tech jobs aren't the only ones inspiring creativity. In 2015, Saxbys Coffee, a chain headquartered in Philadelphia, launched an unusual partnership with Drexel University to open student-run cafés on campus. Undergraduates manage everything—frothing the cappuccinos, sure, but also hiring, firing, marketing, and calculating the P&L. Company managers swing by regularly to check in and answer questions, but none are onsite. Students learn on the job and in the classroom, where Saxbys helps shape the curriculum. Founder Nick Bayer created the program to promote entrepreneurship, but it also primes the talent pipeline—from store managers to corporate—with young people who know Saxbys chapter and verse.

Such programs represent a creative, ambitious approach to eliminating skills gaps inside companies. Great businesses are born when entrepreneurs can't find something they need and so build their own. Great workforces are born the same way.

FROM TOP: GETTY; AP IMAGES (2)

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"Most of Napster was written stoned. I'm just going to be honest about that." —JORDAN RITTER, Napster co-founder, in Adam Fisher's forthcoming oral history of Silicon Valley, *Valley of Genius*

Summertime, and the Business of Shark Repellent Is Easy

Nathan Garrison was a teenager growing up in Charleston, South Carolina, when a friend told him about the time a shark ripped said friend from a surfboard and dragged him underwater. The pal survived, but Garrison was scarred. So, in 2015, he and his father invented Sharkbanz—wrist and ankle bands and leashes that connect surfers to their boards with Velcro straps, which contain magnets that create an electromagnetic field that repels sharks. It makes sharks feel the way humans do when a bright light shines in their eyes, Garrison says. "It's a defense," he adds. "Before, you were relying on luck." Last year, Sharkbanz took in almost $970,000, way up from 2015's $617,000. Also eating into the sector: Australia's Smart Marine Systems, which makes two antishark wetsuits. One, striped with navy and white, is meant to look unpalatable to sharks, unlike black wetsuits, which make humans resemble those predators' favorite snack: seals. For surfers in summer, unappetizing is the new black. ▸ *EMILY CANAL*

SEEN AND HEARD ON INC.COM

"If I have a day when everything goes well, I feel like I'm in the Matrix and someone has changed something on me."

CHIEH HUANG, founder and CEO of Boxed

The Jargonator

Swatting the buzzwords of business since 2014.

BY BEN SCHOTT

SURVEILLANCE CAPITALISM • *noun*

"Will the brazen new methods of social engineering and behavior modification threaten individual autonomy and democratic rights? Or will the promise of the digital age be one of individual empowerment and democratization?" In other words: Orwell that ends well?
Source: Publisher's promo for Shoshana Zuboff's *The Age of Surveillance Capitalism*

PRESIDENTIAL TWITTER STRATEGY • *noun*

Ninety percent of the members of the Information Technology Industry Council have a "presidential Twitter strategy" to prepare for a Trump tweet. Without one, what will do you when your CIO is mocked as "CHIEF IDIOT OFFICER" or your CFO is blasted as "POCKET PROTECTOR PAM"?
Source: *The New York Times*

VAMPIRE APPS • *noun*

They suck out your personal data. Is this why I smear my iPhone with garlic? Er, yeah.
Source: *Daily Mail*

LONE WOLF TRAVELERS • *noun*

Corporate travelers "are almost like astronauts sent off into the void having little contact with mission control, ... armed to the hilt with tech including check-in numbers, q-codes, electronic receipts and verifiers." Oy! Open the pod bay doors and blast these drones into space. Source: *Buying Business Travel*

CLOCKWISE FROM TOP: MICHAEL PARKIN (4); JOE MCKENDRY; GALLERY STOCK


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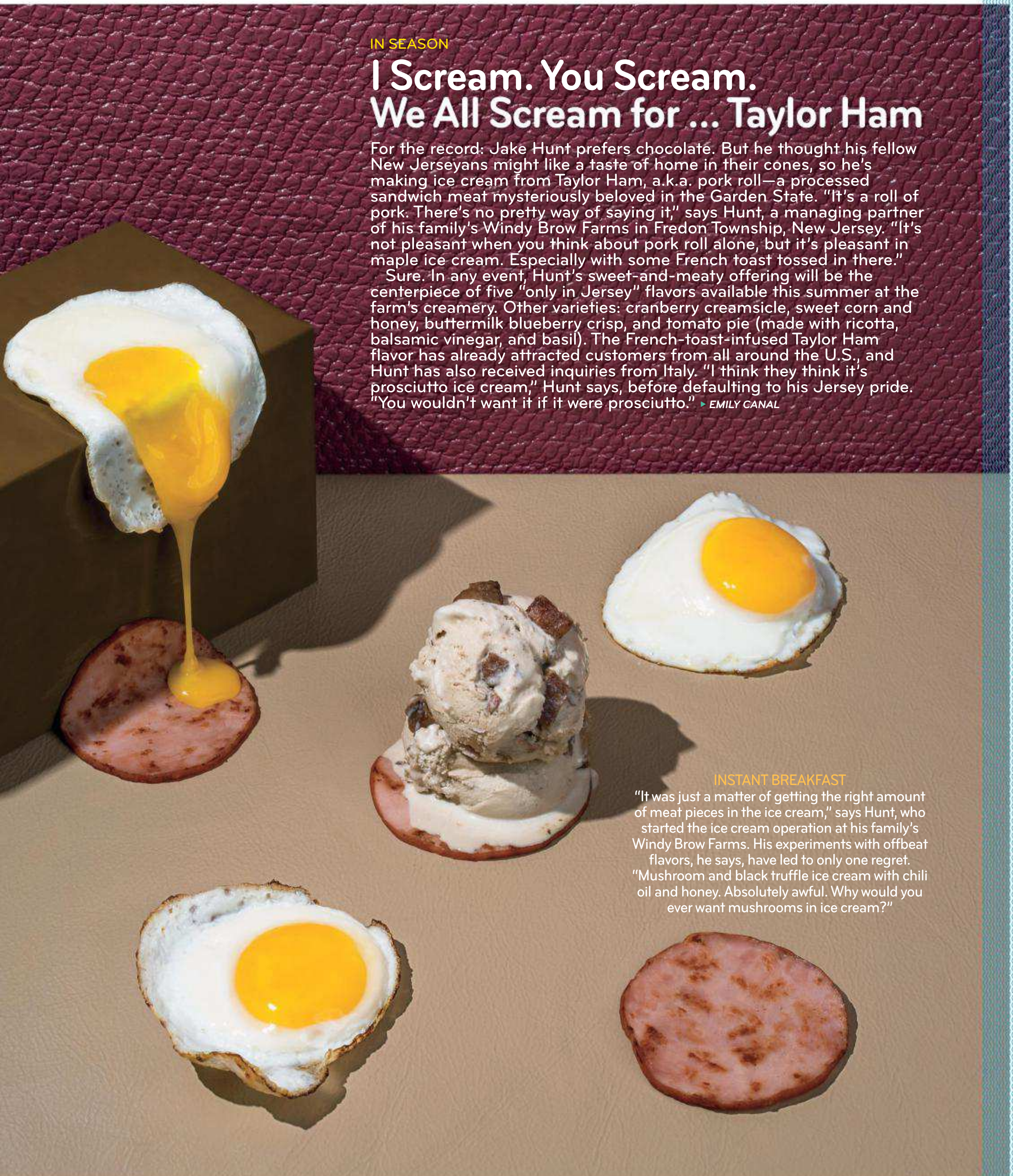
"Look, I came up with the product that made Apple! If Steve Jobs had started without me, where would he have gone? Steve tried to make four computers in his life—with millions of dollars—and they all failed." —STEVE WOZNIAK, Apple co-founder, in *Valley of Genius*



IN SEASON

I Scream. You Scream. We All Scream for ... Taylor Ham

For the record: Jake Hunt prefers chocolate. But he thought his fellow New Jerseyans might like a taste of home in their cones, so he's making ice cream from Taylor Ham, a.k.a. pork roll—a processed sandwich meat mysteriously beloved in the Garden State. "It's a roll of pork. There's no pretty way of saying it," says Hunt, a managing partner of his family's Windy Brow Farms in Fredon Township, New Jersey. "It's not pleasant when you think about pork roll alone, but it's pleasant in maple ice cream. Especially with some French toast tossed in there."

Sure. In any event, Hunt's sweet-and-meaty offering will be the centerpiece of five "only in Jersey" flavors available this summer at the farm's creamery. Other varieties: cranberry creamsicle, sweet corn and honey, buttermilk blueberry crisp, and tomato pie (made with ricotta, balsamic vinegar, and basil). The French-toast-infused Taylor Ham flavor has already attracted customers from all around the U.S., and Hunt has also received inquiries from Italy. "I think they think it's prosciutto ice cream," Hunt says, before defaulting to his Jersey pride. "You wouldn't want it if it were prosciutto." ▸ *EMILY CANAL*

INSTANT BREAKFAST

"It was just a matter of getting the right amount of meat pieces in the ice cream," says Hunt, who started the ice cream operation at his family's Windy Brow Farms. His experiments with offbeat flavors, he says, have led to only one regret. "Mushroom and black truffle ice cream with chili oil and honey. Absolutely awful. Why would you ever want mushrooms in ice cream?"

STYLING BY MICHELLE MAGUIRE; WOZNIAK: GETTY

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"Google was a weird place. Like a weird kid land. Adults worked there, but there were all these big, colorful, bouncy balls. Eric Schmidt had a twisty playground slide that he could exit his office from—which now seems almost perverted." —BIZ STONE, Twitter co-founder, in *Valley of Genius*

DISCUSS

Will A.I. Remake Business—or Destroy It?

Artificially intelligent machines could streamline a company's operations. Or, as the doom-and-gloomers say, one day they could supersede human founders. To help *Inc.* figure this out, we called Iya Khalil, co-founder of an A.I.-powered health startup, and Louis Del Monte, a scientist who's written extensively about A.I. ▸ *ZOË HENRY*

← **IYA KHALIL**
Co-founder of GNS Healthcare, which uses A.I. and machine learning to improve health outcomes

LOUIS DEL MONTE →
Physicist and author of *The Artificial Intelligence Revolution*

Elon Musk has said that A.I. could wipe out the human race. Could it?

Some applications of A.I. may be concerning. But we're just starting to see machine learning improving treatments in medicine.

Experiments suggest that once machines have neural networks, they will be able to ignore their initial programming. We won't be able to program laws and assume that humanity is safe.

Might some factor make A.I. unlikely to be used widely by businesses in the near future?

Its inability to distinguish between cause and effect. But we can start empowering physicians to make better decisions—and spend more time with patients—since machines automate certain menial tasks.

Machines are very close to passing the Turing test—where a person could converse with a machine via text and not know that it was a machine. That's when A.I. is as "intelligent" as a human.

What is an unforeseen consequence of A.I. adoption?

There may be a point when we've built so many machines that we lose track of how they work and lose our ability to control them. We need to be thoughtful and plan for problems ahead of time.

We're already implanting chips in the brains of people who are having strokes. Soon we might be using these to help people with low IQs become "normal." Once that happens, will those humans identify more with machines—or will they retain their humanity?

Could a machine become smart enough to start and run a company?

We could design a machine that is smart enough to run a company, yes. The question is: Would it have the desire to? Would it have the creativity?

I believe that by midcentury, we'll have a machine that equates to an Elon Musk.

ADVANTAGE → DEL MONTE. According to a recent article in the *Washington University Law Review*, algorithmic entities, or AEs, are nearly sophisticated enough to run a company—and have a particular comparative edge when it comes to "criminal enterprise."

THERE'S A MARKET FOR THIS

We were promised jet-packs, etc., but the latest hype in techland surrounds something more workaday: Morning Recovery, a 3.4-ounce drink that purportedly beats hangovers. Keith Ryu, founder of San Francisco–based hiring platform Fountain, is a believer; he provided bottles at Fountain's last holiday party. "I have a lot of weekend-morning coffee meetings," he says. "Sometimes, you show up and sound like a complete idiot. Not anymore." Tesla engineer Sisun Lee

created Morning Recovery—with a USC professor who'd researched hangover cures—after seeing go-getters in his native South Korea drink heroically, down supplements, and wake up reasonably refreshed. Lee quit Tesla last year; he's since sold more than $4 million worth of the $5 bottles, which contain milk thistle, prickly pear extract, and dihydromyricetin. Reviews have been mixed, but the drink has won many devotees (including certain *Inc.* staffers). "People have been waiting for this for forever," says Nate Bosshard, co-founder of fitness startup Tonal. "This is like cold fusion." ▸ *KEVIN J. RYAN*

COURTESY COMPANY; ILLUSTRATIONS: JOE MCKENDRY (2)

L

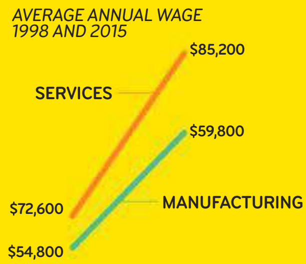
"We really have turned humanity into lab rats that are trained to run mazes. I really think, on just the most fundamental level, we are approaching digital technology in the wrong way." —JARON LANIER, coiner of the term *virtual reality* and early VR entrepreneur, in *Valley of Genius*

DATA CENTER

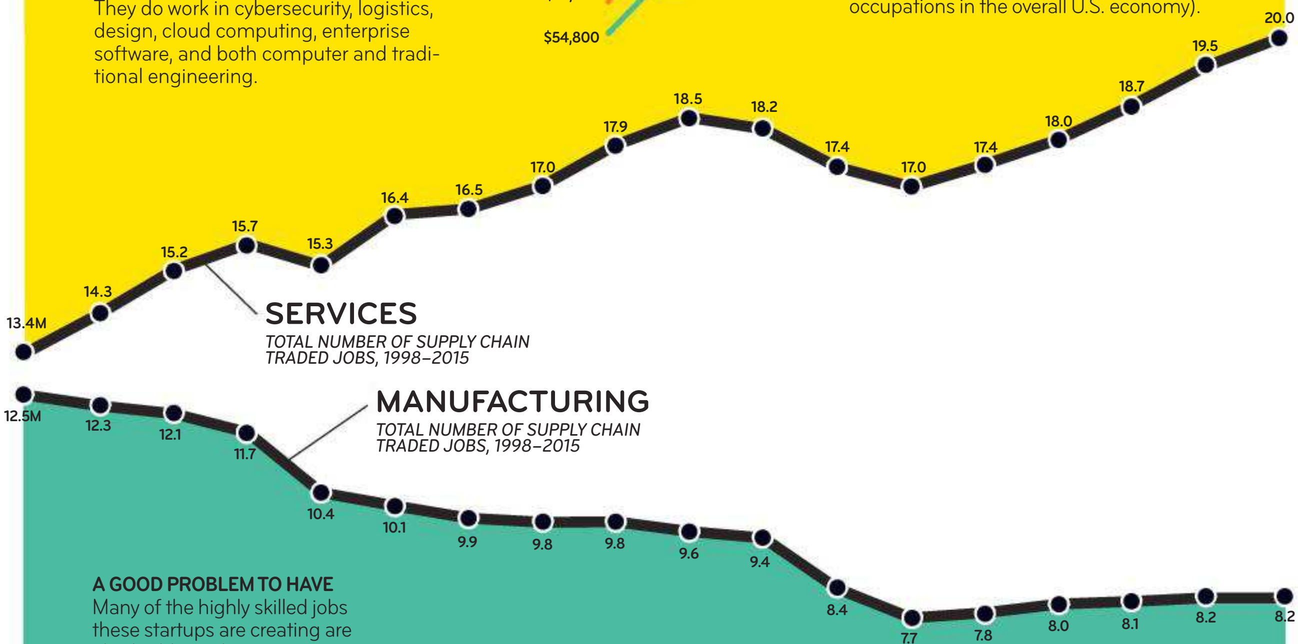
Supply (Chain) and Demand

Manufacturing, you may have heard, is dying—but startups and small businesses across other industries are finding new ways to fuel American innovation and create jobs. Think cloud computing, software engineering, logistics, and even product design—arenas once dominated by large corporations. "Small- and medium-size-business owners can take advantage of technology that was previously available only to large companies," says Jeremy Bodenhamer, co-founder and CEO of Santa Barbara, California–based ShipHawk, which makes and sells shipping software. He's part of a new "supply chain economy" that's creating more jobs, hiring skilled workers, and paying higher wages, according to recent research by MIT's Mercedes Delgado and Harvard's Karen Mills, former head of the Small Business Administration. Startups working in this supply chain "are innovative, and are creating an increasing number of high-wage jobs," says Mills. "These are good jobs of the future." ▸ ***MICHELLE CHENG***

JUST WHAT IS THIS SUPPLY CHAIN?
Companies that provide "supply chain traded services" (charted below) are high-tech big names (Microsoft, Dell EMC, Box, IDEO, Frog) and startup successes (2017 Inc. 500 honorees ShipHawk, Symbia Logistics, and DirectDefense). They do work in cybersecurity, logistics, design, cloud computing, enterprise software, and both computer and traditional engineering.



WHAT MAKES IT SO GREAT?
These companies—those selling services to businesses and government entities across regions or countries, rather than locally—create the highest-paying jobs (average wage: $85,200) and have the greatest concentration of jobs classified as science, technology, engineering, or math (19 percent, versus 6 percent of occupations in the overall U.S. economy).



A GOOD PROBLEM TO HAVE
Many of the highly skilled jobs these startups are creating are also highly paid—meaning expensive labor costs for business owners. But Megan Smith, CEO of Edwards, Colorado-based Symbia Logistics, isn't complaining about spending more on employees. "We're getting more skilled people," she says, "and becoming more of an employer of choice."

770,000

SUPPLIERS

Small businesses dominate the traded supply chain: 97% of these companies employ fewer than 500 people.

SOFT BOUNCEBACK
The slight uptick in manufacturing jobs is mostly a result of overall post-crisis recovery, Mills says, cautioning, "You can't drive the whole economy on the back of 10 percent of the activity."

SOURCE: "A New Categorization of the U.S. Economy: The Role of Supply Chain Industries in Innovation and Economic Performance" by Mercedes Delgado and Karen Mills, who also provided additional research.

GETTY

L | The Destination

Salt Lake City

Why Silicon Slopes—the region between the Utah state capital and Provo—is bustling with hot brands and data nerds. **By Zoë Henry**

STARTUP NEIGHBORHOODS

► Dozens of companies are based in and around **Riverwoods,** a commercial and residential paradise with 192,000 square feet of retail, at the base of the Wasatch Range and just an eight-minute drive from BYU. A mile down the road are the headquarters for Vivint, a smart-home company valued at $3 billion.

► One of Salt Lake City's artsier neighborhoods, **Sugar House** is home to a cluster of startups, along with fashion boutiques, a street-car, and gastropubs that sell local craft beers Polygamy Porter and Big Bad Baptist. 4

► Lehi-based farm, garden, museum, golf, and shopping complex **Thanksgiving Point,** 9 hatched decades ago by WordPerfect founder Alan Ashton, has become a bustling hub for Utah Valley founders, not far from the northern stretch of Utah County housing dozens of companies, including genealogy website Ancestry.com.

WHO TO KNOW

BYU grads **Josh James** 13 and **Ryan Smith** 14 are considered the godfathers of Silicon Slopes. Smith, whose **Qualtrics** is now a $2.5 billion analytics behemoth, is a longtime buddy of James, who sold his first data company, **Omniture,** 6 for $1.8 billion. James—now on to his second data play, **Domo** 12—is known for his wit and panache. "People see him as this Willy Wonka character," says Banyan's Carine Clark, a fellow board member at the Lehi-based startup network Silicon Slopes. "He does a lot for people that they don't even know about, including supporting education, technology in schools, and women in tech."

$104,000 Average salary for a local software developer

Source: Glassdoor

WHO'S BRINGING COMPANIES HERE

► When Washington, D.C., native **Jeremy Andrus**—the former CEO of headphone maker Skullcandy—acquired **Traeger Grills** 15 in 2014, he relocated the now $350 million company from Portland, Oregon, to Salt Lake City to access more experienced talent. "I knew I could hire great people here," Andrus says.

► Entrepreneur couple and BYU grads **Vanessa and Nate Quigley** were living in Florida when they decided to move back to their old college town to launch their digital photobook company, **Chatbooks.** 10 "We were having a hard time finding people in Florida to help develop and design this app," says Vanessa. "I never thought I would relocate to Utah, but we had ties to the entrepreneurial community here."

RED FLAG

▶ While Banyan's Carine Clark isn't too bothered by the **lack of diversity in Utah among founders and funders**—a dearth of women, non-Christians, and people of color—**it is problematic for others**. "Being a woman in Utah is like being economically invisible," says **Allison Lew,** (11) the co-founder and CEO of Provo-based Braid Workshop, a network and consulting service designed for women entrepreneurs. "I'm used to meetings where it's all dudes, all white, and they would not even look at me when I was talking. It is a question I do ask: Would it be easier to start my business somewhere else?"

WHO TO KNOW

When **Matt Marsh,** (2) principal of Lehi-based venture firm **Sorenson Capital,** left Salt Lake City more than two decades ago, he didn't expect to ever come back. "I grew up here and there wasn't as much from an entrepreneurial perspective," he says. Since returning to Utah in 2005, Marsh has invested in more than 15 local companies, and now manages over $1 billion.

$2.1 million Median VC investment for startups, as of 2017

Source: PitchBook

TALENT PIPELINE

▶ Entrepreneurs tend to emerge from one of two places: **Brigham Young University**, owned and operated by the Church of Jesus Christ of Latter-Day Saints (LDS), or **Utah Valley University,** which has eclipsed BYU to become the largest university in the state. While UVU has the **Entrepreneurship Institute**—which provides seed financing and mentorship for student founders—BYU flaunts the **Rollins Center for Entrepreneurship and Technology,** the **Ballard Center** for social innovators, and **Venture Factory**, a product development accelerator, which spawned the **Owlet** (7) baby monitor.

WHO TO KNOW

Like many repatriated Utahans, **Carine Clark** (5) first came to the area to attend BYU. Building on her three-decade-long technology career, she's now CEO of medical software company **Banyan,** a judge for the annual Ernst & Young Entrepreneur of the Year award for the Utah Valley (she herself was a 2016 honoree), an adviser at BYU and UVU, and one of the few women in the local tech scene. Clark says of being a woman (and a practicing Mormon) in an area dominated by the LDS: "You have to be pretty tough here to make it, and not afraid to run to the fire. A lot of women are not like that."

WHERE TO TALK SHOP

▶ Observing the strict no-drinking tenet of the Mormon code of health, founders here don't spend much time in bars. But you can find many of them at the Vivint Smart Home Arena, talking shop at a **Utah Jazz** game. (3)

▶ West of Park City is **Snowbird,** (8) a ski resort that doubles as a backdrop for conferences, networking events, and even Sugar Ray Leonard—a speaker at one Provo startup's recent executive summit here.

▶ On any given night, investors can be found chatting up young founders over teriyaki skewers, shrimp tempura, and a glass of ice water at the Lehi outpost of **Tsunami Restaurant and Sushi Bar,** a local Japanese chain. (Non-Mormon clientele can order wine.)

$393.5 million Investment in Utah startups in 2017, up from $273 million the year before

SOURCE: PitchBook

BRANDS TO WATCH

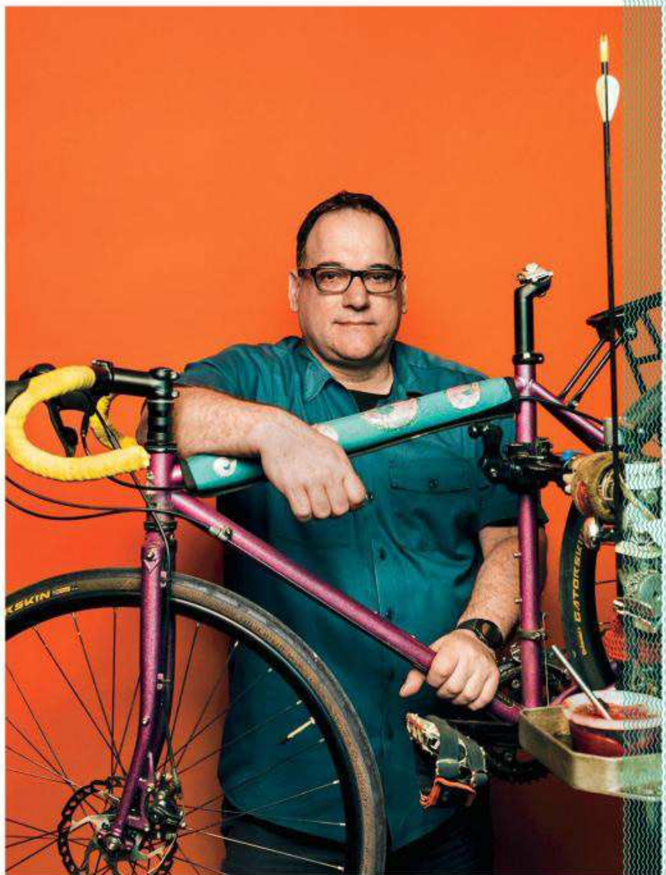
▶ Outdoor apparel e-commerce company **Cotopaxi** (1) has grown to more than 60 employees since launching in 2014. CEO **Davis Smith,** who spent most of his childhood living in Central and South America, where his dad built LDS churches, donates 2 percent of revenue to charity each year.

▶ Four-year-old digital photo-service **Chatbooks** has sold millions of Instagram-friendly photobooks. The co-founder couple, **the Quigleys**, have raised more than $21 million—while raising their seven children.

▶ Founded by brother and sister **Derek Maxfield and Melanie Huscroft,** the five-year-old peer-to-peer cosmetics brand **Younique** has over 550,000 women hawking makeup online. Last year, beauty giant Coty bought a majority stake in the business for $600 million, valuing the company at $1 billion.

Helping a Business Get Up the Hill

Inc.'s legendary columnist Norm Brodsky spent some time talking business with Joe Nocella, founder of the Brooklyn-based 718 Cyclery. 718 Cyclery has established itself as a successful shop catering to the serious cyclist—but its growth has plateaued. Joe's been searching for a good idea to help him jump-start sales. That's when Norm came in, to hear Joe out and help him think through finding a new way forward.



RIDE ON Joe Nocella, founder of 718 Cyclery, seen here with a Surly Straggler bike frame.

Norm: How much business do you do? What's your gross revenue?

Joe: We're tracking for about the same as last year, about $1.1 million. Two years ago, it was $1.3 million. So sales have been stagnating—there's no denying it.

OK. So what percentage is new sales and accessories, and what percentage is service?

We break it up into three parts. We have bike sales, parts and accessories, and then what we call labor. So, last year, bike sales were about 46 percent of our overall revenue, and labor was about 14 percent. The balance is parts and accessories.

How many bikes do you sell a year?

About 300.

The majority of your customers are serious bike enthusiasts, right?

Right. Our bikes typically sell for between $1,200 and $1,500. We don't want to push other people away, but there are better options for someone who's looking for a bike under $500, for instance. That's just not us.

Do you keep track of your customers?

Yes. Six months after they buy a bike, we send them an email asking how everything is going with it. It's like a dentist's postcard.

You have ideal customers, which are hard to find, but the only thing you do with them is follow up about the bike? How many people are on the mailing list?

About 6,000.

That's amazing. I can probably think of half a dozen people who would die to have access to that list. Now, I'm not sure I'd give them access to it, because you're protective of your clients, but you could feature products. You can bring them stuff that they maybe don't know about. Maybe you can get a discount for them, too. So you're going to do well for them.

Right.

If I were you, I'd do a lot of research on other ways you can monetize that customer list. For example, people who organize bike trips are always looking for people to go on them. You can funnel your list to them and get commissions.

We actually do overnight trips ourselves once a month.

Do you make money doing it? I'm not so sure that you do.

We don't. They just allow us to create social media content, and position ourselves as leaders in the field. We charge only $25, to cover insurance and my costs.

The first thing I would tell you is to double that cost. You'll have thousands more dollars in your pocket, and the people will still be getting a bargain. But, looking at your financials, the main problem is that bike sales are down.

Exactly.

It seems like you're against doing this, but I think you have to sell starter bikes—ones that cost $200 or $300. That way, when somebody like me walks into the store, the person won't see bikes for just $1,200, or $2,200, and walk out.

Yeah. The challenge I have with inexpensive bikes is what happens to them after a year of being ridden in New York City. Things fall apart, and people have a bad experience.

Then you tell them, "You're never going to buy a $200 bike that's built like a $700 bike, but this is about the best-quality $200 model you're going to buy." Attracting people with lower-end bikes will help you build the next generation of better-bike customers.

We do sell a few of them. We're working on it.

Yeah? That's great. But you've got to change the way you're doing things. You've got to monetize, so you can keep that mojo going.

NORM: SHAYAN ASGHARNIA

Back From the Brink
Our annual How I Did It package is full of founders' amazing tales of heroism and persistence—like how Jake Burton of Burton Snowboards overcame the disease that left him unable to walk or talk.

HOW I DID IT

Ten founders on what it takes to be great.

Center Stage
After she had had one bad experience working with her brother Michael, Alli Webb's parents advised her—very bluntly—against starting Drybar with him. Luckily, the siblings ignored them—and a great company was born.

ALLI WEBB/DRYBAR

HOW I LAUNCHED MY COMPANY— AND LEARNED TO LET GO

Thanks to her unruly curly hair, Alli Webb knows how a good blowout can completely change the way a woman feels about herself. In 2010, she persuaded her brother and her husband—both bald—to help her launch Drybar, which focuses exclusively on blowouts. Eight years later, Drybar has more than 100 locations and over $100 million in revenue.

—AS TOLD TO LINDSAY BLAKELY

After high school, I fumbled around. I tried college but didn't go to class much. I thought I wanted a career in fashion, so I moved to New York City. My brother Michael Landau—he's an overachiever—was living there and working in Nicole Miller's corporate office. We're very close. The joke in our family is that he is my third parent. I got a job at the Nicole Miller store in SoHo. Then Michael suggested we bring Nicole Miller shops to South Florida, where we grew up.

So we moved there and opened two stores. Soon I was managing a bunch of people, working all the time, driving back and forth—and thinking, "This cannot be it for me." Michael and I fought a lot. He wanted me in the stores all the time; meanwhile, he played a lot of golf. He was doing inventory, payroll, and the stuff I wasn't good at, but it felt lopsided.

I finally had to tell him that I couldn't do it anymore. But I also felt like I had to end this toxic situation, because we were starting to hate each other. He was surprisingly cool about it. I also revealed that I wanted to go to beauty school and do hair at fashion shows. Michael thought I should. That gave me a lot of confidence.

After beauty school, I worked in salons in New York. I met my husband, Cameron, and he got a great advertising job in Los Angeles. I thought I wanted to be a stay-at-home mom with my two kids. Five years in, I realized I didn't.

To get out of the house, I started a mobile blowout business, going to friends' homes and styling their hair for 40 bucks. My husband created a website. I posted the link in a Yahoo mommy group—and was inundated with emails.

I started thinking of having my clients come to me in a shop. That's when I went to Michael and said there might be a bigger opportunity.

It took some convincing. He's bald. I started talking to Cameron, too. He's also bald, but he thought it was a genius idea. Michael wasn't 100 percent sold, but he said he wanted to back me. Our parents, knowing what happened with the Nicole Miller stores, said, "You guys are out

HOW DRYBAR FOUND—AND FILLED—ITS NICHE

"There was this huge gap in the market," Webb says. "There were full-service salons way overcharging for blowouts, and there were Fantastic Sams, which were not a great experience." Drybar synthesized the two: reasonably priced and luxurious in feel. To that last point, customers are always greeted with "Welcome to Drybar—it's nice to see you" rather than "Do you have an appointment?" Drybar blowouts start in the front, rather than in the back, as beauty schools teach (to better tackle unruly cowlicks, and provide a better visual for the customer)—and each Drybar location's management team has at least one stylist who can pinch-hit should another stylist call in sick.

PHOTOGRAPH BY RAMONA ROSALES

of your fucking minds. You should not be working together." But this time, it was my idea. He understood business in a way I didn't. And Cameron is a creative genius. I could tell we were going to be equals. I was going to run the store, Michael (who put in $250,000) would do the back end, and Cameron would do the branding.

In 2010, we opened our first location, in the Brentwood section of L.A. We had a line out the door the first day. My grand plan was to do 30 to 40 blowouts a day. We probably did 70 to 80. For six months, I couldn't hire stylists fast enough.

Michael realized that we needed to open up more Drybars fast or people would start knocking us off. We did a little franchising and then decided to raise money. In 2011, we met with a lot of private equity firms, and honestly I thought, "These guys do not get it." Finally, we met with Castanea Partners, which owned Urban Decay. They understood our vision. They invested $16 million.

In 2013, the business was growing so fast, and Castanea knew we had never run a big operation. They wanted to bring in a professional CEO. Michael was open to being replaced. I was like, "Wait. Why? We're doing great." I was really nervous about changing the culture. I finally said I'd talk to people, but that was it. I was very bratty about it.

Then Castanea sent us John Heffner. I remember seeing him down the hallway. He's 6 foot 5, wearing a suit, carrying a briefcase—corporate America. And I was like, "Hell, no. This is not the guy."

But John had worked for a lot of founder-led companies and in the beauty world. He understood this needed to be a partnership. And he had no ego. Both Michael and I left the meeting and said, "Yeah, he's the guy." John is the adult in the room—so calm, whereas Michael and I are very reactionary.

It's never easy as a founder to trust other people with parts of your business. I still want to get my hands dirty. But you have to recognize that sometimes you need someone else. Michael was that person for me first. Now it's John.

Second Chance
T.I., in front of the recently shuttered Bankhead Seafood restaurant, in the Atlanta neighborhood where he grew up. He's bought the building, as part of his Buy Back the Block redevelopment initiative.

T.I./BUY BACK THE BLOCK

HOW I DECIDED TO SAVE MY OLD 'HOOD

Not long ago, Clifford Joseph Harris Jr.—the rapper, actor, and fashion impresario who's better known as T.I.—took a hard look at the once-vibrant neighborhood he grew up in. By the age of 14, he'd been arrested several times on drug charges. To flip the script for kids like him, in 2017 he founded Buy Back the Block, a real estate venture that reimagines his old neighborhood one building at a time.

—AS TOLD TO SHEILA MARIKAR

I grew up in the 1980s and '90s in the Center Hill section of Atlanta, just off Bankhead Highway. Back then, that part of town was considered the lower end of the middle class. After the crack era, the community stalled, and from 1994 to 2012, it became an extremely desolate area for business. There's no major grocery store chain. There's no fresh produce. There's no CVS. There *are* liquor stores.

Now, with the BeltLine and Mercedes-Benz Stadium a stone's throw away, there's an incentive to redevelop. But I didn't want it to be one of those situations where luxury condos go up, and people who are native are pushed out to the fringes because they can't afford to live there. I wanted to provide development that would allow people from the area, who love the community, to be able to afford to stay.

I partnered with [Atlanta rapper] Killer Mike and other developers to purchase the Bankhead Seafood building. There is a corner where I have an assemblage of lots that I acquired with another partner. There's another, bigger lot that I am acquiring on my own. I've gone in on six buildings and spent more than $2 million. I don't have private equity financing or anything like that. It's my personal finances and sweat equity.

The cornerstone of wealth is home ownership. It does something for the psyche of a person to know

REBUILDING THE BLOCK

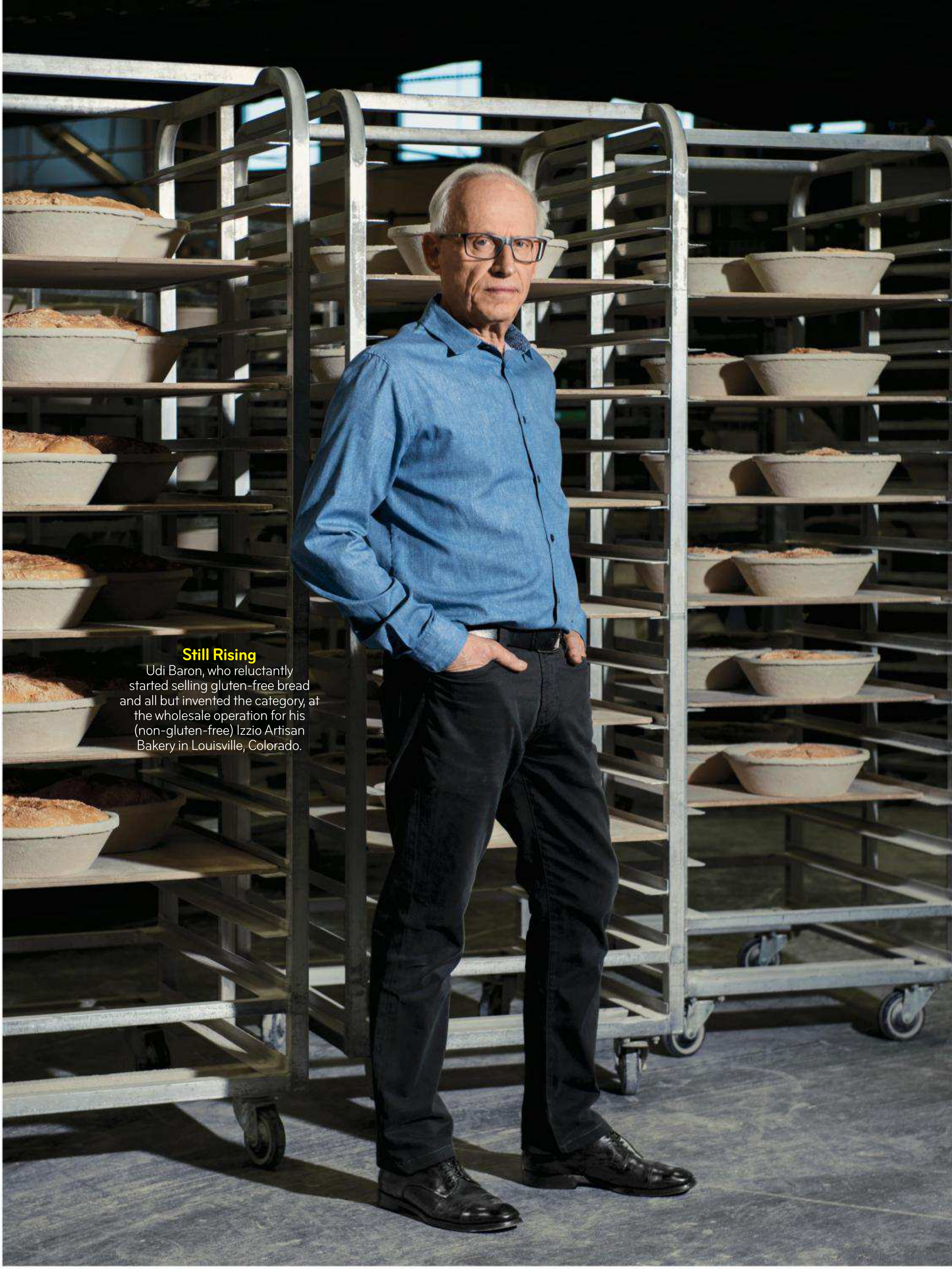
Following successes in the arts and as co-founder of fashion brand AKOO, T.I. has spent about $2.7 million since 2017 to buy six properties and plots of land in Center Hill, where he grew up. (One is a former Kmart where he'd bought toys.) "What [Under Armour founder] Kevin Plank and his Sagamore Development Company are doing to revitalize Baltimore has been a nice example," T.I. says. He was also on Atlanta mayor Keisha Lance Bottoms's transition team, working on job creation and economic development issues.

that all of the work they do comes back to this. A lot of the buildings I've bought, we're turning into mixed-use housing. One of the smaller residential projects will hopefully be ready by the end of 2019. We're aiming to complete a larger development—more than 100 units—around the same time. I'm working with a seasoned real estate agent, Krystal Peterson, to ensure prices are within the range of what people who live in the neighborhood can pay. I'm constantly out there, on the ground, talking to people. They are very pleased to see that I'm involved, that I'm taking steps to have ownership within the community—they know I'm a product of it. But they also wonder what's going to happen.

Green spaces and gardens are incredibly important. We want a movie theater, bowling, laser tag—stuff I didn't have. I'm trying to build a community where the people within it can be proud. If they're proud, they'll have more of a sense of wanting to maintain it. I'd love to see children walk and play and live in green spaces. I want to see senior citizens excited about the next generation. The only way to do that is to invest. Why wait for someone else to come into a community where I went to elementary school, where I rode my bike and played?

So many times, our answer to fixing things is "I'm gonna make some money and leave all these people behind." There's rarely an intent to get rich and make where you came from better for generations to come. It's extremely ambitious, but I've worked myself to a place where I should be the one leading the charge. In my mind, that's what it means to be king.

Remaking the Neighborhood
Top: Inside a currently abandoned grocery store that T.I. owns. Bottom: His redevelopment strategy focuses on buying corner lots—including the one the HN Liquor Store in Bankhead sits on—to spur revitalization. The store is just minutes away from Mercedes-Benz Stadium, where next year's Super Bowl will take place.



Still Rising
Udi Baron, who reluctantly started selling gluten-free bread and all but invented the category, at the wholesale operation for his (non-gluten-free) Izzio Artisan Bakery in Louisville, Colorado.

 PHOTOGRAPH BY TERRY RATZLAFF

UDI BARON/UDI'S GLUTEN FREE

HOW MY COMPANY WENT FROM ZERO TO $125 MILLION IN FIVE YEARS—AND WHY I DECIDED TO SELL

Udi Baron was running a bakery and restaurant when someone brought him a recipe for gluten-free bread so good it made people cry. It became the linchpin of the company now called Udi's Gluten Free, which immediately defined and dominated its market—so much so that not even Baron could believe it.

—AS TOLD TO UNA M. MORERA

I was born and raised in Israel. Next door to my high school, there was a tiny grocery store owned by an Italian Holocaust survivor. He made beautiful sandwiches. He bought bread from a refugee from Iraq, and made sandwiches on Iraqi bread with Italian meat and pickles. I kind of fell in love with them. Probably they were terrible. But ever since then, I'm making sandwiches.

I went to work for the Israeli IRS. In 1978, my family left for Denver so my wife could be closer to her family. In 1994, I quit my job and tried to do desserts. Then an old man who had a small sandwich shop became violently diabetic, and asked if I could take over his business. A business doing maybe $700 a day—which is better than what I did. So I got out of desserts.

I was searching for good bread and couldn't find it, so I opened a bakery. Then I bought land and built a building for the bakery and the sandwich business. We added a restaurant inside the bakery—Udi's Bread Cafe—so you could eat and watch the men shaping bread. It was very sensual. By 2007, the bakery was doing really well, so we moved it to a bigger place, where I had an empty space.

That year, a man named Chadwick White—a genius who can bake complicated recipes from memory, and who became our director of product development—came to us and said, "Listen, I have this gluten-free bread. I went to many bakeries and big companies. Nobody wanted it. Would you take a look?" I said, "You know what? I'm not particularly interested. Everything we make is gluten. Why would I go into gluten-free?"

He suggested we go to a celiac disease support group, which met in the basement of a church. There, we let people taste the gluten-free bread. They went absolutely crazy. We became heroes. Like rock stars. Women were crying. One even proposed marriage.

We put the bread on the shelves of a local supermarket chain—like a hundred stores. Whenever we came, there was none on the shelf. We were pretty upset. Then they said, "No, no, no—we can't keep it on the shelf!"

I started buying equipment and put it in my empty space. From December 2007, we didn't stop. That bakery we'd just started, we outgrew. From 2008 to 2012, the business went from zero to $125 million in sales. In 2012, we had 50 percent of the market for gluten-free baked goods and were in 25,000 stores. It became so big that we didn't believe it. Only 1 percent of the population has celiac disease. How come so many people were buying the bread? It made no sense.

I'm not a gambler. I'm a paranoid person. And not very brave. When the company was valued at around $100 million, my partners and I all came to the conclusion to sell, to limit our risk. There was always the darkness—the ambiguity—between the time to sell and being too greedy. I still didn't believe the numbers. But we sold for $125 million.

My wife and I had planned to go to the Amazon for two weeks before the deal closed. Our attorneys were horrified. They said, absolutely do not leave until everything is done. So I stayed. On July 3, 2012, I was all alone in my house, waiting for the money to transfer.

When I got the message from my bank, I didn't know how to grasp it. What does it mean to have tens of millions of dollars? What does it feel like to have no worries about money? I went to the supermarket to see if I could understand. I said to myself, "I'm not going to look at the prices. I'm just going to buy everything I want to buy."

From the outside, it might look like, that's what you did? You went to the supermarket and you went shopping? It was the 4th of July weekend. Everyone was out of town. I had nobody to share it with.

It sounds so weird. But that's how I celebrated.

In His Honor
Selina Tobaccowala co-founded Evite while still a student at Stanford University. Until the untimely passing of her boss, she was an unlikely founder of a fitness company.

SELINA TOBACCOWALA/GIXO

HOW LOSING MY MENTOR INSPIRED A BUSINESS

Selina Tobaccowala co-founded Evite when she was in college, and, after selling it to IAC, took on senior roles at Ticketmaster. But then she met her mentor in Dave Goldberg, the CEO of Survey-Monkey, and she became that firm's president and CTO. His sudden death in May 2015 prompted her to get more active—and start a company to help others do the same.
—AS TOLD TO YASMIN GAGNÉ

Dave Goldberg was one of the people who recruited me to SurveyMonkey. I immediately saw that he was someone I could learn a lot from. He came out to London to meet me, and I then interviewed at the firm's offices in Silicon Valley. When I landed back in the U.K., I had an email offer from the company. I also realized I was pregnant with my first child.

I told him I wanted more equity, I couldn't start for another three months—and that I was pregnant. Dave replied that he wanted to build a highly profitable business that also had a very strong family culture. When I saw his response, I immediately thought, "This is the guy I want to work for."

I learned so much from Dave. We were able to take the business from $20 million to $200 million in just about six years while still having a culture that was family-friendly. He left the office every day at 5:55 so he could have dinner and spend time with his kids—you could reach him between 6 and 8 only in an emergency. He was an amazing leader and an amazing father.

When he passed away, he was only 47 years old, and had two young children. I have two young children, and I want to be around for them for a long time.

HAIR & MAKEUP: AMY LAWSON; STYLING: DANIELLE GAITO

I've never been fit. In high school, I was named captain of the basketball team, but that was because I'd built a stats program that helped them win. At Survey-Monkey, my only exercise was walking from my car to the train station. But I realized I wanted to build a business that would help people lead healthy lifestyles. Even a little physical activity can have a huge impact on your health. I started making small changes, like taking the stairs. I was thinking about how Netflix delivers movies, and wanted to give people access to fitness in a similar way. I left SurveyMonkey in April 2016. I took a week off to spend with my kids—they were on spring break—and then I went straight back to work. Gixo was incorporated that April 29.

My research told me that the people who stick with fitness routines often go to classes. But classes can be unaffordable or intimidating, and a lot of people also live too far away or can't fit classes into their schedules. That's why my Evite co-founder Al Lieb and I created Gixo. Its app gives people on-demand and live fitness classes through their phones. Some of the classes are only 15 minutes, so it's good even for people who are really busy. One of our users is a busy working mom, like me, who couldn't find time to fit fitness into her routine until she found our app on iTunes. Now she can, and even works out on the sideline of her kids' sports games.

When someone close to you passes away, it can inspire you to make a change. I realized I needed to change my fitness level so I could be there for my kids. My dream is to change global activity rates and help people get healthier. But I also want to build a profitable business that has the family culture I saw at SurveyMonkey.

JAMIE SIMINOFF/RING

HOW LOSING ON *SHARK TANK* FORCED ME TO SUCCEED

COURTESY COMPANY

In late 2013, all the Sharks on Shark Tank *declined to invest in Jamie Siminoff's Wi-Fi-enabled video doorbell company, which he started in his garage in Los Angeles. This February, Amazon announced that it would acquire Ring in a deal reported to be worth more than $1 billion.* —AS TOLD TO EMILY CANAL

In 2011, I was 35 and I had my midlife entrepreneurial crisis. The problem was, I would have an idea but I would turn it into a company too quickly. Ring, at the start, was a way for me to see a delivery person at the front door while I was in my garage. It wasn't changing anything. But I had to let myself explore it.

Goals that are achievable are boring and unsatisfying, because you just get there. It should be tough to achieve great success. I think if you want to achieve something great, you should be challenged along the way. That's what gets me through rejection. I was in the fortunate position—I mean this semi-jokingly—where stopping work on Ring would have meant financial death.

I was broke when I went on *Shark Tank*. I drove there from my garage, went on the show, drove back to the garage afterward, and went back to work. I was a real American dreamer going on the show to get money, and it was hugely disappointing.

The years 2015 to 2017 might have been the toughest. If I'd stopped, I would have lost my house. I had a 3-year-old and the only thing I could do was keep trying. There were nights when I woke up at 3 a.m. in tears. Bawling. How were we going to make it to tomorrow? Luckily, no matter how mentally hard that was, I had one choice, which was "Pick yourself up, Jamie, and get back out there." Because stopping would have resulted in the end.

People used to ask me, "What would you do differently?" I'd say, "Raising $100 million right off the bat would have been much better." They would kind of look at me like, "Why didn't you?" Well, I didn't because nobody would give me a friggin' $100 million. Someone else said to me, "I heard a fund pulled out of one of your rounds." *A* fund? Try 250 funds! I wish it had been one fund. Everybody pulled out of my rounds.

I hope that the extreme lows are over. But it's not like we're going to Amazon thinking it will lavish us with stuff, and we're going to have three meals a day for free. Amazon celebrates being frugal. I like that. We celebrate being frugal too. I hope I have bad days. That means you're fighting and going forward. It's like when you're skiing: If you don't fall, that means you're not challenging yourself. You don't want those falls to kill you, but you still want to fall.

The credibility and the awareness that *Shark Tank* brought was probably worth $10 million of ads. It really launched us. The Sharks liked the idea and said nice things. Mark Cuban said, "I think it's a great business. I think you'll be successful. It will be worth $20 million. I just can't invest in something that's not going to be $70 million someday."

As a fan of the show who went on it from his garage, and with Ring now the largest company ever to have appeared on it—that achievement is incredible. And, obviously, I think they wish they had invested.

Up Where He Belongs
Jake Burton, with two close associates, near his home in Vermont.

JAKE BURTON/BURTON SNOWBOARDS

HOW I CAME BACK FROM MY NEAR-DEATH EXPERIENCE

(AND GOT BACK ON THE SLOPES)

Despite some early missteps, Jake Burton's snowboarding company became a household name. But a mysterious disease almost took him off the slopes for good.

—AS TOLD TO LIZ WELCH

When I started Burton Snowboards, it was a get-rich-quick scheme. I thought, "If I can make 50 snowboards a day, I can make $100,000 a year." I hired two relatives and a friend—classic mistakes. I sold only 300 boards that first year. I had to lay everybody off and go back to square one. Eventually, I was like, "Fuck it. I don't care about the money. I just want to have been right about my vision." When I started living just for the sport, everything fell into place.

I got hit by a skier once, which broke my leg. Then I hit a tree and broke my leg again. In February 2015, I got my knee replaced. I had the surgery, and then took a run three weeks later. I needed to prove to myself I could do it.

A few days later, I started seeing double. The next day, I felt flulike symptoms and went to the hospital for an MRI. The neurologist thought it might be a stroke. After more tests with a different set of doctors, they said, "If it's what we think it is, tomorrow you won't be able to swallow, the next day you won't be able to open your eyes, and the next day you won't be able to breathe."

I didn't believe it. But they had me try to blow these stupid little Ping-Pong balls up a tube, and I couldn't move the Ping-Pong ball.

The diagnosis was Miller Fisher, the gnarliest form of Guillain-Barré. The myelin sheath around your nerves gets damaged. No one knows what caused it—a flu shot, the surgery, a bad oyster.

At first, it was, "OK, I'm sick. I'll be missing this meeting or whatever." But I spiraled down quickly. On the third day, they jammed tubes down my throat. People would visit and walk out crying.

Part of the disease is confusion. I couldn't open my eyes, but I also couldn't sleep. When I did sleep, the nightmares were horrific. Breathing was the worst: I could never get enough air. All my life, I had had the lungs of a swimmer. Now I was putting all my energy into getting the next breath.

I literally talked to my middle kid about suicide. I was just so over it. One day, my doctor asked, "Are you suicidal?" Remember that German plane, where one guy went to take a piss and the other guy locked the door and drove the

PHOTOGRAPH BY BEN HOFFMANN

plane into the mountain and killed 150 people? I was paralyzed except for my right hand, so I scribbled, "Yeah, possibly—but I'm not going to take 150 people with me."

The middle finger is our unofficial signature at Burton. (A snowboarder did it in one of our catalogs and it stuck.) When my wife, Donna, told the company how sick I was, everyone gathered for a portrait with middle fingers up. That photo hung in my hospital room. It was my guiding light.

After seven weeks in the hospital, I was transferred to rehab. I still had a tracheotomy, and couldn't walk. When I was finally sent home six weeks later, I was 135 pounds, down from 175. I had a speech therapist, an occupational therapist, an acupuncturist, and a trainer—all to start talking and walking again.

Donna became CEO in 2016. I'm still a product manager. I love it. I'm back to snowboarding 100 days a year. We get riders together and go somewhere to test every product in the line. That keeps me in touch.

Donna's taught me to think differently, for sure. When I first heard about paternity leave, I almost fell off my chair. I didn't even get it. I've become much more open-minded. I'm better at communicating. And my tolerance for bullshit is at an all-time low. I can see through it. Like, "Buddy, I've stared down death. I've seen worse than your shit."

The company has a sense of irreverence, but we've always been fiscally responsible. Being privately held has been such an incredible edge. Donna and I own 100 percent of the company. We don't have some analyst looking over our shoulder. If we did, I'd be fired, for sure. Gone. And I shouldn't be gone. I should be right where I am.

JESSICA HONEGGER/NOONDAY COLLECTION

HOW MY ADOPTED SON GAVE ME MY COMPANY

Jessica Honegger had been trying to adopt a Rwandan child. But when the Great Recession hit, she and her husband suddenly found they couldn't afford the fees. An idea to raise funds turned into Noonday Collection, a 2015 Inc. 500 winner that designs jewelry crafted by artisans in Asia, Africa, and South America and sells it at trunk shows throughout the U.S. —AS TOLD TO CAMERON ALBERT-DEITCH

I met my husband while working for an NGO and training to live in Guatemala. We came back to Texas, got married, had two kids, and then we took a trip to Africa. There, I held a newly orphaned baby whose parents had died of AIDS. "The most basic human right is being able to have a parent," I thought.

We started the adoption process. We paid some of the initial fees. We'd been flipping houses. Then the market crashed in 2008 and nobody was buying homes. International adoption costs $25,000. We had it. We totally had it. But eventually, we were living off that money. I thought, "I need to do something."

Some friends had moved to Uganda to help the people there with entrepreneurship. They'd asked this talented young couple to make some jewelry. But they hadn't thought about how to sell it, so it sat in storage. "Why don't you open your home and sell this stuff?" my friends asked me. "You can use the money for your adoption."

So one night, at home, I sold those goods, along with my clothes, my grandmother's dishes—anything salable. Around 60 women showed up. They loved the African jewelry. They were emailing me: "Can you get more of those necklaces?"

We made about $4,000 that night. If I could do more at other women's homes, I'd be well on my way to $25,000. I began a relationship with the artisans, and was able to get product from them really quickly. Then, I began to ask other women to open up their homes. For the next several months, I drove all over Texas. I slept on couches. If you wanted to open your home, I'd be there.

We made the money we needed. And I realized: This started as a fundraiser, but this was now a business.

In 2011, we traveled to Rwanda to meet our new 2-year-old son, Jack. The dirt road leading to the orphanage's big, blue metal gate was filled with potholes—our car barely made it. A nun greeted us. Then, we saw him. Another nun was holding his hand, walking up a long stairway to meet us.

I'm crying just thinking about it. You hope, and you're so determined, and the adoption process is insane. It was a long, hard year of not being sure. But he's our little miracle. Definitely a world-changer. If it weren't for him, I wouldn't be running Noonday Collection.

CARYN NOEL

HOW I DECIDED TO TAKE ON THE U.S. BAIL SYSTEM

Many of the two million prisoners in the U.S. are nonviolent offenders awaiting trial. Oakland, California–based Promise has an audacious solution: Work with cities and counties to release them, and provide an app and support system to keep them current with court appointments and hearings. Promise is operating in Alameda County; co-founder and CEO Phaedra Ellis-Lamkins expects launches in several more counties this year.
—AS TOLD TO CHRISTINE LAGORIO-CHAFKIN

I came out of a community that didn't have many resources. There were violent households. Families doomed by drugs. My life was fortunate. I did labor organizing for South Bay Labor Council. I advised Prince on digital-rights management. I ran revenue at Honor, a home health care startup.

Then a friend called and said there were bounty hunters at her door. Someone she loved had missed a hearing, and there was a warrant out for his arrest. He was so scared. He just wanted to keep working, to support his family. He had no money for a lawyer or bail.

We called the public defender and had it fixed in five minutes. But many people don't have the resources to work the system. The reality is that it's broken. People of color are being arrested for sleeping. For walking. For shopping.

Seventy percent of people held in county jails have not been convicted of a crime. They can't afford bail and are just waiting for a trial. It leads to prison overcrowding.

A New Way Forward
"The current system of bail punishes those who can least afford it," says Phaedra Ellis-Lamkins. "It creates chaos from which no one benefits." Her startup aspires to change that.

 PHOTOGRAPH BY KAYLA REEFER

The longer you're in, the likelier you are to lose your job, be separated from your family, and end up back in jail. My co-founder and I realized we needed a technology that gets people to court, so they won't be jailed for missing a date. We also want the private bail industry to die.

People in Silicon Valley thought we were insane. Investors are afraid of working with government. Also, I think it terrified them to think people who have been arrested would be our users.

We decided to join Y Combinator. I drove up in my minivan with my co-founder, Diana Frappier, a lawyer with 20 years of experience. I'm a black woman, she's a white woman. We were visually and culturally so different. I thought: "Oh, we just changed the dynamic here." This was the youngest, whitest place I'd been in for a long time. Tech investors are so into pattern matching. But the support and credibility that comes out of Y Combinator is incredible.

As someone who'd spent most of her life outside of tech, I was so stressed about raising money. A friend pointed me to one VC. That VC just hit reply-all: "Not interested." It was so rude it was comical. But I'd run revenue at Honor, and that gave us credibility. We raised over $3 million from Roc Nation and First Round Capital before graduating Y Combinator.

I know technology can create better models for government. The purpose of technology is innovation—it's supposed to be a transformative tool, not just a tool to feed you ads or surveil you and arrest you. But if we don't use it to change the human condition, it will never be a positive force.

A PROMISE TO HELP

Promise's clients are city and county governments, which agree to release certain nonviolent individuals from their bail obligations and their jail cells. Promise conducts a risk-assessment on candidates and, after they go home, a personalized app issues them tailored alerts—for example, to remind them of court dates or to comply with court orders, such as addiction treatment. Promise's Care Team checks in with them, and helps make sure each step along the way to legal compliance is met—which could include arranging transportation to, or child care during, a court appearance. Local officials are also provided tools to view participants' progress and their compliance with court orders.

BENJAMIN LOWY/GETTY

PHILIP KRIM/CASPER

HOW I TOOK MY COMPANY OFFLINE

Philip Krim is co-founder and CEO of Casper, which sold $300 million worth of sleep paraphernalia last year, and faces about 100 online mattress competitors. Now it's opening real-world stores. —AS TOLD TO MARIA ASPAN

We designed and engineered our product to sleep well—that's it. We didn't design it to sell well on the floor, or to feel good when you sit on it.

But people would knock on our office door and ask to try the mattress. So we designed a "nap mobile" that drove across North America. We did some pop-ups. A series of experiments led to "Let's give stores a try." Last year, we launched a store in San Francisco, some pop-ups in November, and more in December. All are doing way beyond expectations. We now have enough data to believe that we can have a really large brick-and-mortar experience.

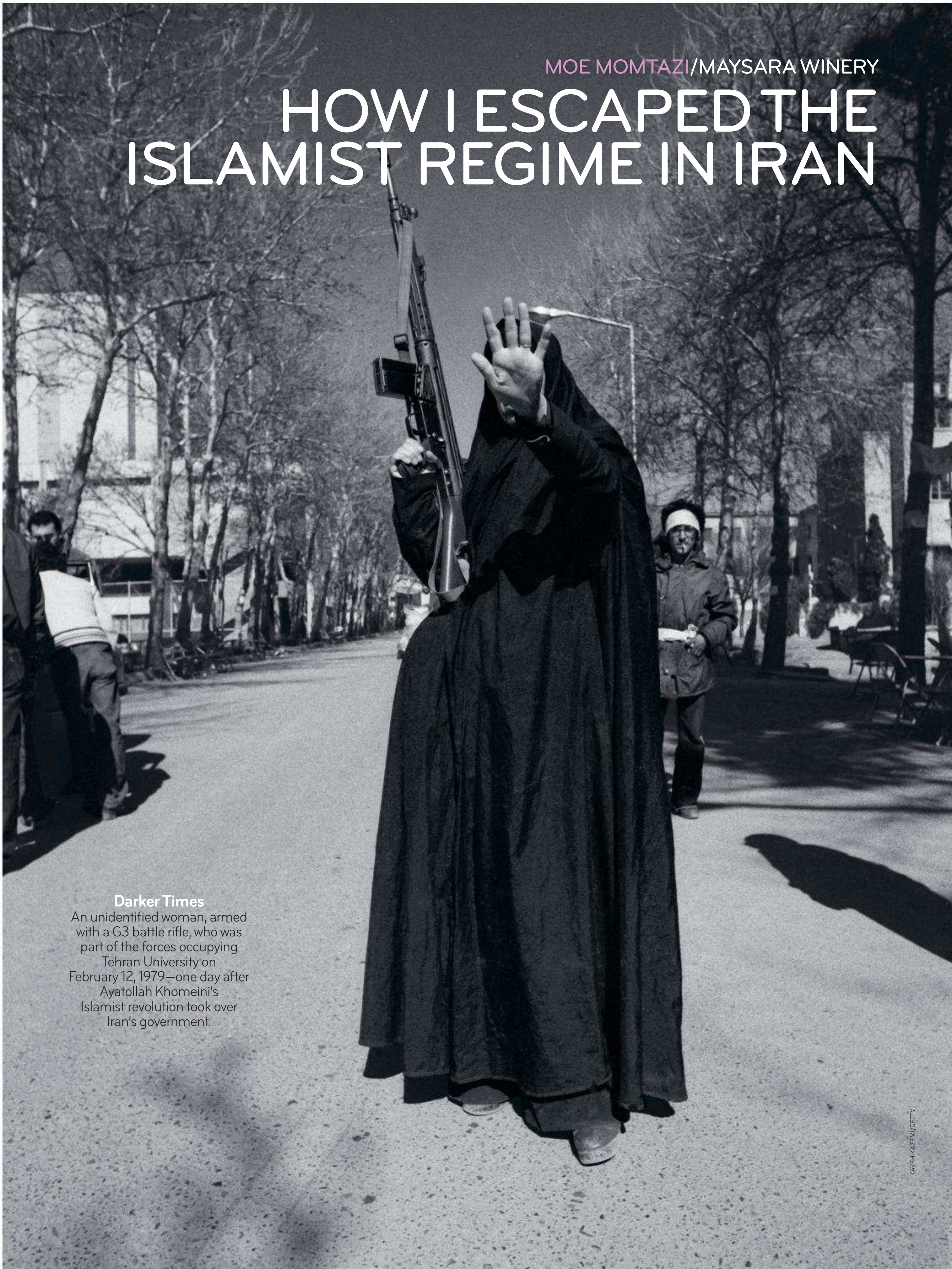
We thought people would just lie on the bed and then we'd deliver it. But customers would say, "I'd like to take the bed," and we'd be like, "Uh-oh, we don't have inventory." That forced us to rethink how we build stores—because now we have to keep inventory. Another thing we didn't account for: So many folks were coming that there was a wait to try mattresses in some stores.

So at our first NYC store, which opened this spring, if the trial beds are occupied, you can touch the fiber that goes into the pillow. There's a wind simulation, where you can touch the sheet to see how air circulates through it. Videos show how products are created. Other experiences, like food and drink, could create the right atmosphere for folks to hang out.

We have 19 locations. In New York, there's a Mattress Firm across the street from one store. I love when people walk into our store and then walk into Mattress Firm. I worry about a lot of things. But confusion between the two is not something I worry about.

MOE MOMTAZI/MAYSARA WINERY

HOW I ESCAPED THE ISLAMIST REGIME IN IRAN



Darker Times
An unidentified woman, armed with a G3 battle rifle, who was part of the forces occupying Tehran University on February 12, 1979—one day after Ayatollah Khomeini's Islamist revolution took over Iran's government.

KAVEH KAZEMI/GETTY

...AND STARTED A WINERY IN AMERICA

Into the Light
The acclaimed Momtazi Vineyard, in McMinnville, Oregon. In 1997, Moe Momtazi, an Iranian refugee who'd arrived in the U.S. seeking asylum 14 years earlier, purchased 496 acres of an abandoned wheat farm and planted these vines.

COURTESY COMPANY

Moe Momtazi's Maysara Winery and his Momtazi Vineyard now sprawl across 532 acres of rolling Oregon hills. His pinot noirs get great reviews, and his grapes are coveted by the region's top winemakers. It all started with some inspiration from his ancestors—and fleeing Islamist Iran.

—AS TOLD TO JANE PORTER

At Home

Moe Momtazi in the cellar at Maysara Winery, with (from left) his daughters, Naseem, Hanna, and Tahmiene (the winemaker), a bottle of his Asha pinot noir, and his wife, Flora.

From when I was very young, I remember watching my father make wine in our basement. He used earthen vessels to store the wine. There was a clay paste that he would cover the top with and leave it to sit. Then he would get all the stems and berries out and press everything. What intrigues me is the care that went into it. In Persian and Zoroastrian culture, wine is considered a very sacred thing.

I was born and raised in Tehran. My parents would send me up north to the Caspian Sea to spend the summer with my grandparents. My grandfather taught me about holistic farming—he had a tea plantation and a rice plantation and grew mulberry trees for silkworms—and that our life really depends on what we consume.

I was fascinated with farming. But if you start with farming, you'll never make it. I wanted to get an education so I could buy land. In 1971, I came to the U.S. to study engineering at the University of Texas. After I graduated, I went back home. I worked as a project engineer, and then opened my own engineering company.

Then the revolution happened. Whenever Flora—my wife—would refuse to cover her face or to follow the Islamic dress code, we would get stopped and harassed by government thugs. When she was 24 and I was 30, she became pregnant. And we didn't want to raise our family there.

We escaped Iran in 1982, when my wife was eight months pregnant. We left through the mountains on motorcycles. It was really scary—and extremely difficult, because Flora was so pregnant. People were chasing us. The sun was very strong in the mountains, and she got big, painful blisters under her eyes. We got caught on the border by Pakistani officers, who threatened to turn us in. Those things never really disappear from your mind.

We went from Pakistan to Spain to Italy, back to Spain, to Mexico, and finally to Texas, in 1983, where we asked for political asylum. I found an engineering job. Then I started my own firm and sold it and we moved to Oregon in 1990, where I started a new company. Seven years later, we bought almost 500 acres.

In our philosophy of farming—biodynamic—you have to have a complete ecosystem. On our farm, we have plenty of forests, pastures, and reservoirs so that it doesn't have to rely on anything coming from outside. We have animals whose manure we collect. We make our own compost. We grow lots of medicinal herbs and plants. We had our three daughters work in the vineyard pruning, mowing—doing a lot of manual labor to teach them a work ethic. My oldest daughter went to Oregon State and studied food science and fermentation. After she graduated in 2006, she became our winemaker. My other daughters work for the winery in sales and marketing.

Early on, we decided selling grapes to the competition would help us cover expenses. Wine takes time: Our first planting was in '98 and our first wine was made in 2001. The first few years, we sold a lot of fruit to other wineries. Now, vineyards that use our grapes have a Momtazi Vineyard–designated stamp on their wine. Last year, we produced 500 tons of fruit. We used half for our own wine and sold half. In the beginning, I put up a small winery. Now it's more than 42,000 square feet. We make 12,000 to 18,000 cases of wine a year.

After the Islamists came to power, a lot of things were taken away from Persians. When the Islamists came, they said you can drink wine only in paradise. But wine stayed in our blood. In the old country, we don't have a word for winemaker. We believe the wine makes itself.

IN THE FIELD

Moe Momtazi didn't dream of ordinary farming. He dreamed of farming biodynamically, a laborious, chemical-free process that calls for the use of preparations made from herbs and manure. "I started by looking into the herbs and flowers our grandparents used to make tea," he says. "Our ancestors knew a lot more about agriculture. Big chemical companies have put it into peoples' minds that you can't do holistic farming. I decided to prove there are alternatives." Momtazi's winery grossed more than $2 million last year.

THINK YOU'RE TOO SMALL FOR CRM? THINK AGAIN

Customer relationship management solutions are essential for—and accessible to—growth-oriented small and midsize businesses.

Many small and midsize business (SMB) owners struggle to make the most efficient use of their time and focus on activities that return the highest value to their companies. A recent Salesforce survey found that two-thirds of small business leaders are personally responsible for three or more areas of their businesses, ranging from sales to finance to customer support. At the same time, they spend 23 percent of their workdays on manual data input—more than a full day every week! It's a recipe for disaster that a customer relationship management (CRM) system can easily help avert.

Ironically, awareness levels around CRM's benefits are high among small business owners, but adoption rates remain low. "One reason is that some SMB owners find the prospect of implementing CRM intimidating," says Karrie Sullivan, a principal in Culminate Strategy Group. "They often lack access to technology expertise and resources."

In fact, the Salesforce study found most SMBs don't have even a single information technology (IT) specialist on staff. "So while most small business leaders understand that technology can make their lives easier, they simply don't have time to vet and implement technology projects," says Marie Rosecrans, Senior Vice President of SMB Marketing at Salesforce. "But there's a huge opportunity for them to use the right CRM technology to focus on three critical processes: finding customers, selling to them effectively, and keeping them for the long term."

ENHANCED CUSTOMER VIEW CREATES OPPORTUNITIES

Those three points are at the heart of sustainability—and growth—for any business. To focus on them effectively, SMBs must be able to consolidate all their customer information in a single place. "Bringing your data together lets you understand your customers better, so you can develop closer relationships with them and turn them into loyalists and advocates for the long term," Rosecrans says. "It also provides the kind of reporting you need to take your business to the next level."

An estimated 40 percent of small businesses still use informal methods like spreadsheets, email, and even sticky notes to store customer data. Because such methods are disparate and lack connectivity, SMBs using them are not able to provide a rich, consistent customer experience. They end up paying a steep price in lost productivity and missed opportunities. Many recognize that technology can help solve those problems, but they're concerned about cost and the ease of setup, use, and maintenance.

Salesforce recently launched a small business offering designed to address all those issues. "Salesforce Essentials is geared to CRM first-timers and focused on bringing all their customer data into one place, making sales and service processes vastly more efficient," Rosecrans says. "Setup and onboarding are super simple, and we're providing a fun, interactive training experience through Trailhead, our online learning environment, which is free to everyone. Salesforce Essentials is built on the same underlying platform as that used by Amazon and Coca-Cola, both of which are Salesforce customers, so you can be assured that you can grow without worries."

With affordable, easy-to-use CRM systems that are easy to learn and implement, SMBs have a ready solution to take back their time while improving customer experiences.

Find the Perfect (Tax) Partner

Do you love your accountant? These five questions can help you meet your match.

Troy Hazard, a serial entrepreneur and consultant based in Fort Lauderdale, Florida, figured he needed a new accountant when he realized the advice was flowing the wrong way. "Come tax time, I'd say, 'We haven't talked about this sort of planning or that way to structure a family trust,' says Hazard, who's started and invested in businesses in real estate, marketing, and technology. "I'd hear, 'That's a good idea, Troy.' And then I'd think, 'I'm not supposed to have the good ideas.'"

Funny, but true. A good accountant is vital to the success of almost all businesses, advising on everything from tax strategies to cash-flow issues. Hire the wrong one, and you'll be in deep trouble. "If your accountant isn't on the ball, you don't know how to steer your company," says Jennifer Myers, a financial adviser and the president of SageVest Wealth Management in McLean, Virginia.

Almost half of all small businesses have changed accountants at least once over the course of their existence, according to a 2014 survey by Accountex. The most common reason for making a switch: the need for more proactive advice. So what questions should you ask to know if your business is in the right hands—or if it's time to make a change?

DOES THE SHOE FIT? Many accounting firms—especially smaller shops—specialize in particular industries, or in companies of a certain size. So the accountant who handled your individual return might not be the best one to do your corporate taxes; the person who advised your startup in its early days might not be able to keep up if you hit a hot streak.

"Ask what size businesses your accountant works with, the range and the average," advises Myers. "It's critical to know if your accountant has the experience to grow with the business—or if you're too small a potato to get attention."

IS IT A FOREIGN AFFAIR? If you do business internationally, you'll need an accounting firm with global expertise. When Hazard moved from his native Australia to the United States, he hired an accountant back home who claimed to be an expert in international business. Hazard soon learned otherwise—a mistake that helped cost him an estimated $60,000. "I need someone with clarity on international tax codes, how to deal with multiple countries, and how to manage the relationship between the IRS and the Australian Taxation Office," he says.

DOES HE OR SHE WATCH THE NEWS? Keeping up with regulatory changes—and the most sweeping tax overhaul since 1986—is a big task for small-business owners, and one that you'll need expert help with. Deborah Sweeney, the CEO and owner of MyCorporation.com, an online legal filing and incorporation service based in Calabasas, California, says that after the recent tax law passed, her accountant raised the topic at their quarterly meeting. "We had a lot of discussions about how we adjusted," she says. If your accountant hasn't raised this issue with you yet, you might want to think about a change.

HOW ARE THIS PERSON'S REFERENCES? Lynn Gastineau, the founder of Gastineau Log Homes in New Bloomfield, Missouri, says a former in-house accountant made such a mess of her books that another employee easily embezzled funds. She now hires only those accountants who have been vetted by other business owners. "Hiring someone you trust will make it easier for you to start delegating faster," she says.

If you are using a certified public accountant—the highest designation—check on him or her with the national and local chapters of the American Institute of Certified Public Accountants, and look for any disciplinary actions taken by your state's board of accountancy.

IS HE OR SHE A GOOD TALKER? Accountants should respond promptly when you reach out, and treat even basic questions with respect. If you're walking on eggshells around yours, that's a sign you aren't a good match. Finally, there are no excuses and no second chances for an accountant's missing a deadline or making other filing mistakes. After all, the IRS won't give you one.

Helaine Olen (**@helaineolen**) is a veteran personal finance journalist, the author of *Pound Foolish: Exposing the Dark Side of the Personal Finance Industry*, and the co-author of *The Index Card: Why Personal Finance Doesn't Have to Be Complicated.*

SHAYAN ASGHARNIA

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HOW DO YOU ELICIT FEEDBACK FROM YOUR TEAM ABOUT YOUR PERFORMANCE?

Advice from the founders of America's fastest-growing companies. ▸ *AS TOLD TO KATE ROCKWOOD*

"As part of the weekly or monthly check-ins I have with the leadership team, I ask if they have any feedback about what I'm doing. It's scary to ask how you're doing—and sometimes challenging to hear—but so helpful. For example, one of our new board members recently gave me feedback on how to make better use of my time with the board, and our latest meeting was the best ever."

—
ROSS GORDON
Founder and CEO, Mystery Tackle Box (consumer products & services)
2017 RANK **NO. 435**
GROWTH **1,013%**
REVENUE **$9.7M**

"Asking your team how you're doing can show a lack of self-confidence. Team members value a leader's ability to pick up on body language. Even with a 300-member operation, I've found there are ways to work closely enough with team members that there's no need to ask for feedback."

—
LIOR RACHMANY
Founder and CEO, Dumbo Moving + Storage (logistics & transportation)
2017 RANK **NO. 3,261**
GROWTH **98%**
REVENUE **$14.2M**

Rankings and data are taken from the 2017 Inc. 5000: Growth is calculated from 2013 to 2016; revenue is from 2016.

"I approach people when something seems amiss. Employees respect someone who wants honesty. I often speak to people in their offices—it helps them feel more comfortable. We also have an SVP of people, who can report on things weekly."

—
RICHARD WEISSMAN
Co-founder, chairman, and CEO, the Learning Experience (education)
2017 RANK **NO. 3,972**
GROWTH **72%**
REVENUE **$56.5M**

"We ask new employees for honest feedback about the onboarding program. I gather intel from anonymous surveys twice a year and monthly open-forum meetings with specific teams. And I'm looking to start 'lunchtime chats' with small groups."

—
CHRISTINA URQUHART
Founder and CEO, Charm City Concierge (real estate)
2017 RANK **NO. 4,792**
GROWTH **46%**
REVENUE **$9M**

"We use SurveyMonkey about four times a year to take a pulse check on the culture and the performance of management. Also, as painful as they may be to read, the posts on Glassdoor are incredibly useful. The best performance review I get as the CEO is from our Glassdoor page. There's even a CEO rating, which I pay close attention to."

—
JENNIFER PROSEK *Founder and CEO, Prosek Partners (advertising & marketing)*
2017 RANK **NO. 3,708** GROWTH **81%** REVENUE **$31.5M**

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Annotated

Cancer Hunter

Endoscopies rely on a physician's steady hands operating a long camera as it's manually fed into, and manipulated within, a patient's body. Co-founder Fred Moll and his team at Redwood City, California–based Auris Health spent six years building the Monarch Platform, a robotic system that helps doctors navigate the twists and turns in your lungs. In March, Auris won FDA clearance to use it to screen for lung cancer, which kills 1.7 million people worldwide each year. This medical detective can scope out other organs as well. —KEVIN J. RYAN

Space Invader
Monarch's edge over humans is precision. "To position anything in 3-D space, you need six degrees of freedom: x, y, z, roll, pitch, and yaw," says David Noonan, Auris's director of systems, algorithms, and robotics. "If you add a seventh, as we did, your robot becomes redundant, meaning you can reach any given position in six degrees of freedom—and from multiple locations."

$500 MILLION
AMOUNT OF FUNDING AURIS HAS RECEIVED SINCE ITS 2009 FOUNDING

The Procedure
The bendable bronchoscope, which contains a tiny camera, navigates the small tubes in a patient's lungs. When it arrives at the desired location, a needle extracts a tissue sample. Auris sees lung cancer as the beginning, since the bronchoscope can be swapped out for other cameras used to look for a variety of ailments. The startup has already performed test runs of gastrology and urology exams.

Cutting Edge

The other robotics business Moll co-founded, Intuitive Surgical, with a market value of $50 billion, makes the da Vinci system, the world's best-selling surgical robot. It assists doctors with surgeries made through tiny incisions.

$500K

PROJECTED PRICE OF A MONARCH PLATFORM SYSTEM

That may sound expensive, but it's less than the $1.5 million average price tag of the current generation of surgical robots.

18%

FIVE-YEAR SURVIVAL RATE FOR THOSE WITH LUNG CANCER, ACCORDING TO THE NATIONAL CANCER INSTITUTE

Room Service

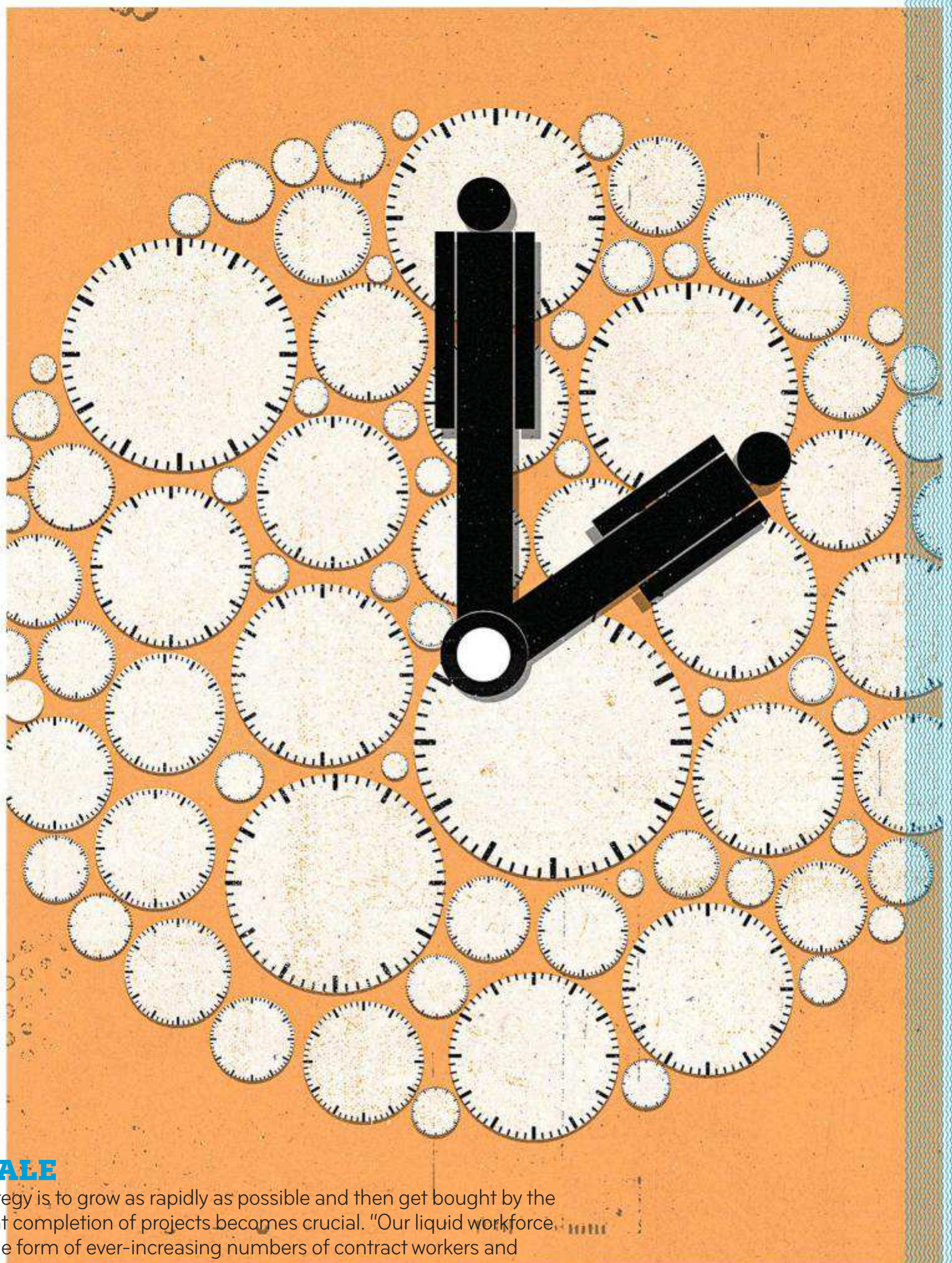
A touchscreen guides the nursing staff through the setup while, on a separate screen, the physician looks inside the patient's lungs and at a 3-D map that logs the instrument's location. The system's arms fold into its base, and the contraption can be easily wheeled from room to room within a hospital. Moll believes better screening can improve survival rates, but the company hopes that eventually the Monarch will be used not just for diagnosis but for treatment as well. Ultimately, the entire procedure could be automated.

Dr. Xbox

The physician directs the procedure with a remote that looks a lot like an Xbox controller. Auris went through more than 20 iterations, most of them much more complex, before deciding on the video-game-inspired design. The remote contains accelerometers that automatically halt the procedure if it's dropped. And, yes, there's a pause button.

THE PART-TIME SOLUTION

They're too often treated as stop gaps. But permanent part-timers can become a critical component in growing your company cost effectively. By Coeli Carr



Until last summer, the only employee of personal injury lawyer Christopher Earley was a permanent part-time paralegal who worked 25 hours a week. When Earley decided to recruit an attorney who could work 20 hours a week, one candidate stood out. But there was a snag. Because of her extensive experience, that attorney wanted a higher salary than Earley had initially offered. He eventually agreed to give her a percentage of the contingency fees—an idea suggested by the applicant.

"Finding people who are not in it just to expand their résumés can be challenging, so if you find a good candidate, you and the interviewee need to think outside the box," he says. Sharing fees works well for both Earley and his new hire. Earley adds, "You can nuance a part-time position by offering, say, perks or an opportunity to work remotely to mutually benefit both parties." Part time can mean fully engaged, if you do it right.

1

SCALE AND SALE

If your company's strategy is to grow as rapidly as possible and then get bought by the highest bidder, efficient completion of projects becomes crucial. "Our liquid workforce and gig economy, in the form of ever-increasing numbers of contract workers and freelancers, make it easier for startups to scale, all the while keeping the company lean and relatively free of payrollees," says Louis Hyman, associate professor of economic history at Cornell University and author of *Temp: How American Work, American Business, and the American Dream Became Temporary*. "This type of fluidity—achieved by not hiring permanent part-time or even full-time employees—valorizes the founder as a 'company of one,' something funders find attractive." Entrepreneurs who are in it for

the long haul, however, may prefer to rely on a core group of team members, not all of whom are full time, to provide continuity and stability. Although "permanent part-time employees"—people who are on the company payroll and work a set number of hours—may sound like a throwback to an earlier era, it's an appealing option for many.

2

KEEPING IT LEGAL

Employers often hire permanent part-timers to avoid including them in company-paid health insurance plans, thereby making them an attractive proposition for budget-constrained firms. "However, many employers don't realize hiring permanent part-timers does come with the same legal requirements as permanent full-time employees," says Matthew Struck, a founding partner at Treadstone Risk Management, in Morristown, New Jersey. Keep in mind that anyone who works an average of 30 hours a week or 130 hours a month is deemed full time by the IRS. Most states, he explains, mandate that all permanent part-timers be covered by workers' compensation—part of your property and casualty insurance. "Not disclosing part-time workers at the time you purchase this insurance may constitute insurance fraud and, in certain cases, may lead to fines, penalties, and even criminal charges," says Struck.

Confidentiality issues may also pose a concern. Permanent part-timers with highly specialized expertise, say, in finance or business law, are privy to significant amounts of confidential information about your company, which they may intentionally or inadvertently disclose to competitors, cautions Ken Taber, an employment attorney at Pillsbury Winthrop Shaw Pittman in New York City. To prevent any diversion of business by such part-timers, Taber advises having them sign an agreement that, if violated, may result in legal action by the entrepreneur. "Business owners can readily secure such nondisclosure-agreement templates from their legal advisers," he says.

3

YOUR HIDDEN ASSETS

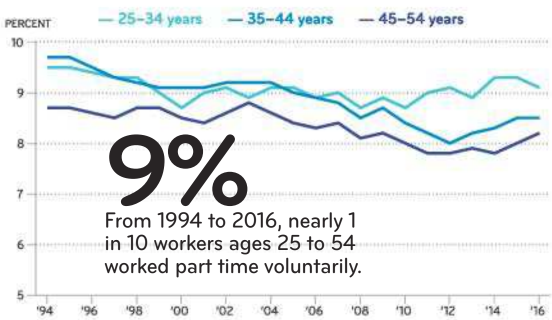
One of the biggest mistakes companies make is viewing permanent part-timers as placeholders until full-timers come on board. DeeAnn Sims, owner and creative director of SPBX, a branding and public relations company in Los Angeles that focuses on nonprofits and social enterprises, has a staff of three part-timers, each working three days a week. She regularly rewards their special contributions with a gift certificate, or contributes to an in-house personal education fund they can use for professional-development seminars. "These perks add value and help part-timers feel invested in your company," says Sims, noting that many entrepreneurs incorrectly assume that team-building presupposes having a staff only of full-timers.

"A wise entrepreneur sees the potential and growability of every job function and every hire, including part-time ones," says Carl J. Schramm, innovation and international economics professor at Syracuse University and the author of *Burn the Business Plan: What Great Entrepreneurs Really Do.* Schramm cites an example of a college student whose part-time task is to take items he packs to the post office. Business owners typically err, Schramm notes, by communicating to this type of employee only the nuts-and-bolts nature of the task. However, by letting a new hire know you're open to fresh ideas and initiative, this person might suggest money- and time-saving shipping options, or have you more efficiently schedule his out-of-office activities when the postal lines are shorter.

Schramm advises entrepreneurs to constantly educate their employees and not marginalize those you may feel are expendable: "By putting part-timers into experimental situations that you have little knowledge about, they can educate you in growing your business."

PART TIME, BY CHOICE

The Great Recession turned a lot of people into part-timers—involuntarily. But that tide has turned. Even as labor markets tighten—a trend that should hold for the year—the Bureau of Labor Statistics says the number of people voluntarily seeking part-time work is stable.



Source: U.S. Bureau of Labor Statistics, Current Population Survey.

FINDING THE PART-TIME EDGE

FLEXIBILITY

"Entrepreneurs may feel stigmatized or diminished when financial issues keep them from adding full-time staff, but this blinds them to the advantages of permanent part-timers," says Baba Prasad, president and CEO of Vivékin Group, a management consultancy in Durham, North Carolina, and author of *Nimble: Make Yourself and Your Company Resilient in the Age of Constant Change.* Part-timers help ensure "operational agility," says Prasad, noting that in workplaces where some tasks are interchangeable, two part-timers—instead of one full-timer—can prevent workflow interruption through easy handoffs.

SPECIALIZATION

It's often a challenge finding a full-timer with the diverse expertise that can make your business grow, so it's worth considering hiring several part-timers, each with a highly defined skill set, such as B2B sales or social media savvy, says Prasad. It's not uncommon for owners to water down their initial wish list and then settle for a full-timer with an incomplete mix of qualifications. In contrast, part-time workers—especially retirees—may have spent entire careers in the very specialized areas you need.

AUDITION

Eager part-timers who've proved themselves have saved you a job search. Jeff Rizzo, co-owner and co-founder of the consumer-product review company RizKnows, based in Reno, Nevada, made his second hire a part-timer. When his budget allowed, he was able to offer that person a full-time position. "It was a great trial period for both worker and employer," he says. To date, three of seven on RizKnows's staff have made that transition.

ISTOCK

Road Show

During this post-work ride in April, the staff of Rad Power Bikes zipped around the North Seattle neighborhood of Ballard on their electric bikes. It's a little bit fitness, a little bit team-building, and a little bit proselytizing, as curious pedestrians often ask the group what they're up to. "From a marketing perspective," says co-founder Ty Collins (fifth from left), "it definitely helps to have 25 people all on Rad Power Bikes cruising around town."

Team Players
These road warriors rule Seattle's streets on the electric bikes they build

You don't have to be a superb cyclist to work at Rad Power Bikes, but you do have to enjoy frequent bike rides. The three-year-old startup, which makes electric bicycles, issues one to each employee—and ends many workdays with staff rides through Seattle. Co-founder and CEO Mike Radenbaugh built his first electric bike as a 15-year-old, to commute to high school in rural Northern California. Ten years later, he roped in friends Ty Collins and Marimar White-Espin to start the company, which sold $20 million worth of wheels last year. Now Rad Power's 45 employees escape the office by hitting the road, often ending up at a brewery, or maybe the beach. On weekends, they leave the motors behind and do some old-fashioned mountain biking. "We try to make our rides inclusive in terms of the trails we use and the pace we set," Radenbaugh says. "Everyone wants to mountain bike with the crew. People have converted into total cycle geeks." —KEVIN J. RYAN

Is Breaking the Rules for Rebels or Fools?

In San Francisco, electric scooter firms went rogue at launch. City officials were not amused. Disrupters should know how the game is played before they try to upend it.

This past spring, my hometown of San Francisco was invaded by electric scooters—thousands of them, all on the streets at the same time. It seems that three companies—Spin, LimeBike, and Bird—had simultaneously decided to make the city a test site for their transportation revolution, and didn't wait to ask for permission, according to city officials.

San Francisco is a natural place for such an experiment. The streets are chock-a-block with alternative transport devices, from hoverboards to unicycles, and the techy workforce is eager to play early adopter (see: Uber, Postmates, TaskRabbit). But what pissed people off—especially local politicians—was the upstarts' audacity in dumping their experiment onto the sidewalks. Not only did they sidestep city officials; they apparently didn't care about whether their business plan might encourage people to break any, you know, laws.

Fantasy plays a big part in entrepreneurship. You have to be crazy to start a company, the cliché goes, and there's more than a little truth in that. Delusions of grandeur fuel many a startup slide deck. If entrepreneurs truly knew what they were getting into, fewer would make the leap. Maybe that's what the scooter people thought: The more you know the rules, the more you'll feel compelled to play by them—and that's no way to build a breakout company.

But there's another, more pragmatic school of startups that maintains the opposite: that the companies with the best chances of success have founders who actually know what they're talking about. These entrepreneurs not only have the inside dope on where the true needs and opportunities lie; they also have the networks to turn contacts into contracts.

I've seen both approaches firsthand. Years ago, as a reporter at *The Wall Street Journal*, my beat was the travel industry, and I witnessed this new thing called the internet inspiring a flock of entrepreneurs, some of whom had deep roots in the arcane world of airline-reservation systems, and others who saw an industry destined for disintermediation. The successful ones, it turned out, knew how to make the calls and get the deals done.

More recently, I've gone deep into health care, watching the "make the world a better place" set founder while the more seasoned—and more reasoned—startups manage to line up paying contracts with health insurers and hospital systems. Virta Health, Omada Health, and Pear Therapeutics, among others, all recognized they'd be headed into regulatory waters and built proper expertise into their founding and executive teams. These people know the rules well enough to squeeze through the pain of the startup phase and move quickly to contracts and revenue and profit.

Transportation and health care are both highly regulated industries, in which it seems only prudent to know the rules before you play around them. But that hasn't stopped oodles of startups from jumping in without knowing much only to—at worst—crash and burn, or—at best—quickly realize that they had better hire expertise, fast.

I still believe in the power of blind ambition to shake up the status quo. But whether you're an old-school methodist or a swaggering iconoclast, some awareness of what you do and don't know is probably the most valuable asset you can have. This seems like common sense, but it's more the exception than the rule, as the scooters littering San Francisco prove.

Oh, about those scooters: Officials, having learned their lesson from Uber, quickly cuffed the startups with new rules that limit the number of scooters allowed in the city. Although the three rogues will likely survive, the city offered no guarantees that they'll be licensed to rent out scooters just because they're already there. Being a first offender is not exactly the same thing as being a first mover.

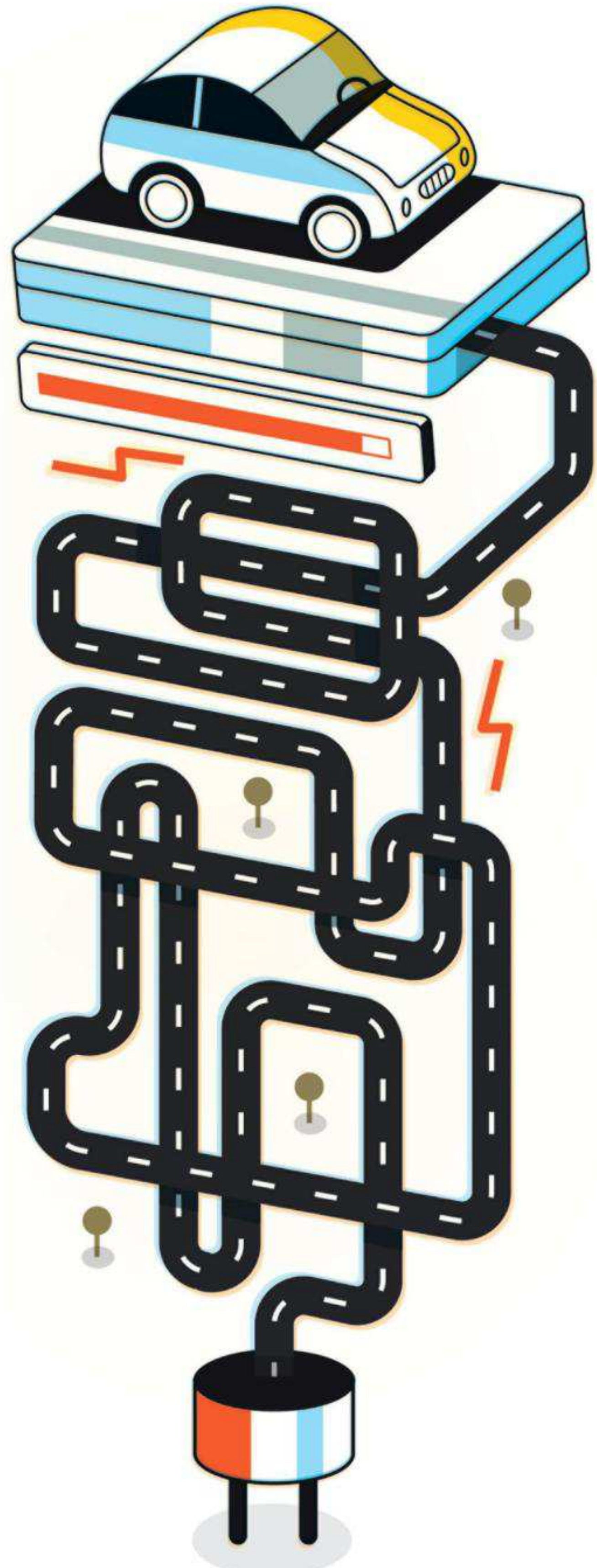
SHAYAN ASGHARNIA

Thomas Goetz (**@tgoetz**) is a co-founder of Iodine, a digital health startup based in San Francisco.

Prototype

Fisker's Solid-State Battery Powers Electric Vehicles—and Drones and Flying Taxis

BY STEVE GOLDBERG



Since Alessandro Volta created the first true battery in 1800, improvements have been relatively incremental. When it comes to phones and especially electric vehicles, lithium-ion batteries have resisted a slew of efforts to increase their power and decrease the time it takes to charge them.

Henrik Fisker, known for his high-end sports-car design, says his Los Angeles–based company, Fisker Inc., is on the verge of a breakthrough solid-state battery that will give EVs like his sleek new EMotion an extended range and a relatively short charging period. "With the size of battery pack we have made room for, we could get as much as a 750-kilometer [466-mile] range," he says. The same battery could reduce charging time to what it currently takes to fill your car with gas.

Traditional lithium-ion batteries, like all others, use a "wet" chemistry—involving liquid or polymer electrolytes—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Prototype

to generate power. But they also generate resistance when working hard, such as when they are charging or quickly discharging, which creates heat. When not controlled, that heat can become destructive, which is one reason that EVs have to charge slowly.

Solid-state batteries, as the name implies, contain no liquid. Because of this, they have very low resistance, so they don't overheat, which is one of the keys to fast recharging, says Fisker. But their limited surface area means they have a low electrode-current density, which limits power. Practically speaking, existing solid-state batteries can't generate enough juice to push a car. Nor do they work well in low temperatures. And they can't be manufactured at scale.

Fisker's head battery scientist, Fabio Albano, solved these problems by essentially turning a one-story solid-state battery into a multistory one. "What our scientists have created is the three-dimensional solid-state battery, which we also call a bolt battery," says Fisker. "They're thicker, and have over 25 times the surface that a thin-film battery has. That has allowed us to create enough power to move a vehicle." The upside of 3-D is that Fisker's solid-state battery can produce 2.5 times the energy density that lithium-ion batteries can, at perhaps a third of the cost.

Fisker was originally aiming at 2023 production, but its scientists are making such rapid advances that the company is now targeting 2020. "We're actually ahead of where we expected to be," Fisker says. "We have built batteries with better results quicker than we thought." The company is setting up a pilot plant near its headquarters.

Solid state, however, isn't problem free. Lower resistance aids in much faster charging, up to a point. "We can create a one-minute charge up to 80 percent," Fisker says. "It all depends on what we decide the specific performance and chemistry of the battery should be." If a one- or two- or five-minute charge gives a driver 250 miles and handles the daily commute, that can solve the range-anxiety issue that has held back EV sales.

Solid-state-battery technology can go well beyond cars. Think about people having a solid-state battery in their garage that could charge from the grid when demand is low, so they don't pay for peak energy, and then transfer that energy to their car battery. It could also act as an emergency generator if their power goes down. "This is nonflammable and very light," says Fisker. "It's more than twice as light as existing lithium-ion batteries. It goes into drones and electric flying taxis." Like many designers, Fisker is a bit of dreamer. But he's also a guy with a track record of putting dreams into motion.

↘ **Door Prize**
The all-electric, all-wheel-drive EMotion accelerates from 0 to 60 mph in less than three seconds and goes more than 400 miles on a single charge.

COURTESY COMPANY

JOY RIDE

Henrik Fisker's car company crashed in the Great Recession, but one of the industry's flashiest designers quickly got in gear again. His latest piece of automotive art: the EMotion.

▶ Henrik Fisker has never created an automobile that didn't evoke a response. He's one of the best-known designers in the industry, with mobile masterpieces such as the Fisker Karma, the Aston Martin DB9, and the BMW Z8. It's only appropriate that his latest vehicle has been christened the EMotion.

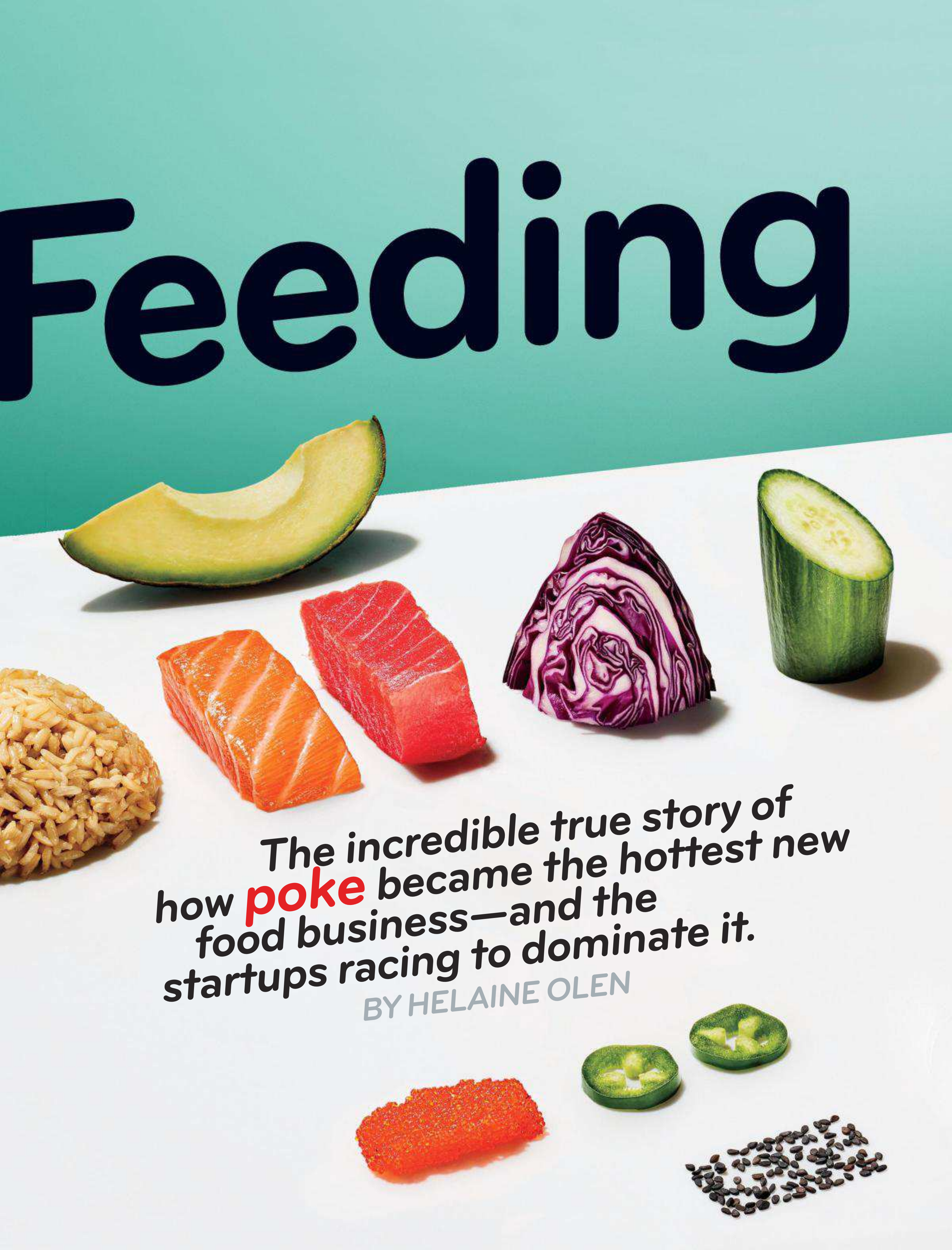
The curvy, carbon fiber and aluminum all-wheel-drive EV, with its too-cool butterfly doors and cat's-eye headlights, debuted at the Consumer Electronics Show in January. It will be the first passenger-vehicle offering of the new Fisker Inc.—the previous Fisker Automotive shuttered in 2013, in the aftermath of the Great Recession. (Reborn as Karma Automotive, that company makes the Revero, based on a Fisker design.)

Fisker ran out of funding but not ideas. He quickly got the new company going and has described the EMotion as having "edgy, dramatic, and emotionally charged design/proportions—complemented with technological innovation that moves us into the future." The car will come equipped with a Level 4 autonomous driving system, meaning it's one step away from being completely autonomous.

You might want to drive this one yourself, though. The EMotion sports a 575-kw/780-hp-equivalent power plant that delivers a 160-mph top speed, and goes from 0 to 60 in three seconds. The sticker price is $129,000; the company is currently taking refundable $2,000 deposits.

Though designed to hold the new solid-state battery, the EMotion that will hit the road in mid-2020 has a proprietary battery module from LG Chem that promises a range of 400 miles—Tesla Model S's is 335. About his comeback car, Fisker says he felt free to be "radically innovative." For a niche carmaker, it could be the only way to remain competitive.

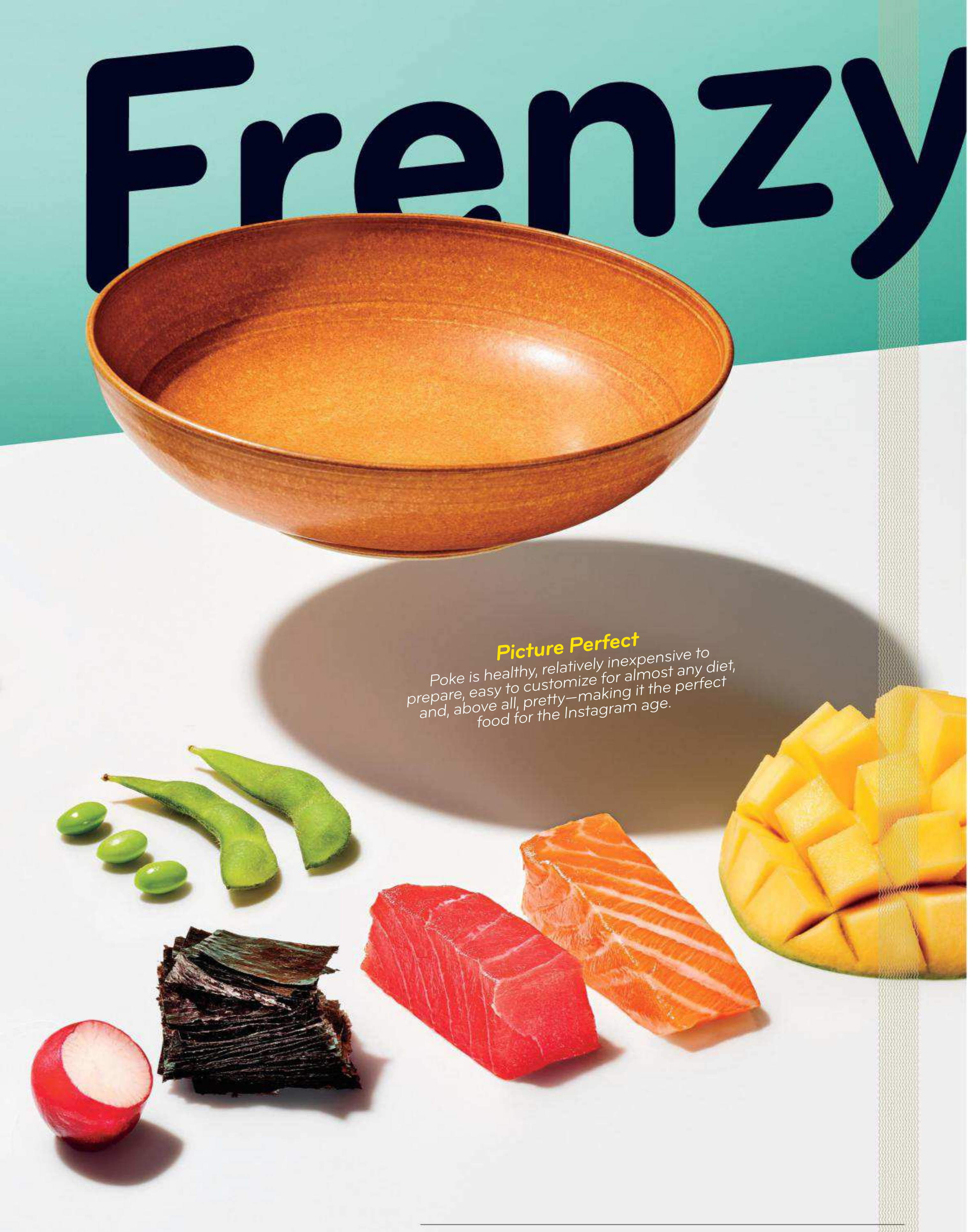
Feeding



The incredible true story of how poke became the hottest new food business—and the startups racing to dominate it.

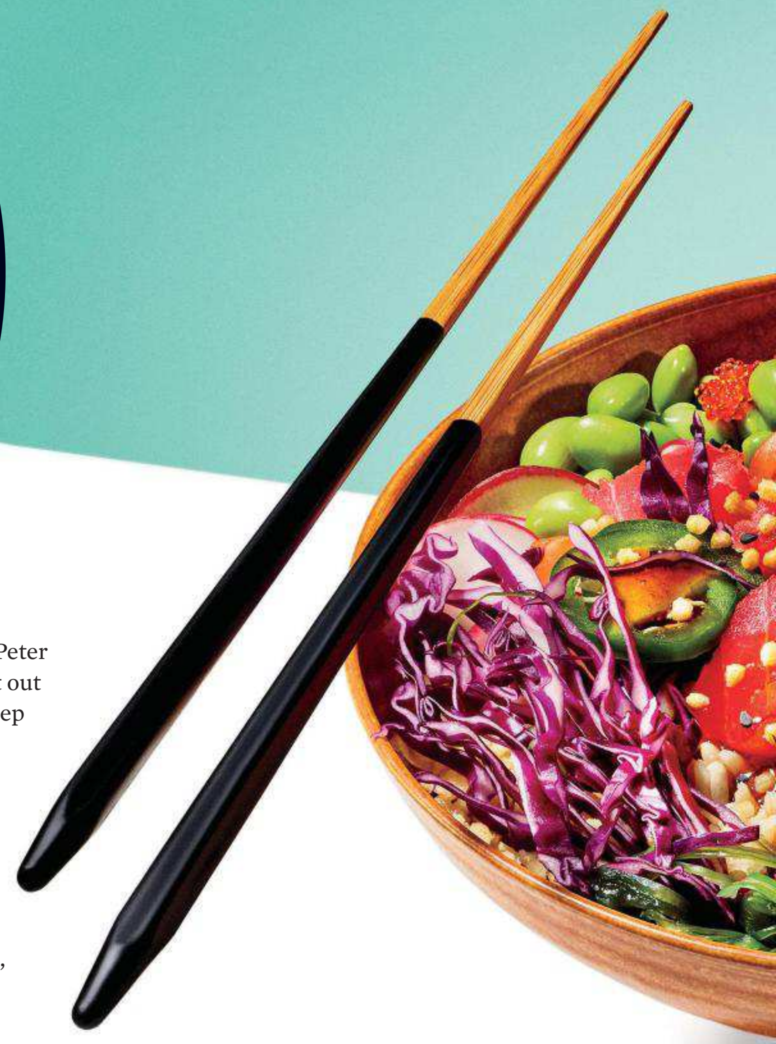
BY HELAINE OLEN

Frenzy



Picture Perfect

Poke is healthy, relatively inexpensive to prepare, easy to customize for almost any diet, and, above all, pretty—making it the perfect food for the Instagram age.



One day back in 2015, Peter Yang invited his brother and two friends over to his garage to test out a business idea under discussion—one involving stainless steel prep tables, innovative sriracha sauces, and lots of raw fish.

"We all felt it was going to be as popular as roll sushi," recalls Yang, who co-owns Pokéworks, one of the fastest-growing poke chains in the country. What he didn't foresee? "The speed of it."

Poke, if you're not a regular at Pokéworks (or rivals Sweetfin or Poke Me or the PokéSpot or Poke Green or Mainland Poke Shop), once referred to a traditional Hawaiian dish involving sushi-grade raw fish, rice, and some sort of marinade. These days, it's a catchall term for the reigning fast-casual food craze, one that's spreading from Southern California across the country.

Take Yang, his brother Mike Wu (the CEO), and their seven co-founders. Just weeks after the opening of the first Pokéworks store in New York City in late 2015, lines were pouring out the door. In January. They now have $12 million in annual revenue from 19 locations, of which seven are franchised. The company plans to open another 20 to 25 franchised outlets in the United States this year.

Pokéworks is far from alone: More than 700 restaurants nationwide tracked by Foursquare and Eater.com served poke in 2016, a 100 percent increase from 2014. ZeroCater, a corporate catering company, says that in 2017 it saw a 78 percent annual increase in poke deliveries for its customers in New York, San Francisco, Los Angeles, Chicago, Austin, and Washington, D.C.

Poke (pronounced POH-kay) seems tailor-made for our moment in time. The fish, combined with a grain or salad base and mostly vegetable toppings, is fresh and healthy, playing to current wellness trends. It's infinitely customizable, so it can be engineered to suit almost any diet: high-protein paleo, gluten-free, or even—if you swap out the fish for tofu—vegan. Colorfully photogenic, poke bowls are Instagram catnip, and easy for office workers to eat in front of their computers.

Most important for entrepreneurs, a poke restaurant is fantastically cheap to open. You don't need a stove—or a six-figure ventilation system or a landlord willing to host such a thing. Starting your own poke business requires little more than a refrigerator for the fish, a rice cooker for the grains, and a few prep tables.

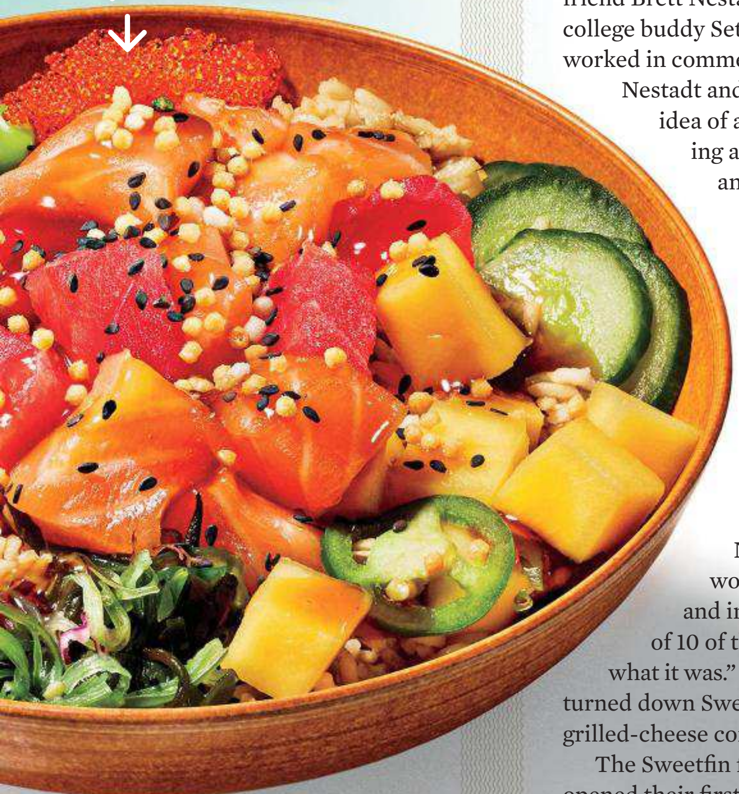
"You can open a poke restaurant in a closet," says Michael Parlapiano, the creative director at the Culinary Edge, a restaurant consultancy based in San Francisco. "There's a low barrier to entry."

Which has led to a glut. In Los Angeles, where *The Hollywood Reporter* discovered a 10-fold increase in poke establishments between 2015 and 2017, a recently opened Sweetfin on West Third Street is two blocks away from Mainland Poke Shop, which the *Los Angeles Times* called "the best poke restaurant if you want to see and be seen." In New York, at least three poke joints are within a 15-minute walk of the *Inc.* offices. But it's not just a coastal-elite thing: Pokéworks also has outposts in Houston and El Paso.

A shakeout seems inevitable. But so far, two market leaders are Pokéworks and Sweetfin, a startup that's taken a very different route to poke success. While Pokéworks is using franchising to grow nationally at a rapid pace, Sweetfin is flush with investor money and tightly controlled by its founders. It stayed in its home region of greater Los Angeles for almost three years before opening in nearby San Diego, which it did in February.

PROP STYLING: EMILY MULLIN. FOOD STYLING: MAGGIE RUGGIERO

Big Fish Story
The numbers behind the poke craze



94 million

Possible combinations in a Sweetfin bowl, based on the chain's 49 offered ingredients. Customers can order "signature bowls," like Gochujang Salmon (with bean sprouts and crispy garlic) and Miso Kanpachi (with shiso and market radish), or make up their own combinations.

$231B

Size of the quick-service and fast-casual restaurant industry in 2017, according to research firm Technomic. Asian food accounted for $4.2 billion, or 10.5 percent of industry sales.

$12 to $14

Typical check size at Pokéworks. For customers, poke can be an affordable lunchtime luxury—generally costing more than a salad or a sandwich, but less than most sushi.

"We don't have to be first to market because of what we've built as a brand and a product," says Alan Nathan, one of Sweetfin's co-founders and a veteran Los Angeles restaurateur. He co-founded the company with family friend Brett Nestadt and Nestadt's college buddy Seth Cohen, who worked in commercial real estate.

Nestadt and Cohen hatched the idea of a poke business during a vacation in Hawaii, and then brought on Nathan. With $450,000, including savings and money raised from family and friends, the group went looking for the right space for a launch. The poke trend was still was so new in 2013, Nestadt recalls, "we would go to landlords and investors, and nine out of 10 of them didn't know what it was." One property owner turned down Sweetfin in favor of a grilled-cheese concept.

The Sweetfin founders finally opened their first restaurant in Santa Monica in April 2015. Their patience paid off. Kate Hudson, Chris Pratt, and Barry Bonds were just some of the celebrities spotted ordering Sweetfin bowls. That store's revenue reached $2 million by the end of the year, a mere eight months after it served its first customer.

Flush with success, Sweetfin raised another $2 million in early 2016; investors include former Shake Shack CEO David Swinghamer. The founders used the money to expand slowly and methodically throughout the Los Angeles area; last year, Sweetfin revenue reached $8 million.

It hasn't been all clear sailing, however. For more than a year and a half, the company has been looking unsuccessfully for the right space in New York City. Yet the founders will not consider franchising, which would allow them to expand more quickly while shifting much of the financial risk onto the franchisees. Instead, Sweetfin prefers to maintain full control over all of its stores and the food served in them. "People really want to look at a brand and identify with quality," Nathan says.

Pokéworks, it must be said, is more suburban strip mall than Hollywood glamour. It's closer to the traditional, Chipotle-esque assembly line than is Sweetfin, which preps its ingredients in a kitchen, assembles them at a counter, and hand-delivers them to customers: "We're chef-driven and kitchen-forward, and we wanted our cashiers to be cashiers and our kitchen team to be a kitchen team," Cohen explains. Pokéworks also sells chicken (cooked sous vide) to those who won't eat raw fish or tofu.

Both founding groups have food-world bona fides, but Pokéworks had to work a little harder for prestigious connections. Sheldon Simeon, a well-respected *Top Chef* contestant, now consults on its menu—after Pokéworks co-founder Billy Chen cold-contacted Simeon on Facebook. "He may or may not get back to me," Chen reasoned, "but it's worth a shot."

The involvement of Simeon, who was born and raised in Hilo on the Big Island and specializes in the local cuisine, also gives Pokéworks a bit of cover from critiques about the modern poke business and its co-opting of food culture (since the closest ties many poke entrepreneurs have to Hawaii are brief vacations there). The founders of Sweetfin, meanwhile, argue that their product is a Cal-Asian fusion. "It's not traditional Hawaiian poke," Nestadt says. "We see our food as something that transcends the label *poke*."

At Pokéworks, all the owners or their parents immigrated from China. Brothers Peter Yang and Mike Wu (Yang is their mother's surname, Wu their father's) came to the United States as children and grew up working at their parents' Chinese restaurant in suburban San Diego. "Our mom would be at the counter, the customer would ask for a fork, and my mom

"You can open a poke restaurant in a closet," says one consultant. "There's a low barrier to entry."

would look at me and ask, 'What did she say?'" Wu recalls. "I was half translator, half food prepper."

Billy Chen and his brother Michael did the same at their immigrant parents' Chinese restaurant. The parents, Billy adds, did not want the sons to continue on with the family trade: "My dad works very, very hard and he wanted us to have a more normal life."

After college, Yang and Wu continued on in the restaurant industry, while Michael Chen went into computer software and later joined Billy Chen as a serial entrepreneur, investing in everything from a tattoo supply company to a chain of vaping bars. Mutual friend Jerry Wang—who also became a co-founder—introduced the two sets of brothers, who began to talk startup ideas. Wu and Michael Chen floated the poke idea over lunch one day, leading to the development session in Yang's garage.

Eventually, through college friendships, family ties, and business dealings, they put together a group of nine co-owners. The group bootstrapped their initial funds, coming up with $1 million from their own savings. Now they're funding their expansion by selling franchise rights to individual operators.

The founders of Pokéworks very deliberately went for first-mover advantage. Their growth strategy is less hothouse-flower than Sweetfin's, more a quick marking of territory. "If we're going to do it, let's do it big" is how Yang recalled their thinking at the time. Six months after the first Pokéworks opened for business in 2015, the company expanded to Irvine and Mountain View, California. Pokéworks is as likely to locate in suburban office parks as city centers, a strategy that nets fewer celebrity visits but assures a population of workers hungry at lunchtime.

Yet all this rapid growth and franchising means compromises. Sweetfin makes all its food on its premises, and sends some from one store to another. Meanwhile, last year Pokéworks began outsourcing its manufacturing of specialty sauces, like sriracha aioli, to a facility in California, which ships them overnight across the country. The decision improved consistency and also saved Pokéworks money on everything from worker hours to bulk purchases. The company also hopes to centralize fish purchases this year.

Group Project
Four of the nine Pokéworks founders at the chain's location in Irvine, California. From left: Kasper Hsu, Peter Yang, Kevin Hsu, and Mike Wu, the CEO. Not pictured: Jerry Wang, Michael Chen, Billy Chen, Wen Wei, and Donald Giang.

Vacation Planning
College buds Seth Cohen (left) and Brett Nestadt hatched their poke business idea while on vacation, and recruited restaurateur Alan Nathan to co-found Sweetfin.

This raises a major issue in the poke world: sustainability. Fish might be healthy for you, but eating it isn't necessarily good for the environment. Tuna and salmon, the most popular cuts in the modern mainland American iteration of poke, are the most vulnerable; since 1950, the amount of larger fish, like tuna, in the world's oceans has declined more than 96 percent. Much of the salmon in the United States isn't wild caught, but farmed, which can result in significant waste and pollution. This leads to less-than-favorable publicity and regular headlines asking if poke-crazed customers, and the entrepreneurs selling to them, are "ruining the environment."

Sweetfin works only with suppliers certified as providing fish either farmed or wild caught in a sustainable way; Pokéworks says its partners also have sustainability or responsible fishing certifications. Both companies are selling alternatives to the usual standbys—Pokéworks has wild bora, and Sweetfin has kanpachi, an amberjack certified by the Monterey Bay Aquarium's Seafood Watch as a "Best Choice."

"There are tons of species out there that taste great but that people don't eat because no one knows about them," Wu says. "To really be sustainable, you really have to be exploring the fish." (So far, customers are not: The vast majority continue to order tuna and salmon.)

Another problem facing the industry is its own sustainability. Like every other food fad, poke first-movers need to brace for an eventual slowdown—and a potential winnowing out among the rival startups. Some experts also question just how far a food based on raw fish can go: "It's very difficult for a new and unusual bicoastal trend to wildly succeed in Middle America," argues Clay Raymer, a national sales manager with food service market researcher Sandelman and Associates.

But the entrepreneurs who have embraced poke aren't too worried about its losing popularity anytime soon. "I don't see this as a trend," Billy Chen argues. "Poke is a product that's going to stick."

HELAINE OLEN *is* Inc.*'s Spread the Wealth columnist.*

COURTESY COMPANIES (2)

Beware the Coming Splinternets

Why the era of one internet for all may be ending.

Right now, most democratic countries see one internet. Not for nothing is it called the World Wide Web, and since its commercialization, its content has been generally accessible to all but those living in authoritarian societies. But a constellation of pending lawsuits and sweeping new international regulations could rewrite the rules of digital business in free societies and dismantle the web in its current form, effectively creating many different "splinternets." Your customers could be treated differently depending on which country they live in—and even from state to state in the U.S.

This didn't happen overnight. When the internet shifted from academia and government to the private sector in the 1990s, we let it propagate freely, instead of treating it like a regulated utility or financial system. Back then, lawmakers didn't think much about how all the data we'd generate on the internet might be used.

Then, early this century, Google started directing people to hyper-relevant webpages; later, Facebook began mining user data to pinpoint ads and paid content to specific accounts. Such uses of data were, and remain, really good for business. A few years ago, a fitness startup began using member data to target new customers and help decide what classes to add. That company—Peloton, which streams cycling classes to connected stationary bicycles—generated $170 million in revenue in 2016. Others, like Fitbit, measure our physical activity; Lyft and Uber track our locations and direct cars our way; businesses from big-box retailers to small shops use customer data to send out mailings, email coupons, and track inventory—the list goes on.

But machine learning algorithms are now really smart, and not all the ways data can be used sit well with consumers. That's why revelations about Cambridge Analytica, which gained access to the data of more than 87 million Facebook users, made such an impact. Political campaigns that used the company's data now allege it wasn't that useful, but it's hard to ignore how easy it was to mine, refine, and package—all without our knowledge.

Meanwhile lawsuits and new regulations are pending worldwide. In Germany, social media sites that don't remove "obviously illegal" posts could be fined up to €50 million per offense. Canada's Supreme Court ruled that Google must scrub search results of pirated products, such as movies. Europe's General Data Protection Regulation, which went into effect on May 25, is a broad set of rules giving European Union citizens more control over their data. Anyone doing business in the E.U. now must comply with the GDPR, which includes proving that users' personal data has been gathered under transparent circumstances and gives them the option to limit its use.

By the time you read this, the Supreme Court may have decided whether online retailers like Wayfair and Overstock are subject to sales tax in every state. This decision could boost businesses in no-sales-tax states like New Hampshire and Montana, which might see customers return for tax savings. But for those doing business in states like California and New York, where the sales tax is high, the opposite could be true.

All this could add up to many different splinternets that look and behave differently from one another according to geography. This might seem appealing to businesses and regulators: Compartmentalization means more ways to control supply and demand, and possibly stifle competitors. But ultimately, splinternets will cause more harm than good. Big tech companies will find it impossible to comply with every legal permutation. Existing filter bubbles will expand to fit geographic borders. All this will continue to unfold slowly. But once it starts, it will be difficult to return to the free-wheeling web of today—where, despite many flaws, every business has a decent shot at success.

Amy Webb (**@amywebb**) is an author and futurist and the founder of the Future Today Institute, a leading forecasting and strategy firm.

SHAYAN ASGHARNIA

The HUNGER

←

FRESH CASH
Dominik Richter (far left) and Thomas Griesel built a $2.3 billion public company funded by hundreds of millions of dollars, but critics say the economics of meal kits aren't sustainable.

GAMES

HelloFresh blew past 100 competitors to become the No. 1 meal-kit company on the planet. The German startup is winning—but at what cost?

BY BURT HELM

Dominik Richter is not a chef, a gourmand, or a food snob. It's a Tuesday in March, and the 32-year-old in a hoodie has chosen to lunch at a kale-and-juice joint that could easily make you think you're in Los Angeles, except it's in Berlin. But rather than opine over the lactose-free yogurt dressing on the Super Green Detox salad, Richter is stabbing his pumpkin seeds and lettuce as if to establish dominance over the leafy prey.

It's tough to discern whether Richter, the co-founder and CEO of HelloFresh—known for delivering the ingredients for Instagram-perfect home-cooked meals like Argentinian-Style Cod With Almond Herb Chimichurri and Chicken Thighs in Kimchi Sauce With Asian Pear Slaw, and now the No. 1 meal-kit company on the planet—actually derives any gustatory pleasure from food. "We're in the business of creating meal solutions for different meal occasions," he explains, perhaps thinking I'd never before heard of the concept called dinner.

Richter doesn't seem to much care for the social aspect of food, either. He's not a fan of work coffees or breakfast meetings or this lunch, for instance. He prefers to put his head down and work. "Leading by example," he says with a German-accented lilt, explaining how he's managed to become the king of a brutally competitive industry that at its peak had more than 100 contenders. "Being the one that is very structured, very motivated, very hands-on, doing everything that needs to get done."

It was likely all these qualities that originally caught the attention of Oliver Samwer back in 2011. The German internet mogul was always prowling for future CEOs. He had a type—MBAs from elite European business schools who had done a few years at investment banks or consulting firms, often with a serious athletic streak—and collected them. Richter checked all three boxes: business school at the prestigious London School of Economics and WHU-Otto Beisheim School of Management in Vallendar, Germany (Samwer's alma mater); a year at Goldman Sachs; a stint as a semiprofessional soccer player in Austria. As one of Samwer's former executives puts it: "You could have chosen a hundred other guys—same look, same profile."

Around the time Samwer decided to activate Richter on his latest venture—then under the name Jade 1314—the almost-billionaire was feeling restless. During the prior four years, he and his brothers had amassed a fortune by copycatting overseas startups, building and selling European versions of eBay, YouTube, Groupon, Facebook, and more. Rocket Internet, their four-year-old flagship company, was a veritable clone incubator, having staffed and funded more than two dozen startups. (See "Trials of a Clone Factory," page 83.) Yet even as his net worth swelled, Samwer was no longer content to just plunder market share from the innovators. He wanted to own entire categories.

"The time for blitzkrieg must be chosen wisely," he wrote in an email to managers of Home24, one of his clone companies that sold furniture online. "Each country tells me with blood when it is time. I am ready—anytime!" E-commerce was a winner-take-all game, Samwer believed, and time was running out. Dominant players were the only survivors; losers were forgotten. Rocket entrepreneurs must be willing to "die to win." "If i see that you are wasting my money, that you are not german detail oriented, that you are not fast, that you are not aggressive, that you are not data driven ... then i get angry and do like in russia" (*sic*), he wrote, referencing his decision to strip Home24 managers there of their pay and equity. (After the email went public, Samwer apologized "to anyone who might have been offended" by its language or tone.)

A new category Samwer wanted to test—and dominate—was meal kits. A Swedish startup called Linas Matkasse sold preportioned groceries with corresponding recipe cards that arrived weekly through the mail. In Sweden, the concept had proved extremely popular, and the company was on track to generate $45 million in revenue in its fourth year in business. Once Richter was on board with the Linas Matkasse copycat, he assembled his team, recruiting Thomas Griesel and Jessica Nilsson to be co-founders. It was the trio's job to find out if meal kits would take off in the rest of the world—and, if so, to seize that before anyone else did.

Jade 1314—eventually named HelloFresh—launched from Berlin in October 2011. The meal-kit venture was a small bet for Rocket. But for Richter, it was an opportunity to fulfill a vision of himself he'd nurtured since college: He wanted to be a startup founder. Over the years, he'd made attempts—there was his idea for an Airbnb-type site geared to university students, and the plan for a campus-based food-delivery service. More recently, he and Griesel, also an MBA and a champion miler and steeplechase runner, had been pitching a daily fantasy-sports betting site for professional soccer. But they'd been unable to persuade investors to buy into their dreams.

Now Richter had a backer, and better yet, a potentially massive opportunity. If meal kits turned out to be more than a Scandinavian anomaly, they'd be able to disrupt one of the biggest industries in the world: the grocery supply chain.

Richter and the Swedes weren't alone in this ambition for long. HelloFresh's two most formidable competitors, Blue Apron and Plated, emerged within months of its launch, and soon the industry had grown into a full-blown battle royale. Over the next six years, venture capitalists dumped more than $1 billion into funding over 100 competing startups that offered some variation of the following: For between $60 and $180 a week, consumers could receive at their doorstep a deconstructed meal in a cardboard box—premeasured groceries, step-by-step recipe instructions, and the almost-realized fantasy of a home-cooked meal.

But then, as quickly as the category mushroomed, it began to fall apart. "There aren't a lot of people looking at funding meal-kit companies anymore," says Ellie Wheeler, a partner at Greycroft and an investor in Plated, which sold to Albertsons for an estimated $200 million in September. "It's a tough ride to still be invested in one of those." VCs are now abandoning the category, also-rans are getting snapped up, and Blue Apron, the one-time leader, now limps along, sales declining, its stock down 70 percent from its 2017 initial public offering.

Yet soaring high above this fray, seemingly unscathed, is HelloFresh. The German upstart posted global sales growth of more than 50 percent last year and expects sales to increase another 30 percent in coming months, as it pushes past $1.3 billion in global annual revenue. This year, after lagging far behind Blue Apron in the U.S. for most of its entire history, HelloFresh caught up and overtook it, making it the No. 1 meal-kit company in America as well as the rest of the world. The company went public in November 2017 in Germany, and as of presstime, is worth more than $2.3 billion.

So how has HelloFresh managed to defy the fate of its competitors? Richter explains the startup's strategy as he would one of its recipes: His team finds the target customer, busy families (by examining data); fine-tunes the efficiency of the marketing

Staff used drugs and drank alcohol in the open, according to three employees who witnessed these activities or found empty bottles and drug paraphernalia.

efforts (by collecting lots of data); improves the quality of the recipes (using insights drawn from, yep, more data); expands the range of the offerings to cater to even more customer segments (thanks to even more insights and even more data).

But in reality, HelloFresh's history is far more complicated than his just-add-data-and-stir formula. It involves hundreds of millions of venture capital dollars, aggressive marketing tactics, health department complaints, threats of violence, hard drugs, dumb money, and, at its center, founders who have been so relentlessly focused on growth, they've barely stopped to consider what happens when they actually win.

"Master multitasker? Heat up a second pan in Steps 4 and 5 to cook multiple ingredients at the same time and shave off a few minutes."
—From "Korean Beef Bibimbap With Zucchini, Mushrooms, and Carrots," HelloFresh recipe WK 44 NJ-12

Inside the defunct wholesale bakery in Berlin that now houses HelloFresh's headquarters, the decor is hardly subtle in reminding you that, yes, this is a fresh-food company. Farmers' market–style, green-and-white striped awnings shelter rows of computer monitors. Farmhouse tables are a folksy contrast to the industrial concrete floors, while stacks of empty cardboard HelloFresh boxes—looking like they might at any minute be loaded up with mahi-mahi and shipped off—double as makeshift walls throughout the open office. The co-founders' office is set apart from all this charm. Lofted in the back, inside a sparse, glass-walled conference room, are Richter and Griesel, silently pecking at their laptops, in mission control.

"You'd go up the stairs and there was a glass container, with Dominik and Thomas sitting in there, not talking to their employees, making sure no one is socially interacting with them," recalls Simon Schmincke. In September 2012, the months-old startup was plotting its U.S. takeover. Schmincke—one of Rocket's many entrepreneurs-in-residence, which the company made available for rent to its startups—was hired to become HelloFresh's new U.S. CEO. Before flying stateside, Schmincke had embedded himself at HelloFresh's headquarters to soak up intelligence, but was surprised to discover he'd have little contact with the co-founders. "After two weeks, I'd seen Dominik maybe 30 or 60 minutes total," says Schmincke. "I was like, 'Dude! You're flying me to the U.S. I'm running your company. Should we maybe have coffee?'"

Up until then, Richter and Griesel, the company's COO, were doing what they had been recruited to do: act as "execution machines," as former employees have described them. They had managed to hatch HelloFresh at stunning speed, shipping its first box within three months, and shortly thereafter sending advance teams to Paris, London, Amsterdam, and Sydney to launch, simultaneously. By the summer of 2012, as word got out of the coming launch of Blue Apron and Plated in the U.S., the founders decided they needed to open an office in New York City, too—and sent Schmincke.

Following the Rocket playbook, the advance teams were typically made up of other young generalists, often former bankers and consultants, or Rocket's own entrepreneurs-in-residence. To gin up enthusiastic press, these outposts sometimes cast a photogenic local employee as a co-founder. In the U.K., Patrick Drake, an English friend of Richter's, appeared on a BBC broadcast as HelloFresh's co-founder and "head chef." (Drake had previously been a lawyer at Goldman Sachs and never worked full time in a kitchen or restaurant.) When the service arrived in Pittsburgh, the *Post-Gazette* reported that Marushka Bland, a young mergers and acquisitions lawyer who had gone to culinary school, "helped co-found HelloFresh." In reality, she'd been hired as an intern, although by then she had the title chief brand officer. "They had a pretty relaxed view of what founder meant," says Bland, who left the company in May 2013, after being in that post for three months.

These far-flung teams all ran on tight budgets at breakneck speed. The U.S. team, already months behind the others, scrambled to catch up. Every Tuesday, they woke before dawn to drive a rental car to the New Jersey warehouse and pack meals for the weekly shipment. By the end of the summer, they were delivering food to New York City, and then the Tri-State area, and then to the whole Eastern Seaboard the following year. It was hard and unglamorous work. Later, one intern sued, likening his internship to little more than manual labor for a $1,000 stipend per month, far less than minimum wage. (The case was settled out of court for an undisclosed sum.)

This was Rocket's culture, say former employees. When I ask ex-U.S. CEO Schmincke about the lawsuit by the intern—who started shortly after Schmincke left—he starts flipping through pictures on his phone. "If he's complaining about work conditions, I'll show you the Rocket office in Southeast Asia that we were running," he says. He slid the device across the table, revealing a photo of a sweaty, crowded workroom. "That's 320 people in a 60-people room. And, yes, I was working there too."

Employees within the Rocket system were swapped out like tires on a Formula 1 racecar. Nine months into the job, Schmincke himself ran into a visa issue; he was dismissed as CEO of U.S. HelloFresh and replaced by a British Rocket executive who had recently joined from UBS.

Meanwhile, in Germany, Richter and Griesel oversaw the local sales effort. (Nilsson, their third co-founder, left in 2014.) Believing their best potential customers were busy white-collar professionals, the teams packed bags with prepared HelloFresh food and headed for office buildings, talking their way past security. Once they got upstairs, they'd find a break room, unpack their wares, and start pitching.

Richter and Griesel pushed their staff to beat the previous week's result, and then beat it again. They had to prove there was demand for meal kits—that HelloFresh was primed for the kind of wildfire growth venture capitalists loved.

"We were burning the cash. Everything that was in our pockets, we were burning," says Vincent Thuilot, who helped start the French unit of HelloFresh. When HelloFresh France struggled and was shut down later in the year (unionized truckers increased shipping costs, and many of the customers quit during August, when much of the nation goes on vacation), Thuilot was named HelloFresh's head of business intelligence.

It was during that time, he says, he got the sense Richter and Griesel didn't want to share bad news with Samwer or other investors for fear they might be cut off. "I was polishing the numbers for them, so I know what we were doing," says Thuilot. "From an ethical point of view, it was very—we were on the edge. Anything that was not looking good, we were not communicating it. If we talked about the number of issues we had with boxes"—like those arriving with spoiled food—"I don't think they would have invested much further." Other times, they'd cherry-pick figures to share, according to Thuilot, who didn't deal directly with investors. "It's not that we were manipulating or tampering with the data. It was just 'This week was bad—so I'll take the average of the last 12 months.' " (Richter says this is a mischaracterization, by an ex-employee, of how the company reported to investors. "We have always been transparent and consistent with investors with respect to surfacing issues and sharing our financials," he says.)

"I was polishing the numbers for them, so I know what we were doing. From an ethical point of view, we were on the edge."

By the end of 2012, the global operation of HelloFresh had posted considerable progress—signing up enough customers to generate some $3 million in revenue. However, it was nowhere near the $5 million to $10 million Samwer liked to see from his first-year companies, says Jonas Larsson, Rocket's former CFO. "I didn't think HelloFresh was going to survive for a while," he says. "Even Oli [Samwer] thought: We're done; we're not going to support it."

"This Spanish-style powdered red pepper is proof that where there's smoke, there's flavor."
—From "Smoky Stuffed Mushrooms With Tomato Quinoa and Cheesey Breadcrumbs," HelloFresh recipe WK 12 NJ-10

By 2014, Richter and Griesel were trapped between their investors' ambitious expectations and the meager economics of meal kits. Shipping fresh groceries was expensive, requiring refrigerated warehouses, hundreds of laborers to pack boxes, and insulated containers. From 2012 until 2014, the company's cost of goods and fulfillment expenses made up 81 percent of annual revenue, leaving little behind to cover overhead or other costs.

Then there was the price tag for finding customers. The spawning of the meal-kit category was fueled, in large part, by VCs rushing to bring subscriptions to all kinds of product categories. It began with software, but soon there were shoes (ShoeDazzle), cosmetics (Birchbox), dog toys (BarkBox)—the list went on. Investors liked subscriptions because they appeared predictive: They could input certain assumptions—customer acquisition costs, margins, the number of subscribers who would likely quit over time—and then model their return on investment. Within this framework, all marketing expenses, from social media ads to direct mail to salespeople stalking people on street corners, were the price of buying customers. And in its first three years of business, HelloFresh went on a customer shopping

TRIALS OF A CLONE FACTORY

If anyone's managed to figure out how to exploit a formula for e-commerce, it's the Samwer brothers—Oliver, Marc, and Alexander. As chronicled by *Inc.* in June 2012, the Germany-based trio built Rocket Internet, which has copycatted dozens of overseas startups, from Amazon to Uber. Today, the estimated $4 billion empire flaunts a portfolio of more than 100 companies spanning six continents—but since launching HelloFresh in 2011, it's been a rocky ride. —JEMIMA McEVOY

↑ **THE GERMAN KINGPIN** HelloFresh's original benefactor, Oliver Samwer, CEO of Rocket Internet.

ANDREAS CHUDOWSKI/REDUX

2012 The Copycatter Gets Copycatted

With a portfolio of some 30 successful startups, Rocket's copycat strategy in emerging markets is paying off. Rocket develops HelloFresh, which it started at the end of 2011, and invests in African-based online marketplace Jumia. It also accumulates more than $1 billion from J.P.Morgan and Swedish investment company Kinnevik. Two of Rocket's four managing directors, who had left during the past year, start a Rocket competitor, called Project A.

2013 Only the Strong Survive

Rocket's portfolio boasts 75 companies in over 50 countries—spanning from fashion to laundry to freight transport—projecting a combined revenue of $3 billion, and 200 to 250 companies by 2018. Rocket also starts shuttering its weaker early-stage ventures. Home24, an online furniture store positioned as an Ikea disrupter, lays off all of its employees in Southeast Asia.

2014 A Shaky IPO

The company raises $2.1 billion in an IPO, appealing to investors who want in on Latin America, Africa, India, and Southeast Asia. But within minutes of going public, Rocket's shares tumble by 14 percent, and they continue to fall amid concerns over losses and Rocket's practice of overvaluing investments. Rocket announces plans to double down on its food and grocery businesses.

2016 Falling Out of Fashion

Rocket's revenue drops by 60 percent, from $139 million to $55 million. One of its biggest portfolio companies, Global Fashion Group—an online storefront for fashion sites—suffers huge losses and sees its value slashed. Shareholders lose confidence in Rocket's strategy as its portfolio companies continue to flounder, but the company maintains its will to make three of its startups profitable by the end of 2017.

2017 Back to Earth

Several of Rocket's portfolio companies have folded, and its most successful companies are still accumulating losses. Longtime Rocket investor Kinnevik sells its stake, and Rocket's shares and revenue fall. HelloFresh and Delivery Hero go public, but both are still unprofitable. Rocket reiterates its intention to "invest in lower-risk business models" and break even.

2018 Chasing the Next Shiny Object

Rocket's portfolio is half the size it had projected for 2018, and the company is still operating at a loss. Now, Rocket says, it's redirecting its $3 billion war chest to fintech and A.I.

spree—$2.3 million, and then $5.9 million, and then $30 million on marketing—more than a third of its revenue each year.

Now the company was running out of cash, and its three biggest investors, including Rocket, were unwilling to pony up more money. In 2014, HelloFresh's next two largest investors, Holtzbrinck and Kinnevik, bailed on the company, trading and selling their shares. Richter and Griesel decided to go for broke, pouring their remaining funds into growth marketing. Then, with months of runway remaining, they flew to America to woo new investors.

In conversation, Richter can sometimes sound like he learned to speak English by listening to corporate earnings announcements. He's vague about specifics but fluent in financial models and jargon, which hardly worked against him when pitching American investors, to whom he presented HelloFresh as nothing short of transformational. HelloFresh, he told them, cut out distributors, wholesalers, and nearly all food waste in the multitrillion-dollar global grocery supply chain. Sure, there were steep upfront marketing costs, but the cash flow from subscribers would eventually flood back in.

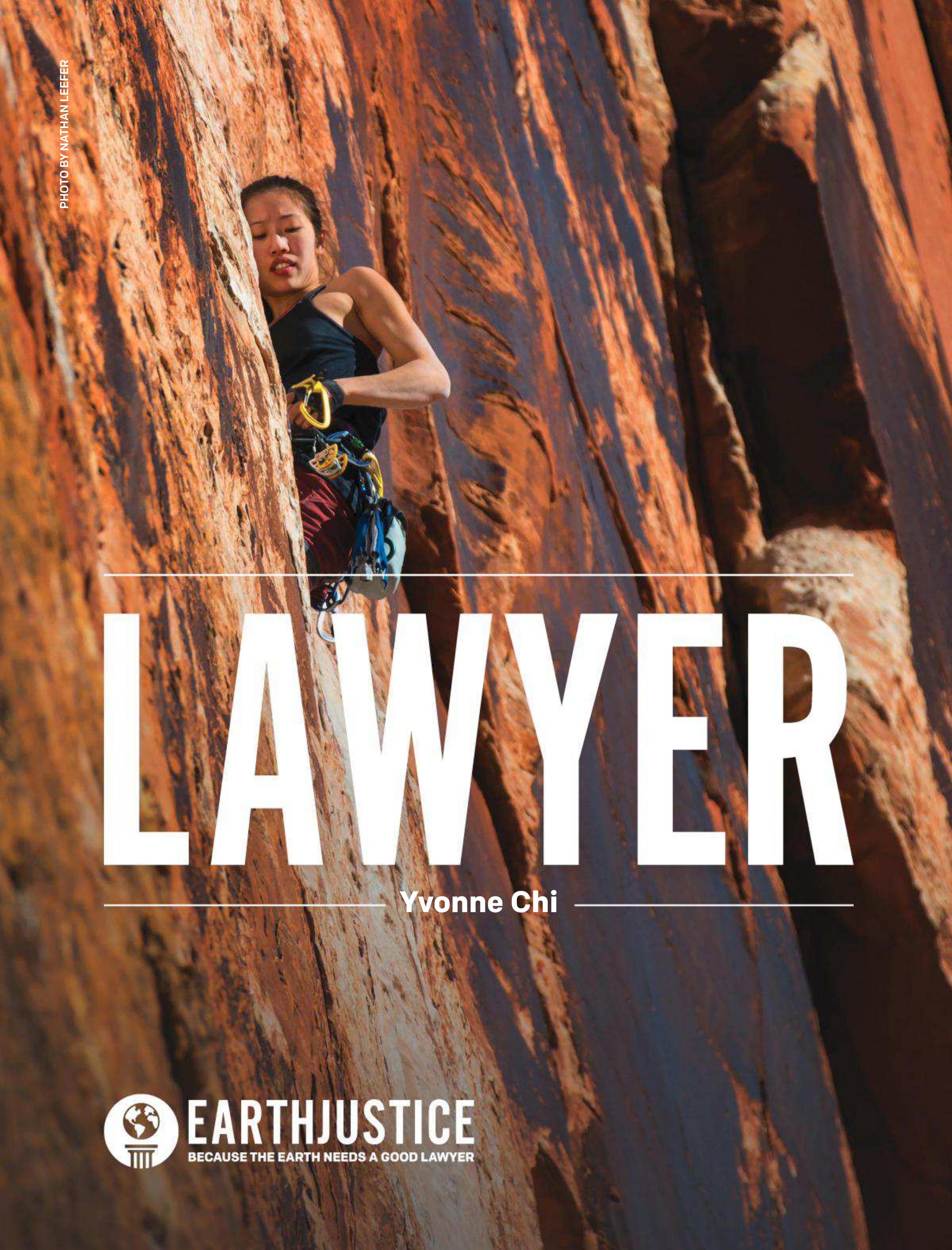
In June 2014, New York City–based Insight Venture Partners led a $34 million round, according to company filings, that valued HelloFresh at $178 million, several times its previous valuation. The firm was wowed by HelloFresh's customer growth, its data-obsessed, workaholic founders, and the company's global footprint, says Jeffrey Lieberman, the general partner at Insight who shepherded the deal and is now HelloFresh's chairman. "It's really hard to scale a business like this," Lieberman says. "And to scale across six to seven countries? It speaks to the leadership Dominik and Thomas have."

With the new valuation, Rocket's Samwer suddenly had renewed interest in HelloFresh. (Samwer declined to talk to *Inc.*) In February 2015, less than a year after the Insight Venture investment, Rocket led a $124 million round, valuing HelloFresh at over $700 million. After he'd let Rocket's holdings dwindle, Samwer once again owned more than 50 percent of HelloFresh.

But Blue Apron still dominated the U.S. with about 70 percent of the market, and HelloFresh was fighting over distant second place with Plated. In March, Samwer sent Rocket's new COO, a former McKinsey consultant named Adrian Frenzel, along with Griesel, with plans to fix HelloFresh.

"Keep the panko breadcrumbs moving in the pan as you toast them in Step 3 and lower the heat if you see or smell any burning—they can start to singe if left alone."
—From "Spinach Artichoke Pasta Bake With Toasted Panko and Parmesan," HelloFresh recipe WK 15 NJ-9

Flush with venture capital, HelloFresh's U.S. ops team hustled to go national. By early 2015, they had leased fulfillment centers in Texas and California, enabling the company to ship meals anywhere in the lower 48 states within two days. They had also leased a 35,500-square-foot raw warehouse in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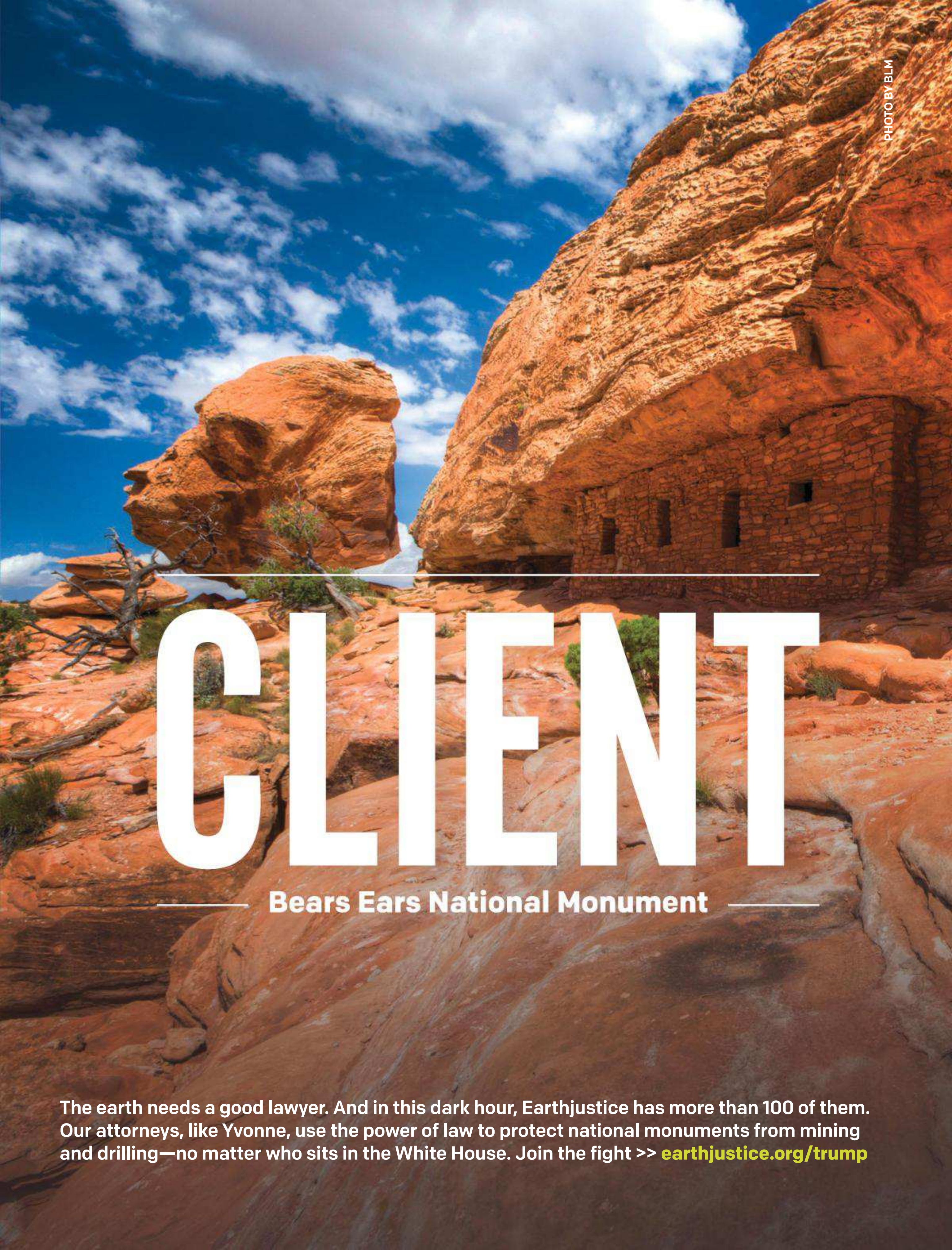
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Bears Ears National Monument
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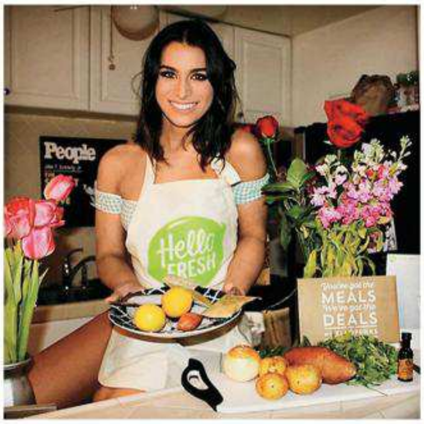
Linden, New Jersey. It was their first time setting up and operating a warehouse all on their own.



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SELLING THE FANTASY
Enlisting ex-contestants from *The Bachelor,* like Ashley Iaconetti, to push HelloFresh on Instagram is one of the less aggressive marketing tactics the startup uses to lure new customers—and keep them from quitting.

For the team of operations managers, this was an exciting step. The managers were running a tight-knit group: Many were in their 20s, had graduated from elite colleges like Princeton and Northwestern, and were working their first jobs building a business from scratch. "It was ungodly amounts of work, but we were motivated by a vision that we were going to write the playbook for how you ship these crazy meal kits," says one of the managers.

After they signed the Linden lease, the team set up the new operation over the 2014 Christmas holiday. The next two months were grueling—installing equipment and assembly lines, and hiring a new staff, all while shipping thousands of meal kits every week.

In March, Griesel and Frenzel arrived from Berlin to tour the warehouse and assess the team's progress. "We were happy, thinking they're going to be excited—because we've done it all so fast," says another manager.

But that wasn't how the Germans responded. Instead, Frenzel launched into all the things wrong about the facility, down to the unswept dust in a corner of the warehouse floor. (Frenzel declined to comment.) The U.S. ops team was nonplussed. "Any person could walk in here and find 50 things wrong," says the second manager. "There's a new staff. We're growing like crazy."

Frenzel made it clear he intended to perform a full audit of their operations. Then he'd make recommendations on how they could match the efficiency of the warehouses in Germany. "It was a takeover in a sense," says the first manager. "All of a sudden, it felt like we had a new rule book, and that was the driving force."

Along with their demanding new types of reports, Frenzel and Griesel's blunt style rankled the workers. "Let's say somebody unloads a container by hand," says the second manager. "That's a lot of work. And you'd have the Germans standing there, literally with their arms folded, watching. Then, when anyone finished, they'd say"—affecting a German accent—" 'Do another one.' They treated them like animals."

Meanwhile, Richter was setting ever higher sales targets. Over the next few months, the number of orders coming through Linden doubled. The warehouse perpetually needed more workers, but Richter and Griesel, concerned about costs, refused to increase hourly pay. Instead, HelloFresh hired staffing firms just to keep the 150 minimum-wage temps it needed on the line every day. "It was the bottom of the barrel," one of the warehouse managers says of the staff, which included some who had been incarcerated or had drug problems.

By early June 2015, five of the American ops managers, including the chief operating officer, had quit. "It was hard to see the vision anymore," the first manager says.

Frenzel stepped in and took over the COO's duties full time. He hired a new warehouse manager, a former Navy supply officer who shared his top-down approach. He also put a recent hire from Berlin, a former management consultant, in charge of procurement. Morale plummeted. Order at the facility began to unravel, creating a sense of lawlessness. "It was a free-for-all," says one former employee.

"People would come to work late and high, or go into the bathroom and hide their beer in the ceiling, and drink in the bathroom," says the former employee. In the summer of 2015, staff used drugs and drank alcohol in the open, according to three employees who witnessed these activities or found empty bottles and drug paraphernalia on the premises.

The customer service department developed its own reckless atmosphere. Post-work drinks at the bar down the street were frequent. Early in the summer, maintenance staff discovered women's undergarments in the office one morning, according to one former manager. Then explicit cellphone photos of a supervisor and an employee engaging in sexual activities in the office after hours began circulating, according to three former managers. Richter and Griesel were notified, according to two of these former managers, and it resulted in the firing of both people. (HelloFresh's response: This is false.)

When a daytime supervisor, Kareem St. Louis, tried to fire an employee for disciplinary problems, the employee threatened to damage St. Louis's car. Worried about his safety, St. Louis called 911. Over the next few months, other managers had their tires slashed, were followed home, and got threatening texts saying "we know where you live." In July, one went to the local police. "After notifying senior management, they've done nothing to help or change the situation," the report noted. That spring and summer, police were called in six times in response to reports of harassment, disputes, and assaults. (At roughly the same time, competitor Blue Apron was experiencing similar incidents at its Richmond, California, warehouse, as reported by BuzzFeed in 2016.)

Conditions continued to worsen. After the warehouse's two bathrooms were vandalized, management padlocked the doors, and the warehouse staff was told to use outdoor Porta-Pottys, according to a Linden health inspector's report. This, along with a report of bedbugs in the office area, led to a complaint to the local health department, which sent the inspector to the facility. In August, a health department official met with Frenzel and Griesel and ordered them to rectify the bathroom situation.

Richter and Griesel shared none of this with their investors—despite the fact they were in the middle of raising another round of venture capital at their biggest valuation yet. The crux of their pitch: the company's ambitious plans to take over the U.S. market.

"They sounded unusually confident" about the state of operations in the U.S., says James Anderson, fund manager of the Scottish Mortgage Investment Trust at Baillie Gifford, who heard the pitch and eventually led the September 2015 funding

IMAGE SOURCE: INSTAGRAM

A customer in the Netherlands wrote a profanity-laced Medium post railing against the hyper-aggressive tactics of the startup, comparing it to some combination of stalker ex-boyfriend, religious proselytizer, and mobster.

round. “I’d never found Dominik anything other than open and honest, ready to admit when there were problems.”

Richter says if Baillie Gifford—or other investors—had wanted to know about the warehouse debacles, it should have asked about them. “Reactively, we’re always kind of like 100 percent transparent,” he says. “If anybody wants to do a deep dive in any part of the company, we’ve been super transparent with that.”

But the Baillie Gifford investors didn’t think to ask. (A spokesperson for Insight partner and now-HelloFresh chairman Lieberman, meanwhile, said he was unaware of any of these incidents until contacted by *Inc.*)

In September, two months after the repeated health department complaints and Linden police reports, HelloFresh successfully closed an $85 million round, led by Baillie Gifford, which valued HelloFresh at $2.9 billion, more than four times its valuation just seven months earlier.

One month later, HelloFresh’s board took a further step, approving a plan to buy back shares from Richter, Griesel, and other early employees in a deal that collectively netted the two founders over $10 million. The founders, who together own more than six million shares and hold nearly eight million call options, were already on to the next phase of their plan: an IPO.

“Thin twirls of the green vegetable are almost too pretty to eat.”
—From “Caramelized Shallot Risotto With Lemony Zucchini Ribbons,” HelloFresh recipe WK 11 NJ-8

If you live in a major city, chances are at some point you’ve been hounded, cornered, or harassed on the street by what one former Dutch HelloFresh customer dubbed “foodjehovas” (translation: food Jehovahs). If you think the company is aggressive in signing you up, wait till you hear customers’ stories of trying to quit. In January 2016, the customer in the Netherlands who had tried and failed to get HelloFresh to stop contacting him after canceling the service wrote a profanity-laced Medium post railing against the hyper-aggressive tactics of the startup, comparing HelloFresh to some combination of stalker ex-boyfriend, religious proselytizer, and mobster. “Fuck you, HelloFresh,” the post, which went viral, began. “You push us around, disrespect our boundaries and you take our lunch money.”

HelloFresh, in its assertive way, was attempting to address what has emerged as a fundamental problem with the meal-kit business: People quit. Why? Perhaps the novelty wears off, or there’s guilt about all the wasteful packaging, or simply because they are too lazy to cook a gourmet meal every night. Whatever the reasons, it turns out the majority of customers ditch their HelloFresh subscriptions after receiving only a few boxes. The idea that these subscriptions would generate enough cash to cover the sizable marketing cost was wishful financial modeling. “It required a leap of faith,” says Ellie Wheeler of Greycroft.

But now, as HelloFresh and Blue Apron pass their sixth birthdays, they know what the quit rates (also known as churn rates) really are. While neither company discloses figures, third parties including Dan McCarthy, an Emory assistant professor of marketing, and Second Measure, a research firm that analyzes pools of credit card data, have examined the companies’ data. Their findings, which largely match up, paint a grim picture: Nearly half of subscribers of both services cancel within a month. Just 20 percent stay on as long as six months. By the end of the year, meal-kit companies are lucky if they’ve retained 15 percent of their original subscriber base, and the numbers dwindle from there. What’s more, HelloFresh lags Blue Apron and other competitors in retention, often by several percentage points. The value of a subscriber is likely to be much lower than anyone thought.

Richter says this analysis is false on multiple levels, but won’t disclose retention figures or churn rates. “Retention is one of the strongest points of our business model. We’ve always been very, very happy with retention rates,” he says. When *Inc.* asked to connect with HelloFresh’s longest-standing customers, the best the company could provide was a woman who had been featured in a company TV ad, and another who’d been with the service for five months.

Critics worry these high churn rates may prove fatal. “At some point, they’d go through millions of people who had tried the services who had churned out, and what would they be left with?” says Nikhil Basu Trivedi, a partner at Shasta Ventures who considered investing in Plated, Green Chef, and Sun Basket but ultimately passed. “There are a number of ways these businesses can be profitable, but at the end of the day it’s a tradeoff between growth and profitability, right? You can’t make the math work for both.”

“Without marketing, the business is dead,” says Eugene Auh of Oakchun Advisors, referring to the constant need to replenish the ranks of quitting customers with fresh subscribers. In 2016, Auh was hired to analyze the meal-kit business for a conglomerate interested in potential acquisitions. Auh eventually told his client to steer clear of the industry. Revenue growth comes “at an astounding cost,” he says.

In 2015, HelloFresh shelved its IPO plans less than a month after announcing them. According to press reports at the time, investors couldn't stomach the company's burn rate given its distant prospects of profit. "Absolutely no one I spoke to had any appetite for this deal," Neil Campling, technology analyst for Aviate Global, told the *Financial Times* after the HelloFresh IPO was abruptly postponed on November 9. (Richter disputes this characterization, saying HelloFresh had many interested investors, but wanted to wait until the general climate of the tech market improved.)

In the past few years, the company has made upgrades to its operations. Richter finally began hiring executives with experience, like Tobias Hartmann, its new U.S. CEO, who previously ran eBay Enterprise and Innotrac. The New Jersey warehouse—now in Newark—has raised wages to over $13 an hour. And the company's margin (excluding marketing) has increased from 17 to 23 percent. On November 1, 2017, HelloFresh had a successful IPO on the Frankfurt stock exchange, raising more than $330 million at a valuation of $1.9 billion. Since then, shares have increased and sales have continued to rise.

Still, HelloFresh has a ways to go when it comes to improving the climate in its New Jersey operation. Two former employees, a night shift security guard and a custodian, said they witnessed evidence of hard drug use, including heroin and crack, at the end of 2016. "You'd see people getting high in the locker room," says the security guard. "It was a party." In January 2018, police were called to the Newark warehouse after an employee uploaded a photo to social media of himself holding a .40-caliber Beretta with the caption "I will pop a n***a at work LOL." Police found the gun in his HelloFresh locker.

Meanwhile, even as HelloFresh has made great strides in improving customer satisfaction—it's added customizable menus, delivery day options, vegetarian meal plans—overall retention rates haven't budged, acknowledge Griesel and Richter. People may be happier, but they quit just as often.

The company's investors argue that HelloFresh's financials will improve as the category matures. Earlier this year, following fulfillment troubles and other problems, Blue Apron cut back its marketing spending 35 percent as sales fell 20 percent, leaving the door open for HelloFresh. To surge past the incumbent, HelloFresh is still spending aggressively on marketing in the U.S. Meanwhile, the industry is consolidating: In 2017, supermarket chain Albertsons acquired Plated. In March, HelloFresh bought Green Chef, a Denver-based meal-kit company that specializes in organic food. In May, supermarket giant Kroger announced that it planned to buy Home Chef, another meal-kit company.

HelloFresh is also starting to move its business beyond subscriptions. There are many new code names flying around the office these days—"Ginger," "Caviar," "Happy Hour." In May, the company began testing selling meal kits in nearly 600 U.S. Stop & Shops and Giant Food supermarkets. It's also experimenting with prepared-food vending machines in Europe.

And HelloFresh has made Samwer's dreams come true in at least two respects: It's now the No. 1 company in its category in every country where it operates. And HelloFresh is valued at almost twice its annual revenue—a multiple that is more than twice that of Blue Apron or Home Chef, and approximately six times that of Green Chef, the company it acquired.

By the end of 2017, Rocket's stake in the company was worth nearly $980 million, a gain from its overall investment. (In April, the company sold $184 million worth of that stake.) As of HelloFresh's IPO, the co-founders' own shares have a current value of more than $195 million, based on HelloFresh's share price at presstime. Thirty-eight current and former members of management, co-founders, and other holders together own options worth over $58 million. Baillie Gifford's stake, meanwhile, is down 23 percent. And, of course, HelloFresh itself has yet to turn a profit.

B**ack at the Berlin café,** as Richter and I finish our salads, I ask him how the company plans to become profitable by the end of the year—he's promised as much to the public markets.

He locks eyes with me and gets an edge in his voice. "We have a lot of experience with starting markets and then basically driving them to profitability over time," he says. The company has never publicly detailed any profitable operation, either globally or in individual markets.

"We're in over 10 markets right now, and a bunch of markets are already profitable," he says, but won't specify which ones. "Basically, over the course of the year, almost all of the markets will have turned profitable. Hence, we will also be profitable." As he talks, he keeps holding my eyes until I blink and look away. But he doesn't elaborate further.

Richter has the tunnel vision of an athlete, who—like his original benefactor—is willing to accept only one outcome: winning. His early investors doubted HelloFresh had a future, so Richter found new ones—and then got the original to invest millions of dollars more. Now, Richter, sitting with a reporter at lunch, is setting down the truth of his company the way he sees it, regardless of how the crude math works. During his time as an entrepreneur, the world has submitted to his will, and he will do everything in his power to ensure it continues to do so.

At 2 o'clock sharp, he excuses himself. "I actually have another appointment," he says. A few minutes later, back at the office, I walk by and notice he's upstairs, sitting alone in his glass box, typing intently on his laptop.

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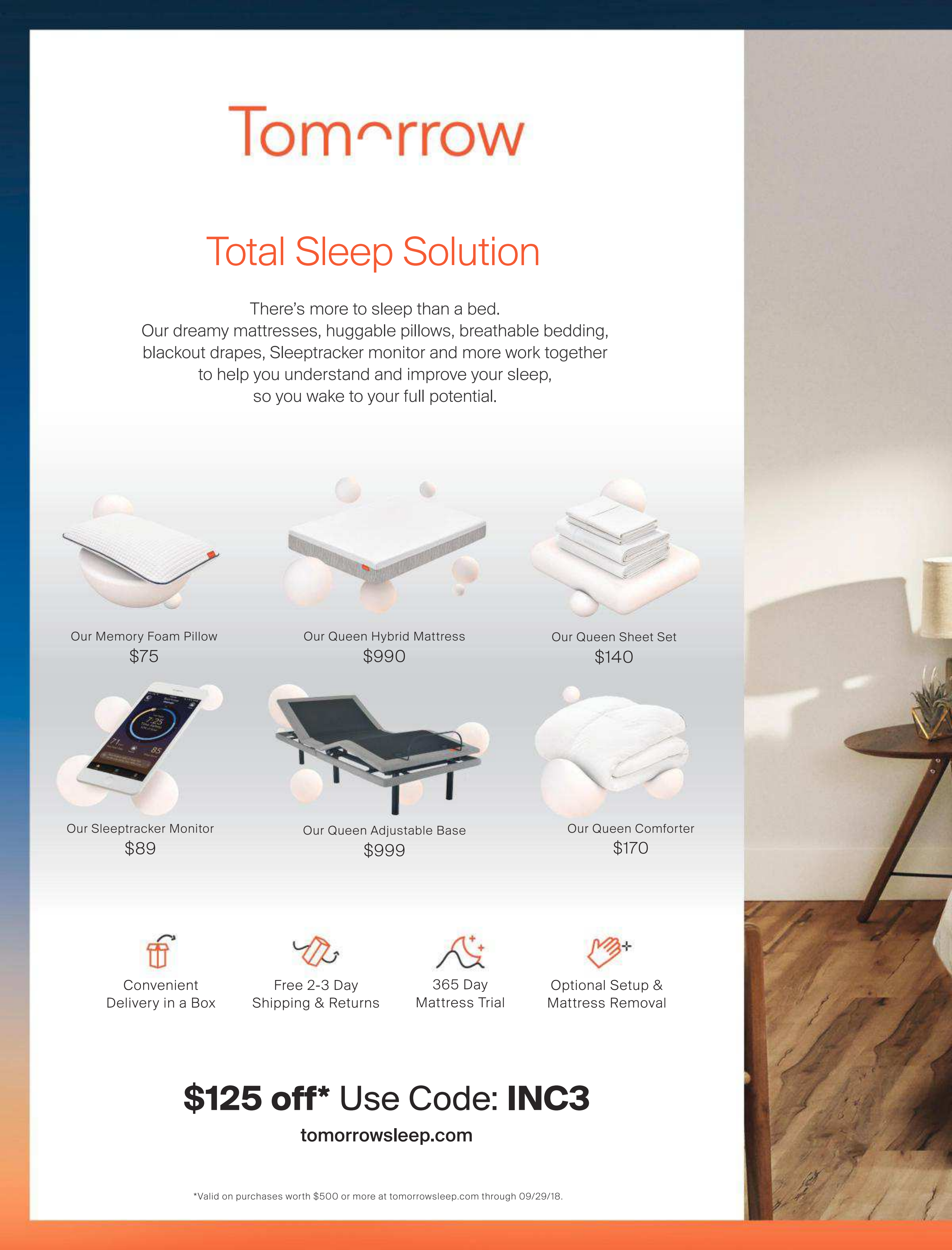

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EXIT INTERVIEW

Driving Force

Langley Steinert, a co-founder of TripAdvisor, is taking a different route with CarGurus, which uses proprietary algorithms to better match car buyers with car dealers. Following last year's IPO, the Boston area-based company is valued at more than $3.5 billion.

By Bill Saporito

You made a successful exit at TripAdvisor. What did you envision when you started CarGurus?
When I sold TripAdvisor, I wanted to start another company, but I wanted to start with a few investors I knew. So there were no VCs; there was no institutional money. It was essentially me, my partner from TripAdvisor, and a couple of friends and family. We raised $4.5 million—from a handful of people, really. The idea was to build a big, profitable business and just dividend the money to everyone, and that'll be great. In many ways, thankfully, this became bigger than I'd envisioned.

What went "wrong"?
I was being a little naive to think I could just dividend the money to the shareholders, because there's this thing called employees—they don't like working for monarchs. To attract great employees, you have to give them equity. And once you start giving people equity, you have to provide a liquidity path for them.

What's the idea behind CarGurus?
At CarGurus, the original idea was to create the TripAdvisor of cars, a site where people could read reviews from other users about their experience with car *XYZ*. So we allowed user reviews, and we actually had a wiki model where people could edit articles about certain cars. And at the end of it all, it didn't work. I mean, we had some traffic, not a lot of traffic. We weren't generating much revenue, and we certainly weren't, at least by my measurements, gonna be able to build anything of any substance. So I think we were about a year and a half into it, and I huddled with the six developers we had at that point and said, "Guys, this isn't working. We've gotta try something else."

How were you able to chuck the business plan yet stay solvent?
At both TripAdvisor and CarGurus, we kept our burn rate low, so we had the luxury to change course and the cash to survive it. I always tell people, "Keep your burn rate low." Be flexible with your business plan, because there's a very high probability your original plan is not gonna work. We looked at Kayak and said, "Well, they're doing flight search. And they're doing this thing where it helps people find the best deals for flights. Why don't we try that for cars?" That's how it all took off.

At what point did you decide on an IPO?
I did very well financially when we sold TripAdvisor, so if it had been solely my decision, CarGurus probably wouldn't have gone public. I went to the board and said, "I'm willing to do this for the sake of the employees, but there are a couple of conditions." We did put a dual class voting structure in place. So, for the foreseeable future, I have and will maintain the majority voting protocol so we can think long term. And I coached everyone in the company to pretty much ignore the stock price. I don't care about the stock price. What I care about is, what does the company look like in 2020?


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Horseplay? Not at This Price

As a 4-year-old, all Kendall SummerHawk wanted was a horse. When she was 12, her father traded a pit bull puppy to get her one. Now, SummerHawk, who owns a $2 million business-coaching certification firm in Tucson, competes on Andalusian dressage horses from Spain, which cost about $100,000 each. This winter, she'll start showing Bolero, "a once-in-a-lifetime horse," she says. Her horses live 12 feet outside her window. "They inspire me to keep making money, because they're expensive." **—KIMBERLY WEISUL**

Managing Partner

Horses have taught SummerHawk the importance of having, and being, a willing partner in all aspects of life. "I can't muscle a horse," she says. "It's about lightness and leverage and power." Especially power. "Horses give you instant feedback," she says. "You can't argue with 1,200 pounds of instant feedback."

 PHOTOGRAPH BY CHRIS HINKLE