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J.Crew Grads Strike Out On Their Own

► The purveyor of preppy chic has become a fashion incubator

► “You just learn very quickly to think about costing and quantities and merchandising”

It wasn't until Emily Sugihara quit her job as an assistant designer at J.Crew that she started winning accolades from Mickey Drexler, the company's chief executive officer. After she left the rebounding American retailer in 2006, Sugihara and her mother parlayed a sewing hobby into a business selling affordable nylon and canvas bags. She mailed some free samples to former colleagues; eventually, the clothier decided to stock Baggu's \$9 shoppers in a rainbow of colors as part of its In Good Company program, which is devoted to third-party collaborations. When at one sales meeting

Drexler heard the bags were doing well at J.Crew stores and online, he called Sugihara to congratulate her. “I got this one very crazy voice mail that I saved for a few years,” she recalls. “And we've connected on the phone since then.”

Under Drexler's watch, J.Crew has evolved into a chic brand that attracts top design-school graduates who want to create clothes Michelle Obama might wear. It's also become an incubator for fashion entrepreneurs: More than a dozen former employees have used their years—or year, in some cases—there as a launchpad to start their own lines, from Chris Benz, whose luxury

togs retail for upward of \$2,000, to Tracey Van Voorhis, a former personal assistant of Drexler's whose turban-inspired headbands sell for \$29.

What skills did they pick up at J.Crew Academy? Todd Snyder, who was senior vice president for men's design prior to his departure in 2008, says he learned about pricing when the retailer began targeting wealthier, more fashion-conscious customers in the mid-aughts. “We began selling designer quality at a reasonable price, and that changed my thought process as far as wanting to become a designer,” he says. Five years ago, after turning 40, Snyder



Todd Snyder

At J.Crew: Senior vice president for menswear

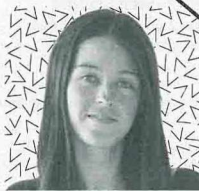
Now: Runs a military-inspired line that collaborates with Champion sportswear



Marissa Webb

At J.Crew: Vice president of women's design under President Jenna Lyons

Now: Heads a two-year-old brand sold at luxe department stores



Emily Sugihara

At J.Crew: Assistant fashion designer

Now: Baggu, her brand of Chinese-made affordable totes, is carried by 1,000 stores



Dwight Fenton

At J.Crew: Senior design director of menswear

Now: At Bonobos, he's in charge of expanding beyond pants into suits and dress shirts



Lele Sadoughi

At J.Crew: First jewelry design director

Now: Runs a namesake line of mid-priced costume jewelry with more than 75 accounts



Chris Benz

At J.Crew: Junior designer, women's wear

Now: Designs \$2,000 frocks worn by stars and Michelle Obama

◀ started his own menswear line. Rather than go head-to-head with his former employer, he positioned himself at a higher price point, where there was less competition. "There's some white space between a \$450 Thom Browne shirt and a J.Crew one," he says. The line includes \$175 oxfords and a \$1,295 cotton tuxedo jacket and has been picked up by 60 stores. *GQ* named Snyder to its list of the Best New Menswear Designers in America in 2012. More recently, Snyder has mimicked J.Crew's strategy of teaming up with heritage American brands by working with **Champion** on a line of high-end sweatpants. The artful clutter of Snyder's boutiques in New York and Tokyo echoes that of J.Crew's men's stores, which the designer had a hand in creating.

Designers at J.Crew aren't cloistered in a studio environment as at some bigger competitors. In the open-plan office, Sugihara says she worked closely with "the production people," learning how to craft plans and sketches that would demonstrate proper execution to factories. She also notes that many of her colleagues, including Benz, displayed entrepreneurial skills that hinted at a future beyond J.Crew.

Sugihara's short stint at the New York-based company gave her the confidence and contacts to scout for suppliers in China, which many small business owners find intimidating. (Producing overseas was crucial to Sugihara's goal of creating a low-cost yet durable alternative to throwaway plastic bags.) "J.Crew isn't always shopping around for new factories," she says. "If you can develop a long-term partnership, you can negotiate pricing and pass that value to customers." Baggu has stuck with the same Chinese company for the last three years. Over that time, Sugihara has doubled her workforce to 20, while her network of vendors has

grown to more than 1,000. During a March trip to China, Sugihara saw that she shares a manufacturer with her former employer when by chance she spotted a telltale scrap of fabric on a factory floor.

Lele Sadoughi, a former designer of J.Crew's jewelry line, says the experience of having creative- and business-side colleagues working closely together helped her when she started her namesake jewelry company two years ago. After her first interview with J.Crew in 2005 she discovered she would be a team of one, developing a category of costume baubles from scratch. "You just learn very quickly to think about costing and quantities and merchandising," she says. "It's all about the big picture there: Do you have your big necklace? Do you have your little pendant?" This approach to a collection influences her two-year-old line, which is carried by 75 retailers, including national chains such as **Anthropologie** and **Bloomingdale's**. "You always had to make sure the merchandisers were getting what they want," says Sadoughi. "It taught me to be realistic."

J.Crew alums readily admit that their affiliation with the purveyor of quirky chic opened doors for them. "It's like how, in the '90s, everyone wanted to hire a designer from **Abercrombie & Fitch**," says Dwight Fenton, who left J.Crew in 2013 to expand men's apparel at **Bonobos**, a startup that made its name selling pants. "While I wasn't looking for investors," adds Snyder, "I did need store accounts. No one knew who I was, so it was helpful to say I used to be the head of men's at J.Crew." In prior decades, alumni from **Ralph Lauren** and **Gap** benefited from a similar halo effect. J.Crew declined to comment for this story.

Some prefer not to trade on their association with J.Crew as they seek

to establish unique identities for their fledgling brands. Marissa Webb, former head of women's design at J.Crew, now sells her own line of women's separates at high-end boutiques and department stores. She declined to discuss her experience there because, as her representative wrote in an e-mail, "we have made a point not to ... continue to tie Marissa to her J.Crew roots." —*Kurt Soller*

The bottom line Mickey Drexler's J.Crew is a magnet for young designers. Several have used it as a launchpad to start their own lines.

Markets

Commodities Trading Goes Organic



▶ **Mercaris wants to create an exchange for specialized crops**

▶ **"They're big markets, they're volatile, and they're fragmented"**

If you want to know the price of a bushel of corn, you can find it on the website of the Chicago Mercantile Exchange. The market value of organic corn or grains grown without genetically modified seeds is harder to find. These crops are traded privately, with growers negotiating rates with buyers over the phone or via e-mail.

Kellee James wants to change that. As co-founder and chief executive

All the organic farmland in the U.S. would fit in an area the size of New Jersey

officer of **Mercaris**, a market data service and online trading platform for organic and non-genetically modified organism commodities, James plans to build an exchange so such crops can trade the same way as conventional commodities. "They remain very opaque and nontransparent markets, and that imposes some transaction costs on everybody along the supply chain, from the grower to the manufacturer all the way up to the consumer," she says.

Mercaris last year began surveying dozens of mills and grain elevators in the U.S. and Canada about the prices they pay for organic corn, soybeans, and wheat, and non-GMO corn and soy. Except for wheat, all are used mainly as animal feed. The company started sharing data with clients in October and held its first online auction in November.

James and co-founder Chris Duesing had worked together at the Chicago Climate Exchange, a voluntary cap-and-trade market for greenhouse gas credits that ceased trading at the end of 2010. They started Mercaris in 2012. The five-employee startup, based in Silver Spring, Md., raised \$700,000 from investors including the Catalyst Fund, part of **Comcast Ventures**, in May 2013.

U.S. retail sales of organics have more than tripled since 2003, reaching \$29 billion in 2013, or more than 4 percent of grocery spending, according to estimates from industry newsletter *Nutrition Business Journal*. Non-GMO crops, which can be cultivated using synthetic fertilizers and techniques barred from organic production, have gained attention since **Whole Foods Market** announced in March 2013 that it would require labeling of all GMO products in its North American stores by 2018.

Data on organic and non-GMO crops are limited. The U.S. Department of Agriculture publishes a biweekly report that aggregates national prices for organic grains from farmers and grain buyers, but it lacks details about regional price differences and contracts for future delivery. There are no regularly published prices for non-GMO commodities. "They're big markets, they're volatile, and they're fragmented," James says.

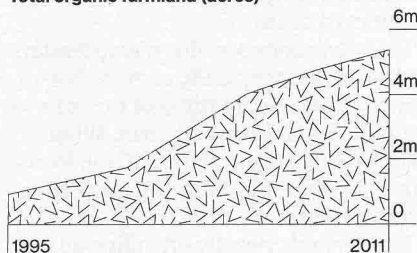
That leaves organic buyers at a disadvantage, says George Siemon, CEO of **Organic Valley**, an organic agriculture cooperative of about 1,800 farmers.

The Organic Breakdown

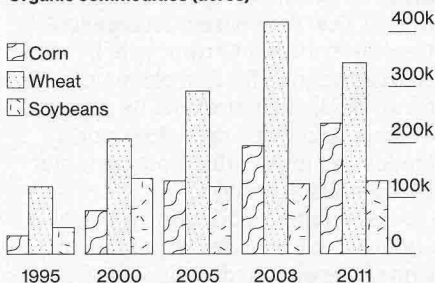
0.64%

of total U.S. farmland is devoted to certified organic food crops

Total organic farmland (acres)



Organic commodities (acres)



DATA: USDA

"In the conventional world, [growers] don't tell a local feed mill, 'It's great that the Chicago Board of Trade says it's \$3, I want \$4,'" he says. "That's literally what goes on in the organic world."

Mercaris supplies data to Whole Foods, Organic Valley, **Perdue Farms**, and manufacturers such as **Michael Foods** and **Amy's Kitchen**, as well as equity analysts and economic researchers, James says. The company charges \$80 to \$500 a month for subscriptions, depending on how much data clients want.

Tim Daley has been buying organic soybeans on behalf of manufacturers of tofu, soy milk, and imitation meats for 15 years at **Stonebridge**, a company in Cedar Falls, Iowa. He calls the market "extremely opaque," but he's not buying Mercaris data yet. "They're serving a need, probably more on the East Coast," where food manufacturers may have more tenuous relationships with grain farmers, he says. "We kind of have a handle on the market."

Beyond collecting grain prices,

James envisions an exchange that parallels the Chicago commodity market and offers continuous trading for a range of specialized crops. For now, Mercaris runs occasional online auctions. Participants can submit sealed bids during a 24-hour window for lots of 900 bushels, or about a truckload. Mercaris vets buyers and sellers through an application process—buyers, for instance, are required to post bonds to verify they can pay. While it's still working out its fees, James says the company is considering charging around 10¢ a bushel, split between the buyer and seller.

The first auction in November, which allowed growers to bid on a contract to supply 5,000 bushels of non-GMO corn to a feed mill in Pennsylvania, was oversubscribed. Mercaris plans more auctions this year, and so far James says she's had interest from buyers and sellers of about half a million bushels of grain. More transactions through auctions will also give clients better insight into prices. "When exchanges are very liquid, they just throw off a ton of data," she says. —John Tozzi

The bottom line Organic food makes up more than 4 percent of U.S. grocery sales, but the market for such crops is opaque.

Credit

Forget the Algorithms. Get Me a Loan Broker!

► Online lenders use old-fashioned middlemen to drum up business

► "The brokers are getting outsize influence again"

Alternative lenders, nonbank firms that provide short-term commercial credit at expensive rates, have been around for years. Today, companies such as **OnDeck** and **CAN Capital** boast that their cutting-edge data-gathering techniques and software analytics allow them to make loans to small businesses that banks consider too risky.

Yet these alternative lenders rely heavily on a low-tech method to find borrowers: loan brokers, who funnel cash-strapped small business owners to companies that offer short-term cash advances and other types of high-cost financing. There's a catch. ►

◀ Loan brokers' generous commissions can double the cost of already expensive loans, according to industry insiders and paperwork describing commission structures viewed by *Bloomberg Businessweek*.

Under the terms outlined in a document produced by a CAN Capital subsidiary, a business borrowing \$50,000 over six months would end up paying back \$65,500, with the broker getting \$8,500 for delivering the customer—more than the lender would make on the loan. The 17 percent commission far outstrips the 1 percent or 2 percent brokers earn on loans backed by the U.S. Small Business Administration.

Some lenders worry that brokers are steering costly loans to small businesses that can't afford them. "It's a direct parallel to what happened in the subprime mortgage space," says Mark Pinsky, chief executive officer of Opportunity Finance Network, an umbrella group for community lenders. "Things got out of control because of the incentives to [mortgage] brokers who had no skin in the game." Jeremy Brown, CEO of alternative lender **RapidAdvance**, says the high commissions remind him of last decade's lending frenzy: "The brokers are getting outsize influence again."

In the U.S., two dozen alternative lenders that specialize in small, short-term loans provided roughly \$3 billion to small businesses last year, estimates Marc Glazer, CEO of **Business**

Financial Services, a lender based in Coral Springs, Fla. The loans, typically less than \$100,000 and lasting less than a year, are marketed to businesses that don't qualify for regular bank loans or don't want to jump through the hoops of applying. Many alternative lenders pitch products called merchant cash advances. In these arrangements, lenders advance a lump sum and collect payments automatically by diverting a daily cut of the merchant's credit card sales.

Contracts between alternative lenders and borrowers typically express borrowing costs as a multiple of the loan amount over a specified term. When calculated on an annual basis, the loans can carry the equivalent of triple-digit interest rates.

Lenders rely heavily on online ads, an expensive and unreliable way to drum up business, says Kris Roglieri, CEO of New York-based **Commercial Capital Training Group**, which charges \$23,000 for a weeklong course for would-be loan brokers. By paying brokers only when they close a deal, lenders get more value from their marketing dollars, he says.

As alternative lenders grow bigger and have more money to put to work—some have obtained credit lines from Wall Street firms including **Goldman Sachs** and **Fortress Investment Group**—competition for borrowers is increasing. That's led to bigger incentives for brokers. "The new battlefield

for funders is over who can offer brokers the most dynamic commission package," says Jay Ballentine, co-founder of New York-based startup **Buynance**, which says it matches lenders and borrowers at a lower cost. Ballentine says brokers, in addition to charging hefty commissions, sometimes demand closing fees of as much as \$5,000 that borrowers don't learn about until they're ready to sign a contract.

Brokers' agreements with lenders, which borrowers don't see, show how much more the middlemen can add to the cost of a loan. The broker agreement used by the CAN Capital subsidiary shows the lender expects to be repaid 14 percent more than the amount it advances on a six-month loan. But its preferred brokers can tack on an additional 17 percent, bringing the total borrowing cost to 31 percent of the loan. CAN Capital declined to make executives available for an interview. In an e-mailed statement, the company said it uses "a variety of marketing channels and commission structures" and that charges depend on "our proprietary scoring model and the history of that particular company."

OnDeck, which counts **Google Ventures** among its backers, adds up to 12 percent of the loan amount in transactions involving brokers, according to spokesman Jonathan Cutler. He says that on average, the company's independent brokers earn ▶

Taxes Cracking Down on Cheats

California is investing \$670 million over five years in technology to improve tax collections, an effort that's expected to raise an additional \$1 billion a year in revenue. Other states are also trying out new tools to boost compliance.

38%
of all small businesses
spend at least
80 hours
on taxes every year



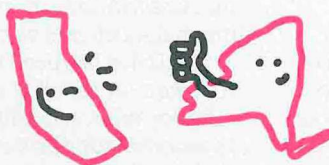
Big data are for tax collectors, too

Georgia, Indiana, Louisiana, and Massachusetts are working with LexisNexis to cross-reference tax filers' personal information, such as address history, to flag inconsistencies that may point to fraud.



Licensing leverage

Connecticut is withholding permits to retailers that owe state taxes. New York is working on a similar plan, and North Carolina may soon prevent businesses that owe taxes from obtaining or renewing liquor licenses.



Bicoastal cooperation

California and New York have entered into a formal partnership: If a taxpayer is due a refund in one state but owes a tax debt in the other, the refund will automatically be used to pay the state holding the debt.



Jail time

In Illinois, judges are increasingly willing to lock up tax cheats. A series of investigations targeting gas station owners helped the state collect \$90 million in tax revenue and resulted in jail time for unscrupulous business owners.

◀ commissions of 7.5 percent.

Many in the alternative lending industry don't see rich broker fees as a problem. Most "reputable companies" don't let brokers tack on more than 12 percent of the loan amount in extra costs, says David Goldin, CEO of lender **AmeriMerchant** and president of industry trade group the North American Merchant Advance Association.

Some entrepreneurs are working to drive down brokers' fees. Ballentine, a former broker himself, started Buynance in February to let borrowers compare loan offers from multiple lenders. Jared Hecht started a site called **Fundera** in February to help business owners select the best deals from alternate lenders. Both companies charge fees that top out at 3 percent of the loan amount, a fraction of what brokers collect. "In other industries, the Internet replaces the broker," says Hecht, noting that websites such as **Priceline.com** succeeded by giving travelers price transparency they didn't get from travel agents. That hasn't happened for small business loans yet. —Patrick Clark

The bottom line Alternative lenders, who made an estimated \$3 billion in high-cost loans last year, still rely heavily on brokers.

Marketing

Building Your Brand With F-Bombs

▶ Irreverent Twitter feeds help pubs and florists attract patrons

▶ "Some of the tweets are a bit crude and provocative"

Richard Easton loves the mixed grill special at Mangal 2, a family-owned restaurant in the gentrifying East London neighborhood of Dalston. But what first drew him there wasn't the Turkish fare. It was the humorous, profanity-laden commentary on the restaurant's **Twitter** feed, which has amassed more than 11,000 followers. "It's very focused on London life and making fun of groups like hipsters," says Easton, who visited the restaurant last month after following it on Twitter since the summer and pronounced himself "impressed."

Composed by Ferhat Dirik, the

London Tweeting

"What happens at book club stays at book club"

"Just had a quick chat with the man in the mirror about making change. Might be time to slow down on the cava"

"It's almost Friday! Which means one thing: Monday, you'll be returning to work again and resuming your mundane and inadequate existence"

"@piersmorgan Please send your CV to info@mangal2.com so we can print it onto luxury Charmin toilet paper and wipe our arses"

"I've given up hope for lent"

"Forgotten about in their box in the attic, your hungry, hungry hippos grow ever hungrier"

The Dolphin Pub
@The_Dolphin_Pub, 22K followers

Mangal 2 Restaurant
@Mangal2, 11K followers

Arena Flowers
@ArenaFlowers, 22K followers

restaurant owner's 25-year-old son, the Mangal 2 tweets have as much to do with soccer and current events as with kebabs or koftas. "Don't be too surprised when Facebook buys your Mum for \$3 billion," declares one. During the Olympics, Dirik posted: "Today's special is the Sochi Kebab: same kebab but served ice cold. Gay customers get 40 percent off. Putin's not welcome."

Successful practitioners of the art of tweeting for business say the key is to refrain from purely commercial messages. "Some of the tweets are a bit crude and provocative," says Dirik, whose savvy landed him a job as a social media editor at the U.K.'s *Daily Mail* newspaper in December. But "it's got a voice instead of just Instagramming food images and saying today's special is so-and-so."

One advantage of Twitter is that it's free, while on **Facebook**, by contrast, large brands increasingly have to pay to win more fans. "Small businesses like a pub, florist, and restaurant can all have a social media voice on Twitter because it's the same for everyone, while Facebook is becoming a paid platform," says James Whatley, head of social media at ad company Ogilvy & Mather.

A half-hour walk from Mangal 2 is the Dolphin, a pub that has more than 22,000 followers on Twitter. Its feed is run by David Levin, a 33-year-old patron who was once a writer at MTV. Levin set up @The_Dolphin_Pub when rumors began circulating that the building had been torched during street riots that broke out in London in 2011. The next day the feed had 1,000 followers, and it soon gained recognition for tweets such as: "FYI: for the price of a gym membership, you could take a skipping rope to the pub three times a

week and drink gin while you work out."

Although the pub now has its own Twitter account, @dolphinhackney, Levin still tweets under the original name with the owner's blessing—and has eight times as many followers. "Twitter is now part of the equation for branding," says Levin, who accepts pints as payment. Levin also has tweeted professionally for **Adidas**,

30%
Increase in sales
Arena Flowers
attributes in part
to its popular
Twitter feed

L'Oréal, and **Ikea**, where he posed as a single mom in her mid-20s in support of a TV ad campaign about making do with small spaces. Last summer he set up a group of social media writers-for-hire called That Lot. The collective runs one-day Twitter training workshops, charging £120 (\$200) per person. Levin's advice: Be short, be topical, and engage with followers.

Will Wynne, a former private equity banker at Crédit Agricole who founded an online florist called **ArenaFlowers.com**, turned to a pro to pen his Twitter feed. Since it was started 18 months ago, the account has attracted about 22,000 followers. Wynne's aim was to get readers to think of flowers beyond the handful of special occasions when most people buy them. He says sales have increased 30 percent since his Twitter feed started posting tweets such as "When you're asked what your weaknesses are at a job interview, look lovingly into their eyes, place your hands on theirs and say 'You.'" While Wynne doesn't attribute the sales boost entirely to the 140-character witticisms, "there's no doubt Twitter has helped," he says. "Twitter has humanized our brand, and in the end, life's too short and we like to have a bit of fun." —Kristen Schweizer

The bottom line Small businesses are using offbeat—and often profanity-laden—Twitter posts to reach new customers.