The Most Innovative Entrepreneur Is ...

SMALL BUSINESS: A SPECIAL REPORT

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Last week: **DJIA** 12153.68 ▲ 170.44 1.4% **NASDAQ** 2678.75 ▼ 0.3% **NIKKEI** 8514.47 ▼ 3.3% **STOXX 600** 240.98 ▲ 0.5% **10-YR. TREASURY** new, yield 2.056% **OIL** $98.99 ▲ $4.73 **EURO** $1.3755 **YEN** 77.15

And the Most Innovative Entrepreneur Is...

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of success, it's also critical to regularly set aside time to investigate potential alternative sources of revenue.

"I always have a plan B and a plan C for just in case," says Mr. Shafrir, 64. "You never know."

Here's a look at the other finalists in the competition, and what they did to stay afloat.

CUT YOUR EXPENSES BY GOING D.I.Y.

Alejandro Velez and Nikhil Arora seemed destined to launch a company together. Before they had even met, they went to the same teacher at the University of California, Berkeley's business school for advice on the same offbeat business idea: growing gourmet mushrooms in used coffee grounds, rather than pricier fertilizers and wood.

After the teacher brought them together, the new partners approached neighborhood coffee shops offering to haul away their waste free. In a fraternity kitchen, they grew their first crop of mushrooms in a coffee can filled with discarded grounds—and it worked.

"We got so jazzed about that first bucket," says Mr. Velez, now 24, who turned down a Wall Street banking job to co-found **Back to the Roots** LLC with Mr. Arora in April 2009.

The company saw strong sales at a local Whole Foods and nearby farmers' markets. But scaling up proved tricky. Even though raw materials were cheap, other parts of the business were getting expensive, and financing was tight. It didn't take long before the partners outgrew an 800-square-foot warehouse and payables were already much higher than receivables, Mr. Velez says.

"We came to a crossroads in the business where we could have tried to become regional mushroom farmers," says Mr. Velez. "But we weren't mushroom farmers."

Instead, they used the technique to develop grow-your-own mushroom kits, eliminating the need for a costly infrastructure. The kits can produce 1.5 pounds of mushrooms in just 10 days.

Today, the company collects some 20,000 pounds of used grounds from area coffee shops and repurposes them into growing kits (as well as a separate product, $10 bags of nutrient-rich soil). Whole Foods and Home Depot are now stocking the kits, with deals in the works with SkyMall and Wegmans. This year, revenue hit $1.1 million, up from $240,000 in 2010.

"We're profitable after just two years," says Mr. Velez. "But even better, we're reconnecting people with growing food again."

GIVE THE CUSTOMERS WHAT THEY CAN AFFORD

Many small businesses in the housing industry grew with the real-estate boom—and then went bust when the bubble burst. Not **Henrybuilt** Corp.—thanks to some quick thinking by founder and Chief Executive Scott Hudson.

The Seattle firm specializes in designing kitchens that range from $30,000 to $100,000. Launched in 2001, the company expanded quickly. In 2006, it opened a New York City showroom, which doubled in size in just 18 months. By 2008, the company was working on some 200 projects in the U.S., Mexico and Canada, and sales had tripled since 2004.

In October 2008, sales came to a standstill. "Everyone was canceling projects," says Mr. Hudson, 50. Over the next two months, the company lost hundreds of thousands of dollars of revenue, he says.

With clients shying away from the high-cost renovations, Mr. Hudson launched a subsidiary in 2009 called Viola Park Corp., which provides clients with a modular option based on the Henrybuilt designs. Rather than working with an architect, clients use the company's software to configure and customize the layout and design to their liking—a cheaper and quicker process that costs roughly half what the Henrybuilt kitchens do.

"We listened to the market, rather than waiting to get back to the old days," Mr. Hudson says of the strategy.

Since Viola Park launched, both businesses have collectively grown about 10%. Viola Park now represents 20% of the company's revenue and has doubled every year.

But the biggest benefit to the company has been psychological, says Mr. Hudson. When things got tough, he laid off two of his 25 employees. But after Viola Park launched, the two divisions grew to a combined 30 employees, who felt excited and inspired amid the industry's turmoil. "It drove morale," he says. "We created opportunity in a time when everything else was contracting."

SEE A PROBLEM, SELL A SOLUTION

Shane Bauer started **Laughingstock Design** as a graphic-design and custom greeting-card company in 2007. But the downturn left fewer businesses and families able to afford its high-end custom cards, which required a first-time outlay of at least $40 to create a graphic using a likeness of the recipient's head. His Duluth, Minn., business needed a new revenue stream.

Mr. Bauer was inspired by a T-shirt on display in a department store featuring the words, "Bite Me." He thought there might be a market for shirts with positive slogans to counteract that kind of negative message. "I thought, man, things are getting pretty bad," says the 35-year-old.

So, he created Happy Space PositiveWear, a line of casual clothing and accessories that pair his intricate graphic designs with positive messages—such as a guitar with the slogan "Live In Harmony."

Mr. Bauer now sells more than a dozen different designs, up from six in 2008, and expects his business to generate about $100,000 in sales this year. The success of the new products led Laughingstock Design to open a retail store, Happy Space, in April 2010, and to hire its first outside employees—two part time and one full time.

TAKE YOUR IDEA AND KEEP TINKERING

Courtney Tudor of Madeira, Ohio, spends his weekdays designing jet engines at GE Aviation. But on the side, he's honing **Mr. Bigshot** Inc.—a company that tries to have some fun with the stock market.

Mr. Tudor, 50, grew fascinated with the market while seeking an M.B.A. at Xavier University, and wanted to capture in a game the thrill of investing. In 2000, he created the company, funded by the proceeds of his own stock investments and backed up by financial data and market results for 45 years.

The idea: Players can go back in time to play the market through rounds of investing. For instance, they might go to Jan. 1, 1969, and follow two companies (known by aliases) for the year. Every quarter, they decide whether to sell or switch to another company.

Mr. Bigshot started out as a board game, followed by a downloadable computer version. But sales were meager. And when the *real* market plunged in 2008, Mr. Tudor's source of capital dried up.

Then he got what he describes as his breakthrough idea: an online multiplayer version that can be used to conduct a "Massive Market Madness Tournament" with thousands of high schools across the country.

His next steps are to conduct trial tournaments in a few area high schools, incorporating the feedback from students and teachers. Then he intends to hold a regional tournament in the greater Cincinnati area.

To be sure, his big idea hasn't been tested. But it was recently among those that took top honors in a business-launching competition at Xavier, and as the prize Mr. Tudor will get consulting services to help him move forward.

WHEN NOBODY'S BUYING, SCRAP YOUR PLAN

Mid-2009 was a scary time for Merrimac Dillon, founder of **Pillow Bar** LLC. Some $400,000 in potential licensing agreements for her custom pillow-making machine suddenly fell through as customers became too nervous about the economy to commit. To keep the company going, she realized, the business model would need a risky overhaul.

Ms. Dillon, now 52, first designed and constructed the pillow machine in her Dallas garage in 2007, after an extensive and unfruitful search for the perfect bedtime headrest. For $12,500 a year, she licensed the machines to high-end linens stores, which used it to make customized and personalized pillows according to their customers' sleeping positions and shoulder widths. The pillows cost $195 to $295. By mid-2009, the company had made about $400,000 in sales. It had placed eight machines in stores and had a waiting list of 30 interested retailers.

But the honeymoon didn't last long. The economy lagged as the normally busy holiday season approached, and retailers were less prepared to make capital investments—22 on the list told Ms. Dillon they didn't have the cash.

"They wanted me to float it, and that scared me," she says. "What if I float it and they can't pay? It really made us stop and say, 'Now what?'"

Some retailers asked Ms. Dillon if she would offer ready-made pillows. She didn't like the idea. The machine gave customers a unique buying experience, she reasoned. They liked watching the down feathers swirl in the machine, and the assembly process.

But Ms. Dillon decided to give it a try. She started wholesaling the 12 pillow varieties most commonly requested. And the business took off. Ms. Dillon moved manufacturing operations into a 3,500-square-foot work space with a loading dock. She also opened an online store.

Today, the ready-made business accounts for 60% of sales. The company, which now has four employees, will exceed $1 million this year, Ms. Dillon says. "We could move quickly as a small company," she says. "We wouldn't be afloat if we hadn't made the change."

CORE BUSINESS WEAK? ADD A NEW ONE.

When Dawn Cameron launched **Sanctuary T**, a small New York City restaurant, in mid-2007, she naturally expected it would take time for the business to turn a profit. But the former banking professional never imagined the wait would last more than two years, or that she would need to dip into family savings to cover payroll.

Ms. Cameron, 37 years old, says she might not be in business today if she hadn't branched out—and gotten help from her employees. In the summer of 2008, she and her 15 staffers put their heads together to create a line of four tea-infused cooking spices.

Since money was tight, the seasonings needed to be prepared and bottled by hand, with labels designed and printed in-house. Ms. Cameron, at the time pregnant, visited a dozen local grocery stores to drum up orders. She also pitched media outlets for press coverage. "It was a very stressful but exciting time," she says.

Within a few weeks, efforts started to pay off. A buyer for one specialty grocery store placed an order on the spot, and the New York Times ran a story about one of the company's new spices. Next, Ms. Cameron says she invested $10,000 on upgrades that included beefing up the company's website, buying product-liability insurance and adding new packaging with nutritional information and bar codes.

As more wholesale orders came in, Ms. Cameron says some local clients agreed to let her to run in-store demos. As a result, she says, traffic to the restaurant and her online store increased.

Today, Sanctuary T's Dust-T spices are for sale in 19 grocery stores in four states and Washington, D.C. Ms. Cameron expects the business overall to post $1.2 million in revenue this year, up from just $400,000 in 2008.

"It felt counterintuitive to try to grow the business in the face of declining sales in a recession, but that's what it took to survive," she says. "I'm glad we had the courage to do it."

FIND A NEW WAY TO BROADEN YOUR BASE

Brian Linton, 24, was on shaky ground when the retailers that sold his company's coconut-wood jewelry suddenly halted orders in late 2008. But he found inspiration in an unlikely place—trash-strewn beaches.

His company, **Sand Shack** LLC, based in Philadelphia, had taken off earlier that year. He had established a customer base of small beachside boutiques and surf shops on the East Coast, as well as one national retail chain, and had reached $150,000 in sales. The firm had a green streak, too—5% of the proceeds were donated to environmental-education and conservation organizations.

After the financial collapse, however, "the only thing keeping us afloat were a few key accounts," says Mr. Linton. A few dozen boutiques out of several hundred were still ordering by mid-2009. And the 5% donations were a burden on the company.

Mr. Linton and his two employees brainstormed how to turn the business around without losing its environmental mission. Their concept? Instead of donating cash, the company would collect one pound of trash—mostly on waterways and beaches—for every product sold. Each cleanup involves a few hundred of those small loads at once; the company says it has pulled in 40,000 pounds to date.

Mr. Linton moved core operations to a new division called United By Blue, which sells hoodies, handbags and T-shirts. The company, he realized, could be more competitive if it had more items to offer, and it could build a stronger brand if its merchandise sported the company logo.

The business model had instant appeal to a whole new retail base—outdoor-industry stores, specialty clothing stores and certain supermarket chains. Despite the dismal first half of the year, sales in 2009 stayed flat.

Last year, sales hit $350,000. And this year they could double, Mr. Linton projects. Now, United By Blue is going international, thanks to interest from Japanese retailers. And the company has caught the attention of a major auto manufacturer that wants to launch a cross-promotional campaign by providing cars for the company's clean-up efforts.

"The recession made us think in a different way," says Mr. Linton. "Some companies throw money at a problem, but we want to internalize it and solve it ourselves."

DON'T GET STUCK IN A DEAD END

Four years ago, **Travelers Haven** LLC, a Naples, Fla., real-estate rental firm, found itself in the epicenter of the housing crash. Demand in the rental market dried up and nearly drove the fledgling company under.

"We could've gone down with the rest of the housing market there," says Elia Wallen, 28, the firm's president. Instead, he decided on a new direction—worker-relocation services.

As the recession set in and jobs became scarce, more Americans were willing to follow jobs wherever they went and for however long. Usually, corporate housing services and staffing firms own properties or rent them long term, which means they can sit empty for long stretches between tenants.

Travelers Haven offered to handle the task at lower cost. The firm would use proprietary software to track the availability of short-term rentals and match it with the needs of clients.

To better tap this emerging market, Mr. Wallen and a handful of remaining employees pulled up stakes and moved to Denver. Their time zone allows them to work within the 9-to-5 office hours of staffing firms on either coast without having to start too early or stay too late, he says.

Since leaving Florida, the firm has grown to 35 full-time employees. Revenue rose to $10.8 million last year—doubling from 2009 and up from an average of $1.3 million in 2007 and 2008. The company expects revenue to hit $20 million by the end of the year. "We started off imitating every Tom, Dick and Harry in the real-estate industry, where you earn a commission, shake a few hands and that's it," says Mr. Wallen. "We took a traditional model and turned it on its head."

SOMETIMES IT HELPS TO TURN DOWN WORK

Rebecca Geier, 42, and Wendy Covey, 37, were colleagues for more than a dozen years at a marketing firm. In early 2008, they got together to build **Trew Marketing**—a venture that they hoped would bring them more balanced lives as well as new challenges.

The agency got off to a strong start, but the recession took its toll. By the end of 2008, prospective new work was thin for the Austin, Texas, firm.

The founders decided to narrow their focus, concentrating on business-to-business projects in engineering and science markets.

Their reasoning: It takes a lot of hands-on work to deal with scientists and techies properly. If they were doing other types of work, it would take their attention away from tech-oriented clients. And their reputation might suffer as a result, costing them recommendations and jobs.

That meant turning business down, including clients like a city looking for help with economic-development projects and a start-up that wanted to develop a website. Each of those jobs could have comprised from 12% to 20% of Trew's sales, Ms. Geier says.

They also put more of an effort into optimizing traffic to Trew's website. That meant redesigning the site to match their new focus, adding a blog and offering a free downloadable book, "Smart Marketing for Engineers."

The result: Trew thrived during the recession. Revenue is on track to grow a projected 194% this year over 2009. What's more, the pipeline of work is healthy, and comprised of the kind of technical marketing the firm is best at, Ms. Geier says.

The Readers Vote: Surviving Runaway Success

The winner of the people's choice award nearly didn't survive the recession. Not from a *lack* of business, but from too much.

Launched three years ago in San Francisco, **Thumbtack** Inc. provides an online marketplace for local services. It took off as cash-strapped consumers sought deals from neighborhood businesses on everything from household repairs to haircuts.

But its small team couldn't handle the sudden rush of businesses looking to list their services. The company was spending more to post the listings than it was making in fees. Yet it needed a steady flow of new listings to stay profitable.

"We were getting hundreds of submissions every week," says co-founder Alexander Daniels. "But we just couldn't afford to integrate them into the site."

Even with the backing of angel investors, the site was headed for bankruptcy—and needed to dramatically lower its costs. The answer? Looking abroad for contractors to pick up the slack.

With just a dozen full-time workers in San Francisco, the site now has 140 contractors in the Philippines. Most of them are stay-at-home moms who handle new listings and customer service, among other tasks.

Crucially, the extra help allows the site to vet all of its listed services, which Mr. Daniels says gives it an edge over similar sites that simply put up listings. "We would not be able to operate the site today without the team in the Philippines," he says.

With their help, the site has grown to 225,000 listings from 10,000 in 2008.

—*Angus Loten*

FIND A NEW WAY TO BROADEN YOUR BASE

Matt Sorrento

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