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SPECIAL BONUS SECTION

HOW TO BUILD A BOARD OF ADVISERS

ScanDigital processes 100,000 images a month.

But there are few barriers to entry in the scanning business. Is that a big worry?

ScanDigital converts old photos to digital format. Customers send in their loose snapshots or albums, and the company scans and color-corrects them. The photos are given a permanent online home on the company's photo sharing site, to which customers can upload additional images. The originals are sent back to the customer typically within a week, along with a CD/DVD of the images. ScanDigital also handles conversions of reel-to-reel footage and VHS and camcorder tapes. The El Segundo, California, company charges \$89.95 for the first 100 photos, with prices rising from there.

The founders: Anderson Schoenrock, 23, and Michael Mothner, 27, met in college. After school, Schoenrock took a job at Lehman Brothers, and Mothner started a Web marketing company called Wpromote, which earned the No. 62 spot on last year's Inc. 500 and is on track to do \$10 million in sales this year. Two years ago at Christmas dinner, Mothner's mom, who had just received a digital camera, mused that it would be nice to do something with all the old photo albums in her basement, and the idea for ScanDigital was born.

The numbers: The partners invested \$350,000 in the start-up, which grossed \$200,000 in 2007. This year, revenue is on track to hit \$900,000, with \$569,000 in gross profit. That's about right for a service business. Expenses are still outpacing revenue, but Schoenrock expects that to change shortly. ScanDigital actually came within \$3,000 of breaking even last December, but then the partners decided to add equipment and a few more workers to ensure speedy turnaround. Flight now, the company's heat-conducting cabinets at 19, and its payroll is \$437,000.

The market: Online photo sharing is wildly popular. But even as more images end up on the Web, the market for scanning prints—which Schoenrock pegs at more than \$1 billion a year—remains fragmented. Any college kid with a scanner can start this kind of business, after all. And Scan-

digital is not the only company that aspires to be a leader in the field. ScanCafe in Burlington, California, charges much less than ScanDigital by sending all photos to India. Schoenrock argues that ScanCafe's eight-week turnaround time is unappealing to prospective customers, as is the thought of sending precious photos halfway around the world.

Another rival, DigMyPics in Gilbert, Arizona, appeared to be making some headway until a building fire destroyed many of the photos in the company's possession. Flickr, Shutterfly, and Hewlett-Packard's Snapfish digitize images from film, though not from existing prints. Someday they might decide to take on ScanDigital, too.

Challenges and opportunities: Repeat business and referrals account for more than half of all revenue, but the company, Schoenrock admits, still has to "convince people that our process is secure enough." To calm customer fears, ScanDigital maintains an online tracking system that lets customers follow their photos at every stage in the 14-step fulfillment process. All digital files are backed up on off-site servers; after the DigMyPics fire, Schoenrock ordered fire-resistant cabinets.

Besides its consumer business, the company is also pursuing commercial work. It recently signed a deal with the city of Pasadena to scan, edit, and archive 15,000 slides, mostly of historic buildings and homes. —*Dorina Finn*



ADVICE FROM CHRISTOS M. GOTSAKOS

Gotsakos is the former chairman of E-Trade and the founder of Moli, a social networking website.

"MY INITIAL OBSERVATION IS that this is a niche venture with limited upside potential. There's no barrier to entry for competi-

tion, which is the first warning sign. Shutterfly could do this in a heartbeat.

"Secondly, the most important thing for a start-up is access to capital, and I think Schoenrock and Mothner may be limited to private placements with friends and family. They should try to be as cost effective as possible and try to generate their own cash flow, because raising money could be very difficult.

"I think they spent a lot of quality time in figuring out how to build a website that is clean and easy to navigate, and that's important. But to get people to the site, the company will have to deploy a lot of cash to make itself known, and that marketing money is going to be a drag on revenue. And I worry that the cost of acquiring an account is going to be greater than the value of the account, because there's no recurring revenue stream. You go through your closet and bring your photos to ScanDigital or someone else, and then you're done. It's a one-time deal.

"I think they should look for a way to acquire smaller companies that do similar things, like photo sharing, photo collaboration, photo merchandising. Another option is to hook up with a trusted brand, like Nikon, Kodak, or Konica Minolta, and figure out how to get sponsorship with them on the site. A



Picture Perfect
Anderson Schoenrock (left) and Michael Mothner came within \$3,000 of breaking even last December.

big camera company could offer free scanning with ScanDigital with every camera purchase or upgrade. You give yourself credibility by association, and it helps build trusted brand value. Then the business becomes a little more interesting."

FINAL THOUGHTS FROM SCHOENROCK & MOTHNER

"We agree that we need to move quickly and be aggressive to build our brand. And we hope we'll be able to get by on self-funding. Venture capital is the

Photograph by Sam Cohen



ScanDigital's Reality Check:

1. It's a service that customers may use only once.
2. The company could face competition from major photo sharing sites, not to mention any college kid who owns a scanner.
3. People are understandably reluctant to hand over their prized possessions to a company they have never heard of.

last thing we want—we don't want to be subject to that kind of monitoring and restriction.

"In terms of competition, a big company could copy us, but we think Christos is oversteering how easy that would be. Our process is labor intensive. And Christos's hypothesis that the acquisition cost is greater than the actual value of the customer is off. Our average order is \$330, so the first time we interact with a customer, it's profitable. Plus, word of mouth is huge, so for a majority of our customers, there's zero marketing cost. And we do get residual revenue from them: 15 to 20 percent order mugs, prints, DVD slide shows, and calendars. Finally, we agree that partnerships will be key to growth. We have our eyes on home organizers, scrapbooking companies, and businesses in the wedding industry."