THE GET AHEAD GUIDE
HOW TO LAUNCH A SUCCESSFUL START-UP

Five young entrepreneurs get feedback (and some tough love) from the brains behind E*TRADE, AOL, LIZ LANGE & BRAVO'S TOP CHEF

THE START-UP
Why Erin McKenna of BabyCakes NYC is hot to franchise

THE MENTOR
Why Top Chef's Tom Colicchio says, "Not so fast"

July 2008 $4.99 US $5.99 Canada
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 origirals 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 founder: Anderson Schoenrock, 30, and Michael Moltzner, 27, met in college. After school, Schoenrock took a job at Lehman Brothers, and Moltzner started a Web marketing company called Viproplex, which earned the No. 12 spot on last year's Inc. 500 and is on track to do $20 million in sales this year. Two years ago, Schoenrock hosted a Christmas dinner, Moltzner's mom, who had just received a digital camera, missed it; 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 $30,000 in the start-up, which grossed $200,000 in 2005. This year, revenue is on track to hit $800,000, with $800,000 in gross profit. That's about right for a service business. Expenses are still outpacing revenue, but Schoenrock expects that to change after the company actually came in at $300,000 of breaking even last December, but then the partners opted to add equipment and a few more staff. Now, ScanDigital is actually up 15% from its first month and it's been solid turnaround. Right now, the company's head count stands at 10, and its payroll is $43,000.

The market: Online photo sharing is widely popular. But even as more images end up online, the Web, the market for printing—where Schoenrock is pegged at more than $3 billion a year—remains fragmented. The college kid with a scanner can start this kind of business, after all. And ScanDigital is not the only company that aspires to be the leader in the field.

Cotsakos 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 market with limited upside potential. There's no barrier to entry for competition, 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 Mother 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 it well 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 big-camera company could offer free scanning with ScanDigital with every camera purchase or upgrade. Give customers credibility by association, and it helps build trusted brand value. Then the business becomes a little more interesting."

Photograph by Sam Cohen.