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Minnesota

2007 BUSINESS BUILDER edition

LEARN HOW TO:

- Create a service culture
- Get crisis plan in place
- Remove barriers to customer
- Make big decisions wisely

LESSONS LEARNED BY 3 TOP CEOs

Caldrea, Compellent and Rex founders tell all

- Write non-competes without loopholes
- Hire well with one-page profile
- Learn from others to grow
- Choose correct management style
- Put good words in their mouths
- Quit fighting price wars
- Perform like a street actor

HOW RAINBOW TAXI BUILDS A REPUTATION

HOW PARASOLE GENERATES IDEAS THAT SELL

HOW SMART LEGAL BOOSTS STAFF RETENTION

- Avoid personal tax risk
- Fix biggest tech pains
- Guard trade secrets
- Pass on family business
- Make a small staff mighty
- Decide if patent is worth cost

Lessons learned

Three CEOs tell how they're building their companies

by *Beth Ewen*

illustration by *www.victorgad.com*

Upsize: Each of you, please describe where your company is today, and what were some key actions that led to its success so far. I'll ask Monica Nassif of Caldrea to begin.

Monica Nassif, Caldrea: I started the company because I had an epiphany about cleaning products. I thought they were actually an insulting purchase. You kind of had to buy them. I grew up in the retail industry, at Target, and I saw these cleaning products and thought, "Why can't it be like Aveda or whatever, your favorite brand of lotions and potions?"

We started in the late 1990s, and we were out raising money and the only ones who were giving money were the high-tech guys. We started Caldrea, named for my two daughters, and when you go against the big gorillas in the mass marketplace, you need a lot of money, which we did not have. We realized very quickly that we had to go to the high-end, luxury category.

We realized quickly we had a concept that was viable. We looked at the data and said 72 percent of all household cleaning products were purchased in grocery stores. We created Mrs. Meyer's Clean

ABOUT THE PANELISTS

Upsize invited three CEOs to share their stories at a panel discussion in March, and presents an edited version here. Upsize Editor Beth Ewen was moderator.



Monica Nassif is president of **Caldrea Co.** in Minneapolis, which makes aromatic cleaning products, including the Mrs. Meyer's Clean Day brand.



Steven Schussler is CEO of **Schussler Creative** in Golden Valley, which develops and sells restaurant, retail and entertainment concepts, including T Rex Cafe. He is the founder of Rainforest Café, which he took public in the mid-'90s and sold to the company that operates restaurants for Disney.



Phil Soran is CEO of **Compellent Technologies Inc.** in Eden Prairie, which makes data storage systems. He was co-founder of Xiotech, also in data storage, which he took from start-up to a \$360 million sale in five years.

Day. That's named after my mother, Thelma Meyer. She's kind of the original earth mother, so we drew a lot of inspiration from her. This is our fastest-growing brand now.

Our play is the very high-end, luxury category with Caldrea, and then Mrs. Meyer's for the mass market, in grocery stores.

Two things made us successful: One, we invested in a quality product. We spent a lot of money on R&D, and we didn't have a lot of money. We own all our own formulas. Not only do we have these beautiful bottles, but this stuff really works.

Two, my background is in brand-building. We wanted to build a brand that you actually would like to buy. We wanted a brand for people to embrace in the grocery aisle, in an aisle you don't typically like going to because you get a headache.

Upsize: Phil Soran, tell us about Compellent Technologies.

Phil Soran, Compellent Technologies: I always joke in high tech, people start businesses in their garages. In Minnesota it's too cold to start in the garage, so we start in basements.

We started in my basement in 2002. We had sold Xiotech and retired for awhile. We quickly decided from being retired, it's like being in junior high: You go outside and there's no one to play with.

So we started Compellent, and we've been doing real well. We're a venture-backed company. We've raised \$53 million in venture capital. We have 145 employees now. We'll do \$60 million this year in revenue. The company is across the globe.

One of our reasons for success is, we have good technology. But one of our big

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Caldrea Co.

reasons for success is our culture. We call the culture positive-aggressive. You can picture working for a negative-aggressive company, but ours is positive-aggressive.

Upsize: Steve Schussler, founder of the Rainforest Café and T Rex Cafe, tell us about your companies.

Steve Schussler, Schussler Creative: Schussler Creative is a creative laboratory, where we create theatrical and entertainment concepts for restaurants and retail stores. Everything we create is a better mousetrap. It's theatrically compelled to draw people, with good food and an entertainment experience.

Strangely enough, research and development is something that not a lot of people spend a lot of time and money on, because they can't afford it. R&D costs a lot of money, and building a brand costs a lot of money. Starting one from scratch,



let alone having 10 or 12 going at the same time, is very hard, especially when you have investors who say, stay focused.

We are focused, but we also think on many levels, and many investors like to see you on one track. And people who think on multi-levels have a good track record, but they need an opportunity to show that they can think on multi-tracks.

That's what we do, we have eight to 10

concepts that we develop at the same time. So if we go to a show in New York or L.A., our reps are not representing one product, they're looking at 10 different concepts that we've created, trying to see the applicable ways.

It's over-sensored. I tell many people they should bring two aspirins when they visit us, one for on the way in, and one for when they leave.

We try to hire inspiring, creative people. I think attitude says it all. We try to do things with a very upbeat and positive attitude. We don't like to say the word no. I think that's what's made us successful. I think successful people have passion, and passion becomes the engine of success.

Upsize: I notice you call what you do multi-track thinking. Is that the nicest thing people have said about the way you do things?

Schussler: Well, some people call it ADHD, some people call it ADD, but if you talk to any number of entrepreneurs, most entrepreneurs think on multi-levels. They usually have three or four or five things going on at the same time. It's a disservice to tell an entrepreneur that he or she should be focused, because he or she is focused but is thinking on multi-levels. If you have a gift, we should embrace it.

Upsize: Monica Nassif, I'm interested in the way you're developing two brands: Caldrea and Mrs. Meyer's. How did you do this successfully?

Monica Nassif, Caldrea: We started with Caldrea and the high end, and getting into specialty stores, simply because of our competition. We didn't have the money to go after Procter & Gamble, and others, they own the grocery stores. Also, we didn't feel the consumer seven or eight years ago could handle at retail an \$8 cleaning product instead of \$1.99. We created the Caldrea brand to stay high.

I've been in retail for so long. I learned it's hard to defy gravity. It's hard to go down into discount land, because once you do you have to stay there.

We created Mrs. Meyer's honestly to knock ourselves off before someone else did. And then also as we kept Caldrea high end, that's served us well to test concepts. Some things work, some things are absolute duds. We try to end those duds quickly.

Upsize: Phil Soran, you've raised a lot of venture capital for Compellent, and now you're looking at an initial public offering. What are you doing to go after that type of public money, and how is it different?

Phil Soran, Compellent: We started with angel money, and then we went into venture capital. It was real hard to raise

venture capital if you've never done it before. They always want you to have been successful somewhere else

Having been successful, with Xiotech, it's easier. We're going to the public markets for a couple of reasons. One is the valuations you get are just much higher, because tech is back. Once you have venture capitalists, they have one goal, to get liquid, so you have to get them liquid eventually. You almost have no choice but to do this.

The other big reason for us is branding. The brand is very, very important

"The brand is very, very important whether it's restaurants, soaps or data storage."

— PHIL SORAN,
Compellent
Technologies Inc.

whether it's restaurants, soaps or data storage. We're storing data all over the country, and they want to know you're going to be around, and that you're going to be surviving. The public markets is actually a good branding move.

Upsize: What's different about accessing public markets for capital vs. venture capital?

Phil Soran: It's a lot about momentum. If you have the right momentum, the public markets are very excited. V.C.s, venture capitalists, are very skeptical. They're trying to find out what's wrong with you. They always want to say maybe. They don't want to say yes, because they want you to get more desperate, because they'll get more of the company.

Investment bankers are motivated to say yes because they get a commission.

Upsize: Steve Schussler, you're known

for generating a lot of creative ideas. What's your process?

Steve Schussler, Schussler Creative: The process first is you have to like the idea, and then you have to fully submerge yourself in it. You spend a lot of time in libraries and in books, and then you spend a lot of time and money on the idea. I believe R&D — just like passion is the engine of success — without R&D you can't possibly sell something and be convinced of the brand working and taking it internationally.

We put our own money behind our own ideas. We're in there every day, and we're creating, and when something doesn't work we change it and we change it relatively fast. A lot of companies when they start don't believe in spending the money, and taking the time for R&D at the beginning.

Upsize: I want to ask each of you to address a few questions in turn. The first one is: Describe a turning point for each of your companies, something you did or that happened and things started to go much better.

Phil Soran, Compellent: For us, we've had a couple of moments. One was due to our PR efforts. Our business is SAN or Storage Area Network, and we were able to get SAN of the year, an award from the largest trade magazine out there. That's a gutsy move to send your product out there and you don't know what they're going to do with it. We did that and outshone the competition.

Monica Nassif, Caldrea: A turning point for us was the summer after we started we started private labeling, for Williams Sonoma. People said, "Don't do that." But we didn't have a lot of cash. So it was an instant and monthly case infusion, and it also helped us prove our concept with someone who's much bigger and better at branding than us. It gave notice in our industry that we were a player.

Steve Schussler, Schussler Creative: One was a gentleman named Lyle Berman deciding to put his money and get his friends to put their money in Rainforest Café. That opened up a lot of eyes and wallets and thought processes.

The other one was Walt Disney World. I told my investors that Rainforest Café

was an all-American concept. They told me not to go to Disney World because they thought they would steal the concept or turn us down. I decided to go anyway and spent four months pursuing it. And they took it.

Upsize: Steve Schussler, how many people did you talk to before convincing Lyle Berman, the gambling entrepreneur, to invest?

Steve: Lyle Berman visited my home in St. Louis Park, where I built Rainforest Café, 27 times over I think a 3 1/2 year period, and at one point he brought a bus full of all his employees, because he said, "you really need to see what this nut's created, and how far he's willing to go."

I tell people all over the world, if you truly believe in something — no matter what it is, don't stop. There are many nights when I'd look in the mirror and there were tears coming down my eyes, and I'd start laughing at myself as I was crying. I was really psycho. The bottom line is you really have to believe. They want to see you have a vested interest, and also that you're emotionally invested in it.

Upsize: The flip side of a turning point where things went right is of course the dark moments. Was there ever a time when something went terribly wrong?

Phil Soran, Compellent: If you're going to have a successful business you're always going to hit a bump. The cornerstone that we've used is when we hit the bumps we go in the basement and try to strategize together. If you met my two partners you'd know we are very different from each other, so if we can all agree we figure we probably have the right strategy. The other piece is, a lot of times you find a culture misfit. The sooner you get rid of that the sooner you'll be successful.

Monica Nassif, Caldrea: There are actually a lot of dark days when you start a business, because you have this crazy idea and people across the table will say, "no way." One of the memorable things I remember is, we had a very bumpy start. We couldn't get it off the ground. We decided to put some money behind a direct sales team. We invested a lot of money, and got a direct sales force. If you're going to fix it, really fix it. Don't go halfway.

Steve Schussler, Schussler Creative: I like to say I never have a dark day; I'm always positive. There's been many storms, many cloudy days. The most memorable black day was the day the DEA showed up at my house, and they had these blue coats with yellow letters. And my neighbors were all watching. They asked me to step outside of my house and said I had the most expensive residential bill in the region, and they thought I was growing marijuana. And they asked me to put my hands on the car.

They searched my house and they

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— STEVEN SCHUSSLER,
Schussler Creative

came out peeing in their pants and said, "We thought we had a drug guy but instead we have a nut. He's growing a tropical rainforest in his house and there are no marijuana plants."

What you have to do is laugh and smile and you have to say I'm building a brand and one day I'm going to be successful.

Upsize: I'm wondering what is the most important thing in your view that causes businesses to be successful?

Steve Schussler: You're depending on people. That's the biggest asset. Problem: management. Solution: management. You can't depend on yourself only. All three of us would want to clone ourselves, because no one's going to put more passion and time in the business than those who are creating it.

Phil Soran: Ditto.

Monica Nassif: I have a lot of people

say they want to try this idea. And rarely do I find someone with a thoughtful plan that they can execute. I surrounded myself with very good people who can execute. This was the third company I started and I knew what I wasn't good at. I found people who were very good at what I wasn't good at.

Steve Schussler: Ego is a killer. Most entrepreneurs need to have a healthy ego, but you also have to be realistic. That's a very delicate balance.

Phil Soran: In the technology space, you go back to Hewlett Packard and Microsoft, and the founders are still involved with the companies. And it's like what Steve said, they have the passion.

Upsize: What are the best lessons you've learned about business that you'd like to share with other business owners.

Monica Nassif: I have to share something I learned from a guy I went to see. He took one look at the concept and said, "Oh, it's instantly intuitive, this should work." The closer you are to instantly intuitive the less time and money it takes. So whenever I launch a product, launch a brand, I ask myself, "Does it instantly resonate off the shelf?" Because that's the amount of time you have to connect with the customer.

Phil Soran: I'd say dealing with people, people are going to do well what they like doing, so find what they like doing and get them doing it. My end of that is, as the head of the company, watch out for the employees. The V.C.s, they don't watch out for the employees. Remember, those are the people who got you there.

Steve Schussler: Trust your gut and your instinct. Usually when we feel something, it's right on.

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