*Written by: Joshua Kessler*

**Gordon Segal** of Crate and Barrel (gives feedback / oppinions)

**The Start-up: Nanda Home**

**The Founder: Gauri Nanda**

Rochester Hills, Michigan

**The business proposition:** Part iRobot (NASDAQ:IRBT) and part Kate Spade, Nanda Home creates cute, clever products that are intended, in the words of its founder, to "humanize technology." The company already has one hit: Consumers have snapped up more than 9,000 units of a $50 plastic alarm clock. Set the alarm for 6 a.m. When the time comes, the clock wheels itself off your bedside table and rolls around the room, emitting R2D2-like squeaks. Dubbed Clocky, the little robot is manufactured in China and sold online and in design boutiques. The company also has a line of handbags designed to accommodate laptops.

**The founder:** Gauri Nanda designed Clocky as a graduate student in MIT's Media Lab. The daughter of entrepreneurs--her parents recently sold their small weekly newspaper in Detroit--she aspired to become a designer at a large technology company. "I was opposed to the idea of starting a company," says Nanda. "I saw the hours my parents worked."

After presenting Clocky to her class in the fall of 2004, she threw it in the back of her closet. She'd almost forgotten about it until the next spring, when several tech bloggers stumbled upon a photo of her invention online. Suddenly, Nanda was getting contacted by reporters and TV producers. *Good Morning America* called. She scrambled to fix the buggy prototype in time for its debut on network TV.

Nanda, now 27, left MIT with a master's degree that fall and began considering her options. Licensing the clock seemed like the easiest move, but she couldn't bring herself to give up control. "I had all these ideas about how it should look and behave," she says. After finding a manufacturer on AliBaba.com, a Chinese business-to-business website, she went to Hong Kong to oversee production. The first run of 500 clocks sold out almost immediately online.

**No. of full-time employees:** None. The company outsources manufacturing, fulfillment, and some design. In addition to one part-timer, Nanda's parents have been helping her run the company.

**Capital raised to date:** $80,000 from family

**Market potential:** The market for gadgetry is large, accounting for $145 billion in the U.S. last year, a 13 percent increase from 2005, according to the Consumer Electronics Association. The group estimates that the average American spends $1,200 on electronics annually. Meanwhile, consumers seem to be increasingly willing to pay a premium for design--witness the proliferation of iPods, Razr phones, and Design Within Reach stores.

**Revenue projections:**2007: $1 million
2008: $3 million
2009: $4 million

**Cash-flow picture:** The company broke even in February, after only two months of sales, and Nanda expects to have cash flow of $650,000 this year. In 2008 she's projecting $2.1 million in cash flow and by 2009 $3 million.

**Competition:** Knockoffs are inevitable. Plus there are similar products, such as the Blowfly Alarm Clock, an invention that shoots a ball into the air when it's time to wake up. Fashionable laptop bags exist, but no company yet dominates the market. Seattle-based LaLa laptop offers a line of laptop handbags starting at $150. Nanda's bags cost $58.

**Growth strategy:** Right now, Nanda is trying to expand retail distribution. She's talking to Brookstone and Target (NYSE:TGT), and hopes to sell Clocky through these and other retailers by the end of the year. With the laptop bags, Nanda is focusing on small design stores. "The bag is about building a brand," she says--that is, she wants to communicate to consumers that she's more than just a funny alarm clock. To that end, she's hoping to add more colors and styles, including a men's bag.

**Challenges:** Is it a product, or is it a company? Nanda says she hopes to have a number of new products launched by 2009, but she's not saying what they will be. New versions of her current offerings are in the works, but with no full-time designers and no sales force it's impossible for Nanda to guarantee that she'll be able to duplicate Clocky's success.

Returns could be another challenge. So far, only a few defective clocks have been returned, but a run of shoddy product could overwhelm Nanda's paltry customer service operation. Finally, the ability of Nanda to juggle all aspects of running the company is reaching its limits. "You can pretty much outsource anything today," she says. "But I'm getting to the point where I'm micromanaging everything." She plans to hire a sales and marketing manager in the near future.

**Opportunities:** Don't underestimate the power of a single hit product. Five years after the release of the Roomba, iRobot's vacuum cleaner line still accounts for 60 percent of the company's annual sales of $189 million. Meanwhile the Sharper Image (NASDAQ:SHRP) has made a business milking one-hit wonders like the Razor Scooter, which accounted for $48 million in sales in 2000.

Nanda Home's long-term viability may depend on creating brand loyalty. That's no small charge, but the company is well ahead of most six-month-old endeavors. Despite limited distribution, it boasts thousands of customers, having sold more than 9,000 units to date.

And then there's Gauri herself. Most marketers would kill to work for a gorgeous brainiac CEO. As the *GMA* segment proves, she's a press magnet.

**What You Can Learn From Nanda Home**

* If you have to choose between paying customers and a fleshed-out business plan, choose the paying customers.
* Yes, you can outsource a lot.
* Charisma can be a powerful competitive advantage.

**Advice from Gordon Segal of Crate and Barrel**

My advice to Gauri is this: Put on your Nikes. You're going to have to move quickly.

Clocky is very clever. I think it will appeal to college students or anyone who has trouble getting up. But you can't build a company or a brand on a single product. The George Foreman Grill was a wonderful idea--and Salton (NYSE:SFP), the manufacturer, sold a lot of them--but in a few years there were many knockoffs. You can't depend on patents because your competitors will still figure out ways to knock you off, and it takes a lot of time and money to patent something. I don't think most start-up companies have that time.

To become a brand, Nanda needs more products. The laptop bags are a good start--they're more attractive than your typical bag. The issue is finding the market beyond the website in which to sell them. Gauri has to decide whether she wants to be a high-end brand, selling through upscale stores and boutiques, or middle to low-end, selling to big-box stores. Going into places like Target and Wal-Mart (NYSE:WMT) can be tempting because it's easy to sell a big order. But there are pitfalls: If you sell most of your merchandise to one or two retailers, you'll be dependent on them. And if you discount at Target, you won't be able to go upmarket into specialty stores.

Whichever market she decides to go after, she needs help. Getting distracted is the biggest problem entrepreneurs face. Gauri is innovative and creative. Now she needs someone other than her parents to market and sell the product. She needs to convince people with passion and enthusiasm for developing products to follow her. This is easier to do when you have a start-up because employees will be challenged intellectually and there will be lots of room for career growth. It's not about a bigger bonus or a longer vacation; it's about making them feel like they're doing something unique. I try not to think about "training" employees: Stanley Marcus of Neiman Marcus once said that you train dogs and elephants; you *educate* people. In fact, many of our senior managers have backgrounds in teaching school.

When my wife, Carole, and I started Crate and Barrel in 1962, we were at a golden point in time when you could start a company with almost no overhead and few regulations. Forty-five years later, the cost of doing business has gone up much more quickly than price, so today it's more difficult to start a company. We opened our first store with $17,000; today I think it would cost $300,000 to $400,000. Plus, it's harder to be unique today: In the 1960s, very few people traveled internationally. You'd stay in a small hotel in Italy and it would take three days to arrange an international phone call. Now the world has grown much closer, which is great, but it means that products like this face more competition. On the other hand, because there are fewer different stores and more homogeneity in retail today, uniqueness is more highly prized. If you can develop a unique design--something visually or mechanically clever, or something beautiful--you have greater opportunity today than you did then.

More than anything, being a successful start-up entrepreneur is about hard work. You have to be willing to work 12-hour days six days a week for the first five years. We didn't take off a week until 1970. Now people walk into my office looking for a job and they want work-life balance. They ask for three or four weeks of vacation, and I'm saying to myself, "Ha. That's interesting." I don't think you can do a start-up and have a normal life. But it's worth it. I couldn't have done anything else.

**Back to Gauri Nanda for some final thoughts:**

"Knockoffs are inevitable, but I think the best we can do is penetrate the market quickly with extensive distribution and introduce the next version of the clock when the knockoffs start. We have filed patent applications all over the world and hold the trademark for the Clocky name.

"Whereas this version is designed to appeal to a store like Target, the next version will be attractive to upscale retailers in terms of aesthetics, feature set, and price point. In the long term, our goal is to build the Nanda brand and we have a lot of exciting things planned for the Clocky product line, as well as other products for the home and for travel."

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