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SMALL BUSINESS | CASE STUDY

Seeking Even Faster Growth, an E-Commerce Company Stumbles

By ADRIANA GARDELLA APRIL 2, 2014

JIMMY BEANS WOOL is an online yarn and fabric retailer with a brick-and-mortar store in Reno, Nev. The company, which has 37 employees, was founded by a married couple who are former software engineers, Laura and Doug Zander, in 2002. After five years, sales were $1 million. They topped $7 million in 2013.

The Challenge

From 2007 to 2012, **Jimmy Beans Wool** grew organically at an annual rate of as much as 50 percent. But about two years ago, after the company earned **national recognition** for its growth, Ms. Zander began to think bigger. "Everyone in the business community was saying we could be a $100 million business," she said. That became her objective.

But last June, after Ms. Zander had put in place many strategies to grow even higher, Jimmy Beans's sales fell flat. In subsequent months, they dropped further. The Zanders had to stop taking salaries, pay employees out of their personal savings account and rethink their growth plans.

The Background

Founded as a small storefront shop, Jimmy Beans developed a loyal following online through its creative use of social media, most notably instructional videos and product reviews, which it started posting on **YouTube in 2008.** Sales took off.

Then, beginning in fall 2011, Jimmy Beans "fell into the trap of thinking, if we can sell yarn, we can sell anything," said Ms. Zander, the chief executive. The company began selling fabric, investing $150,000 in inventory. By offering fabric in addition to yarn, the Zanders thought, they would double their sales in three to five years.

With visions of becoming a destination much like L. L. Bean's **flagship store**, the Zanders moved Jimmy Beans from a 3,500-square-foot space into 20,000 square feet that included warehouse, office, and retail areas. They put $25,000 toward renovating the warehouse and remodeling the retail store.

Ms. Zander read business books and spoke to consultants, who advised her to spend less time guiding operations and more becoming an ambassador for her company. Counseled to "hire people who are smarter than you" and "just lead the ship," she increasingly left day-to-day operations to her growing staff and embarked on an all-out, national effort to make Jimmy Beans Wool a household name. She introduced numerous marketing initiatives, including a partnership with the **United States Ski and Snowboard Association** and support of **Heart Truth**, a National Institutes of Health campaign intended to increase awareness of heart disease in women.

To sustain these efforts, Jimmy Beans bulked up its marketing staff, which had consisted of Ms. Zander and four employees who also worked in the warehouse. Gradually, the marketing team grew to eight full-time employees. Additionally, Jimmy Beans made a high-level technology hire to give Mr. Zander, the chief technology officer, more time to focus on growth.

In her new role, Ms. Zander traveled constantly. When **Stitch Mountain**, a campaign to get athletes excited about knitting, began with a sampling tent in Park City, Utah, Ms. Zander was there to give away yarn and teach knitting. She also traveled to meet with the Home Shopping Network, discussed a partnership with **1-800-Baskets** and gave a **TEDx talk**. She had "grand visions," she said, of teaching knitting at corporate retreats and supplying yarn to attendees.

She also wrote books. One, "Stitch Mountain," showed winter sports enthusiasts how to create their own garments and accessories. Three others — "**Crochet Red**," "**Sew Red**" and "**Knit Red**" — reinforced Jimmy Beans' support of Heart Truth. Jimmy Beans donated about $50,000, a percentage of the sale of its

Stitch Red products, including the books, to Heart Truth.

Ms. Zander was confident her efforts would pay off in increased sales. Instead, sales flattened — and then began to decline. Expenses also spiraled. "We were spending too much money to spread the gospel," she said. Before long, the company ran out of cash. Morale suffered, too, Ms. Zander said, as Jimmy Beans experienced an identity crisis. It was no longer the family business where employees shared personal updates during morning huddles. The thinking had become, "We're big guys. We need to act like it," she said.

Desperate to get Jimmy Beans back on track, Ms. Zander hired another consultant. He was the first one "who spoke our language," she said. Working with him, Ms. Zander said, she realized that the very steps she had taken to expand the business had hurt sales. They spent too much money, and Ms. Zander got away from the hands-on, creative leadership that had given rise to the YouTube videos and other successful initiatives. Maybe, she realized, she should go back to spending more time in the office — but how would Jimmy Beans become a $100 million company? And was that even the right goal?

The Options

Working with their consultant, the Zanders developed a whiteboard full of ideas.

One of their biggest questions was whether to commit to selling fabric or stick with yarn and knitting supplies. "Who are we?" became the issue, Ms. Zander said.

They considered opening more stores around the country — with company-owned locations, franchises or both. "Brick and mortar is still very important in our industry," Ms. Zander said. While expansion could spur the growth they sought, they wondered about the lifestyle choices it would entail — including the travel and the need to manage retail employees from afar.

They also considered simply continuing to build their brand online, possibly with a greater emphasis on international sales. Jimmy Beans could begin advertising internationally and form cross-border partnerships. But growing outside the United States would entail some of the same lifestyle choices as expanding domestically. In effect, Ms. Zander said, they would be starting a new business that would require travel and money to master.

What Others Say

Rebecca Cenni, founder and chief executive of **Atrium Staffing**, a payroll and staffing company: "The Zanders should immediately cut costs and overhead. If they have a long-term lease on their newly renovated space, I'd recommend subletting part of the warehouse. Even better, seek a partner to purchase the fabric portion of the business and run it out of the rented warehouse space. They should return to a grassroots mentality, where costs are added intermittently. Organic growth will enable a stronger, more scalable expansion — even globally, if that's their goal."

Michael Kaplan, co-founder and chief executive of **Fashion to Figure**, a plus-size fashion retailer for women: "I urge the Zanders to return to basics and focus on what worked well initially. If they sell yarn well out of 3,500 feet, go back to that and expand by replication. Brand building around yarn would also enable more focus, which is critical in a family business seeking to expand to multiple locations. The good news: their formula worked to get to $7 million out of one location. Open another identical store before changing everything."

David Liu, a founder of **the XO Group**, a media company that provides content for couples planning weddings and families: "Fabric may operationally feel like an adjacent business. However, I'd guess that the consumer who knits is completely different from one who sews. It's also easy to fall into the trap of throwing marketing dollars at growth. Focus on cultivating an online community of consumers. Delight them and empower them to be your evangelists. By focusing on your consumers' needs rather than your need to reach $100 million in revenue, you'll, ironically, wind up getting there."

The Results

Offer your thoughts on the You're the Boss blog at nytimes.com/boss. Next week on the blog, we will provide an update on Ms. Zander's decisions.

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