**'Project Runway' for the t-shirt crowd**

**Online t-shirt retailer Threadless went XXL by making its customers part of a self-fueling marketing machine, reports Business 2.0.**

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(Business 2.0 Magazine) -- Jake Nickell and Jacob DeHart were fresh out of high school seven years ago when they had the idea that would make them millionaires. After entering an Internet T-shirt design competition, the two Chicagoans thought maybe that was the way all T-shirts should be made.

Most stores print a bunch of shirts and lose money on the ones people don't like. Instead, they figured, why not let customers rank designs ahead of time and then print only the winners?

The idea grew into an online store called Threadless that struck a chord with Web-savvy designers in Chicago and beyond; last year Nickell and DeHart sold $16 million worth of T-shirts.

The key to their success? High profit margins -- the shirts cost as little as $4 each to make and sell for $15 and up -- and a business model built on the care and feeding of an online community.

To keep the enterprise humming, Nickell, DeHart, and creative director Jeffrey Kalmikoff lead a team of 28 employees who are focused on getting customers to come back again and again -- and to bring their friends.

Threadless does it by working a simple formula. Every week, contestants upload T-shirt designs to the site, where about 700 compete to be among the six that get printed. Threadless visitors score designs on a scale of 0 to 5, and the staff selects winners from the most popular entrants.

The six lucky artists each get $2,000 in cash and merchandise, and the company gets a battle-tested design. Threadless sells out of every shirt it offers.

For the formula to work, though, Threadless needs an audience big enough to submit decent designs and score them -- so it helps that the website is a traffic growth machine.

When they built it, Kalmikoff says, the founders tried to think like contestants; they included all the features they thought they'd want if they were trying to gather support for their own entries.

"We're all about dissecting processes," Kalmikoff says. "The tools we supply to the community were designed for exponential growth." For example, everyone who submits a shirt design gets an e-mail marketing kit for luring family and friends to the Threadless site to vote on -- and maybe buy -- a shirt.

But most of the people who visit Threadless are potential buyers, not designers. To keep them coming back, the team devised a series of rewards. Upload a photo of yourself wearing a Threadless T-shirt, for example, and you receive a store credit for $1.50. Referring a friend who ends up buying a T-shirt is good for $3.

The stream of traffic generated by this viral-marketing engine results in 1,550 T-shirt sales on a typical day, Kalmikoff says. During a one-day sale this spring, Threadless sold 35,000 shirts; even better, the site's average number of daily visitors got a long-term boost.

New visitors to the site are encouraged to start blogs, upload photos, leave flirty comments, and otherwise feed into a growing community that spins off T-shirt sales almost as a by-product. Many customers also sign up for the Threadless newsletter; it's delivered to 370,000 e-mail addresses each week, Kalmikoff says, and 75 percent of recipients actually open it to see what's new on the site.

"Threadless isn't just offering T-shirts," says Frank Piller, a research associate at MIT who studies businesses that get customers to help design products. "It's offering an opportunity to participate in something that's exciting and interesting."

Not everything Threadless touches turns to gold. The founders tend to get into trouble when they veer too far from their original business model. Case in point: 15 Megs of Fame, a website where visitors could score their own songs and leave comments on music posted by others. Its plan to sell data to record companies failed miserably.

"As it turned out," Kalmikoff says, "the labels didn't really care what people liked." In October, 15 Megs closed for good.

Likewise, Naked and Angry, a site featuring products like wallpaper and neckties designed by top Threadless artists, has floundered while searching for a niche. In retrospect, the founders admit, not enough thought went into developing the concept. They simply approached manufacturers they knew and asked them what products they would like to make from the work of Threadless designers -- not an inspired plan from a team that had always been very careful to hedge its bets by giving customers exactly what they were looking for.

The Threadless crew is determined to avoid those mistakes in its next project, a 1,700-square-foot retail store in Chicago's Lakeview neighborhood, set to open this summer.

Kalmikoff envisions a lively space where mannequins in the front windows have LCD screens for heads; employees will snap headshots of customers and, with their permission, display them on the dummies.

Threadless is also in talks with software training firm Digital Bootcamp to offer in-store workshops where customers could learn basic Photoshop and Illustrator skills. Though Threadless has more than 250 shirt designs in stock at any given time, the store will display just the newest 20; customers who want more can go online.

Growing the website's influence, after all, is still the main idea. "The bigger and more active the community," Kalmikoff says, "the more sales go up." It's hard to argue with that formula.

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