

IVCA Private Equity Profile



Zorch International, Inc.

Nicole Loftus, Founder and Chief Executive Officer
Venture Capital Partner: **Ceres Venture Fund, L.P.**

A desire to stay in Chicago instead of moving to San Francisco helps explain how Zorch International Inc. came to be founded and based in The Windy City – and now one of the fastest-growing small companies in the country. Founder and Chief Executive Officer Nicole Loftus was moving up the ladder at Levi Strauss & Co., where she had spent seven years in Chicago, when she made the personal decision to stay rather than transfer to Frisco. Now her branding agency – which helps large companies buy marketing merchandise by creating a customized online store for each – ranks No. 28 on INC magazine’s 2007 listing of the 500 fastest-growing companies and is the fastest-growing Illinois company on that widely regarded roster.

After leaving Levi Strauss, Ms. Loftus, with a deep love of the apparel field, found a job in Corporate Express US Inc.’s promotional-products division. While at the major business-to-business supplier of office and computer products and services, she consistently heard three comments from customers. They complained about mistakes with their orders, that prices were too high and that they wanted fresher and better ways to promote their brand. Ms. Loftus spotted a business opportunity and, in 2002, the entrepreneur quit her job and began researching her branding-agency idea and taking some business school classes. (“It’s somewhat ironic,” she says, “that I was never very good at school.”)

One of her Master in Business Administration classes was in business planning and it prompted her to show her own fledgling business plan to her professor, who encouraged her to pursue it and even provided some capital and sweat equity. Her research showed that ample opportunity existed in the promotional-product industry, with annual revenues estimated at more than \$18 billion and with 23,000 distributors. In addition, with an average margin for a traditional distributor of 60 percent, she believed there was a way to offer better services at a lower price.

How Ceres Venture Fund Investment Benefited Zorch

- ✓ Initial funds helped buoy working capital, pay off loan, buy new technology, etc.
- ✓ Ceres managing director joined as director
- ✓ Zorch employment has doubled since then.

Today, Zorch is able to offer its clients products at a much lower price. While its gross margin is about 10 percent, the company’s costs are lower as it leverages manufacturers and their significant investment in infrastructure (such as accounts payable and customer service). In addition, Zorch often is the exclusive provider for a client.

Ms. Loftus seeks clients that, for the most part, will spend at least \$1 million a year on merchandise, so her clientele generally are large companies. Under the Zorch model, the company focuses on the brand and working with customers to ensure that everything positively promotes the brand. Zorch lets the manufacturers do what they do well, including customer service, manufacturing and the like. This means that manufacturers

are in direct contact with the customers. It also means that manufacturers are better able to ensure no mistakes are made with customers' orders – a key issue for clients. The direct contact with the customer is a real change from the traditional promotional products business and is something the manufacturers really like and this makes them vocal fans of Zorch.

Walk into Zorch's offices today and in one corner rest a wide variety of items, from golf balls and pens to umbrellas, with the AT&T logo placed prominently on them. In another area, the Chase name emblazons piggybanks, notebooks and other branded items. The displays not only underscore the importance that companies place today on promotional products and gifts, but they serve to illuminate just how large the promotional-products business is today.

When Zorch was just getting underway, Ms. Loftus, who is 36 years old, initially contacted some manufacturers and created a beta portal site. She also took the advice of Linda Darragh, a University of Chicago professor then at the Women's Business Development Center, to certify as a minority supplier so she could be considered by large companies that seek to enhance their supplier-diversity record. But big companies worry about small suppliers failing. So each of her clients, she says, audited Zorch to ensure she had enough financial resources available.

She favors her Chicago location because, she says, "it's a great place in terms of travel and logistics, both for people and merchandise." She landed her first customer when she made a cold call to CNA Financial in Chicago and used her company's small size and low overhead as a selling point. Ms. Loftus explained that she could guarantee a 25 percent savings to customers because her overhead costs were just a fraction of her rivals.

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| <p><i>How Zorch Benefits Illinois</i></p> <ul style="list-style-type: none">✓ Generates 27 new jobs✓ Grows 400 percent a year in sales✓ Helps save large corporations money✓ Improves on a process that hadn't changed in years |
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As for the name "Zorch," which means "to propel something very quickly," Ms. Loftus worked with a naming agency. Today, her clients use the word "Zorched" to ask if their employees have gone through the company to make sure the brand is being used appropriately.

Enter Ceres Venture Fund

Zorch's venture-capital partner is Ceres Venture Fund L.P., a woman-owned venture capital fund, based in Evanston, Ill., that funds high-growth businesses in the Midwest and has a particular interest in financing women-led businesses. Ms. Loftus' company drew the interest of Ceres Managing Director Laura Pearl who, when she joined Ceres, called Ms. Loftus. In December 2006, Ceres invested in Zorch's initial institutional round of financing. Those funds have been used for working-capital purposes, to repay part of a loan, to invest in some technology, to make some key hires, and to have a cushion. Ms. Pearl is now a Zorch director.

Today, Zorch employs 27 people, nearly double the 14 employed at the time of the Ceres financing. Ms. Loftus continues to hire as the business expands beyond promotional products. She also credits Chicago for providing many resources that help entrepreneurs, especially fledgling ones, as they learn how to maneuver the myriad challenges of small businesses. For example, Ms. Loftus got some very helpful advice from David Weinstein, president of the Chicagoland Entrepreneurial Center. He

suggested that she redirect her efforts at a critical time in the company's life when it was more important to get the right infrastructure in place to manage future growth than to focus on sales. Now, with much improved operations, Zorch is pursuing new business aggressively.

Among Zorch clients are AT&T, for which it is AT&T's exclusive provider of branded products and for which it has saved an estimated \$11 million; Aon, BP North America, Citibank, JPMorgan Chase and Motorola. Being awarded contracts from several local corporations has helped Zorch grow more than 400 percent a year in sales and, with this base of business, the company is better able to pursue business in other geographies and other industries such as consumer products and entertainment. Five years from now, she would hope to expand beyond promotional products to focus on all forms of advertising that protects a brand, including print, signage and events, among other media. The idea is for her clients to be "Zorched" in all aspects of brand identity.

The **IVCA Private Equity Profiles**, a continuing series of portraits of Illinois venture capital and private equity investments, spotlights companies that are emerging or proven successes. Each account furnishes information about the company and the private equity firm or firms that invested in it, illuminating the important role they play in nurturing the companies.

IVCA is a non-profit trade association that serves the Midwest venture and buyout community. It focuses on expanding the size of the industry in Illinois and the Midwest by improving the local ecosystem for investors, entrepreneurs and limited partners. On behalf of its members, IVCA advocates pro-growth government policies, provides a virtual community, via www.illinoisVC.org, for deal flow and networking, and hosts educational and entrepreneurial events that offer networking opportunities for local investors, entrepreneurs, governmental stakeholders and tech-transfer groups.
