



STEALTH MARKETING: REACH THE UNREACHABLES

BUSINESS 2.0

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grams” to recruit talent, hiring undergrads from India’s Sydenham and St. Xavier’s colleges and training them for two years before turning them loose to attend business school. Some return, some don’t. “It’s starting to become sexier to come back to India,” CEO Shah says. “Not everyone wants to be the 21,000th employee at Goldman Sachs.”

Following Wall Street fashion, once Edelweiss has its recruits, it pays well to keep them. Salaries are competitive, but Shah and Ramaswamy have also committed a third of the firm’s equity to employee stock grants and options, a Western practice that is still nearly unheard of in India. In an industry known for its revolving door, Edelweiss has lost none of its 16 senior managers in the last five years.

But as competitive as Edelweiss is in recruiting and retaining talent, it’s too smart to chase the same deals as larger competitors. Wall Street firms target India’s high-profile IT services companies like Infosys and Satyam Computer Services; Edelweiss courts lesser-known midcap shops such as Hexaware Technologies, iGate Global Solutions, and Mastek. The premier investment banks love to manage initial public offerings, so Edelweiss concentrates on structured financings like the SPI buyout instead.

Shah still sees India as greenfield territory, noting that 90 percent of foreign investors’ money is committed to equities. Few banks offer other investment options, which clients badly need to diversify their risk in India’s volatile market. So Edelweiss will. It aims to raise two new funds in the coming year: one for real estate investments and a second for arbitrage plays (in which investors buy and sell an asset in the U.S. and Indian markets simultaneously to exploit a price differential).

The firm currently has \$600 million in corporate finance deals on deck—more than it handled in its first 10 years. That’s a good indication of Edelweiss’s growing stature. So is a recent \$150 million buyout offer for the firm—a tidy 99 percent annualized return on the founders’ investment. Not many Wall Street bankers would hesitate to copy that. ♦

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Bluefly Swatter

Yoox.com exploits its Italian home base to challenge online fashion competitors.

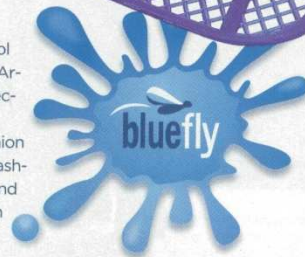
Last year Jeff Schwartz, a 46-year-old technology consultant, spotted a pair of Puma shoes designed by Neil Barrett, Prada’s former design chief. They were selling for \$400 at a Seattle boutique, but the store didn’t have his size. So Schwartz called Italy. “No one in Europe would sell me the shoes,” he says.

Finally he tried Google and found Yoox.com, where the coveted shoes were available in his size for just \$175. “They not only had the shoes,” he says, “but also around 200,000 other items.”

Lots of websites—including Bluefly.com and eLuxury.com (a subsidiary of LVMH)—sell name-brand designer apparel. But Yoox, based in Bologna, Italy, has something of a lock on true haute couture. Sure, you can buy that perennial \$476 Giorgio Armani shoulder bag at Bluefly, but the \$734 silk-and-wool sari-inspired evening gown from Armani’s spring/summer 2005 collection is only at Yoox.

How does Yoox do it? Elite fashion houses typically don’t let online fashion discounters carry their high-end lines. That’s because most fashion websites sell merchandise acquired through liquidation middlemen, meaning that a couture dress could show up right next to rejects from Macy’s. Yoox never buys from liquidators. Instead, it trades on the personal relationships of 36-year-old CEO Federico Marchetti, a former luxury-goods analyst at Lehman Bros. Yoox’s staff buyers often visit designers’ studios to handpick items. “Federico’s solution doesn’t conflict with our brand image,” says Antonio Padula, general manager of Costume National. “And it helped that he was Italian.”

Marchetti’s company compares favorably with his fashion-on-the-Net competitors. He says that Yoox’s sales grew by more than 72 percent last year to \$49 million and that his privately held company will generate nearly \$1 million in earnings before interest, taxes, depreciation, and amortization this year. Meanwhile, publicly held Bluefly posted about the same level of sales (\$44 million) and an Ebitda loss of \$2.6 million in 2004. Benchmark Capital’s Mark Evans says his fund invested roughly \$7.5 million in Yoox in part because of the company’s gross margins—more than 50 percent. “When you start with high gross margins,” Evans says, “you can build an interesting business.” — CARLEEN HAWN



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