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SMALL BUSINESS

When Employees Quit To Become Competitors

THE PROBLEM: Key employees desert a business and set up a competing shop.

Anne Maxfield and Leslie Frank had worked as clothing designers and merchandisers for more than a decade for a big company. They often assembled outside teams of designers, illustrators, and art directors for specific projects. That, they saw, was a business opportunity. "Everyone who is creative in New York City has an agent," says Ms. Maxfield, "except fashion designers."

In 1988, the pair launched Project Solvers Inc., a central clearinghouse for temporary and full-time positions in the fashion industry. They started in a corner of a showroom in the garment center, bartering temporary help for the landlord, maxing out their credit cards. They jumped on oddball assignments, such as when a Hong Kong client needed Barbie and Ken doll costumes for the Ice Capades in two days. By 1999, they had a half-dozen employees and bigger space in Chelsea.

But in early 2000, on the same day, two employees tearfully handed in resignation letters, explaining they wanted fresh challenges. Two weeks later, a third followed. Ms. Maxfield began hearing from clients about a new, competing service. The clients showed Ms. Maxfield the marketing materials -- addressed with the same labels, type font, layout and spelling quirks as her own client list. She was devastated.

Soon about 20% of the business evaporated, some attributable to the recession, but some certainly due to the new competition, her old employees.

THE SOLUTION: The partners' reflexive first thought was: Sue them! Lawyers, however, dissuaded them. It would be long and costly, particularly because the employees hadn't signed noncompete agreements.

"I decided that I didn't want to get up every morning and go to work and deal with just that," Ms. Maxfield says. "I wanted to go in a positive direction for my mental health and the sake of the company." With effort, she put it behind her. She joined a group called Let's Talk Business Network. Other entrepreneurs let her vent about the episode, and added their own tales, which gave her helpful perspective.

She focused on building a cheery workplace with the best-trained sales force possible to meet the new competition. Within a month, she had replaced the former staffers and now has a dozen employees. And they signed noncompetes, right? Wrong. She doesn't preclude it for the future, but for now doesn't think it's worth the ill will. "It gets dicey legally," she says. "Why go to all the trouble and have something that can't be enforced anyway?"

After a break-even 2002, she projects a return to profit this year.

THE LESSON: Put the business ahead of your emotions. You can always hope for karmic retribution. "This will come back to bite them," Ms. Maxfield predicts with a smile.

-- *Paulette Thomas*

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