

# Inc.

The Magazine for Growing Companies

**WHAT HAPPENS WHEN BIG CORPORATIONS BUY CREATIVE FOUNDERS? SOMETIMES, MAGIC.**

# DISRUPTERS IN RESIDENCE



*Marla Malcolm Beck, co-founder of Bluemercury. Millionaire. Macy's employee.*

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# LAUNCH

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**"It was a perfect confluence of everything we wanted to do with our lives, which is have fun at work, control our own destinies, and do something good for the world."**

—LINDA COBURN, who, with husband John Tajiri, owns a Pedego electric-bike store in Westlake Village, California

PG. **26**



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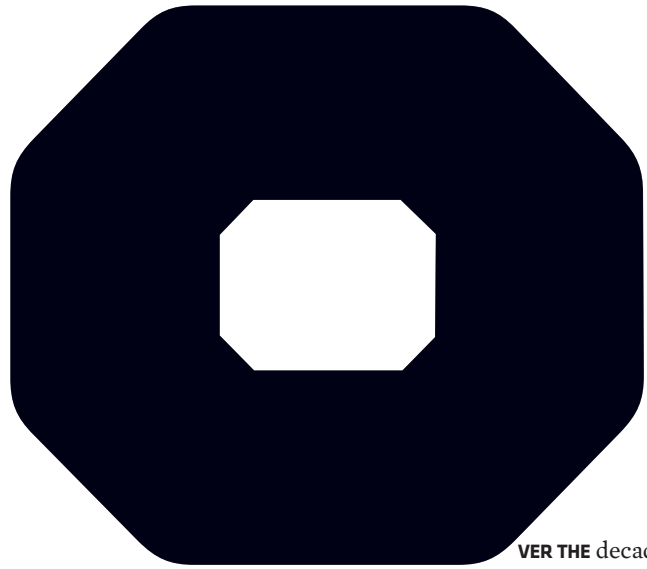


**AUTO SALES**  
Allan Lat, Rancho Santa Margarita, Calif.



Pedego is taking profitable advantage of two converging trends: aging customers looking for an easier bike ride and aging founders who want a second (or third or fourth) act

**BY LEIGH BUCHANAN**  
Photographs by Michael Friberg



VER THE decades

he spent in law enforcement, Frank Muscato talked to lots of his fellow cops about starting a business. Escaping into entrepreneurship is a common daydream in the profession, he says, when “the things that happen to you and the things that you see catch up to you.” Still, Muscato never thought he’d actually launch something. So he is both surprised and tickled to find himself, at age 74, the owner of an electric-bicycle store.

In September, Muscato spent \$70,000 to open a Bloomington, Indiana, location for the company that makes the bikes, Pedego. On the second day of the annual Pedego dealers meeting in early December, he is among a throng of store owners—almost all in their 50s, 60s, and 70s—touring the company’s blocky, white new headquarters in Fountain Valley, California. It is 8 a.m., and already Muscato has been on the phone to his electrician back in Indiana, discussing upgrades inspired by presentations from other dealers the previous day.

“We’ve got to put new lighting in. I’ve got some new ideas on presenting the bikes on the floor, hanging one in the window,” says Muscato, who wears shorts, tube socks, and his glasses on a cord around his neck. “Last night, I had trouble sleeping, thinking about all the things we could do.”

Pedego, a \$15 million company, is the nation’s leading brand of electric bike, according to Navigant Research. (Electric bicycles, which can be powered by a motor or pedaled, are a \$15.7 billion global market, which is growing fast.) Primarily a designer and manufacturer, the company, profitable since 2012, relies on independently owned branded stores for 85 percent of its distribution. Currently, it has close to 60 branded stores in the United States. All but a handful were launched by people in their 50s and older, a demographic that—not coincidentally—also makes up Pedego’s primary market.

The public obsesses over tech whiz kids in hoodies. But a more dynamic entrepreneurial species is the silver fox. Among entrepreneurs who start businesses between the ages of 20 and 64, almost a quarter are 55 or older, compared with 15 percent in 1996, according to the Kauffman Foundation. The rate of entrepreneurship has grown faster in this demographic over the past 20 years than in any other. Boomers are living longer, staying healthier, and gaining more experience and education

### THE BEST IS YET TO COME

Pedego co-founder Don DiCostanzo predicts the company will hit \$100 million in sales in five years, just as he and his business partner hit the age when most Americans retire.



### GEARING UP

Terry Sherry, Pedego co-founder, had already had a long career when he and DiCostanzo decided to start launching companies together.



### BIKES FOR OLD KNEES

DiCostanzo and Sherry named their first bike the Comfort Cruiser to reassure older customers. The grips are padded, the seat is wide, and the riding position is upright. They wanted a beachy feel and a vintage ‘50s look, to play to Boomer nostalgia. They sketched the Cruiser on a cocktail napkin, and a professional bike designer took it from there. The bikes are manufactured in China and delivered to California for final assembly and customization.

than any previous generation. A study by Merrill Lynch found that more than seven of 10 pre-retirees want to keep working.

Gallup reports that 80 percent of Boomer startups are built as lifestyle choices meant to supplement retirement income and keep the mind engaged. But some are far more ambitious. Pedego, co-founded in 2008 by Don DiCostanzo and Terry Sherry when both were in their early 50s, is an unusual hybrid. It marries the experience of serial entrepreneurs in their 50s—whose companies have the highest survival rate of any age group, according to Carmen Cotei and Joseph Farhat, finance professors at the University of Hartford and Central Connecticut State University respectively—with the enthusiasm of neophytes. The majority of those driving Pedego’s three-year 154 percent growth are retired or semiretired people starting businesses for the first time. They encountered the bikes as

consumers and came to corporate Pedego’s rescue in the early days, when it was struggling for lack of distribution.

Of course, later-in-life entrepreneurship has its drawbacks. Just as DiCostanzo and Sherry have built their bikes to accommodate older bodies, they have also built Pedego to accommodate skill deficits—chiefly in technology and social media—among some of their dealers. And the business model intentionally minimizes risk for a demographic that has more money but also less time to make up losses.

Still, the founders say they never had a second thought about trusting their fortunes to the AARP crowd. Pedego store owners “are more mature and, I think, more rational” than younger business owners, says CEO DiCostanzo, an electric-vehicle zealot who is on his third Tesla. “Think about the decisions you make at 55 compared with when you were 25. They’re probably better decisions.”

DiCostanzo notes that he and Sherry, now in their 60s, are tackling the most ambitious entrepreneurial venture of their lives, one they believe can hit \$100 million in five years. “I have more energy now than 20 years ago,” he says. “We don’t think of the dealers as old because we don’t think of ourselves as old.”

**IN 2006, DICOSTANZO**, closing in on 50, lived at the top of a hill. The beach was at the bottom. Biking home from surf and sand, his legs rebelled. So he bought an electric bike online and then seven more from different manufacturers. DiCostanzo liked what they did (helped him up that hill), but he didn’t like the bikes. Mostly for kicks, he opened an electric-vehicle store in Newport Beach in 2007.

The store was just a side gig. Back then, DiCostanzo was enjoying new life as an entrepreneur after 25 years working for a

manufacturer of automotive chemicals. In 2004, he launched a magazine for the service departments of auto dealers and recruited Sherry—who was feeling restless after a long career in the mortgage industry—as his partner. The two have been best friends since 1975, when they locked horns over the presidency of the Phi Kappa Tau pledge class at Cal State Fullerton.

DiCostanzo and Sherry ran the magazine for a while (they still own it) and then, in 2007, moved on to the next thing: making customization kits for Toyota trucks. The business faltered in the wake of the Great Recession, and the two turned their attention to DiCostanzo’s “hobby” business: electric bikes.

Almost all of DiCostanzo’s customers were Boomers or older, many returning to two wheels for the first time in decades. The spirit was willing, the flesh, perhaps, not so much. Electric bikes acted as psychic training wheels. “A lot

of customers had bad hips, ankles, hearts, whatever,” says Sherry, Pedego’s CFO. “If their hip starts to hurt, they can just use the throttle. So they are willing to venture out and do things because they know they have the ability to get home.”

But the then-existing electric bikes didn’t cater to that audience. Most came in black and positioned riders to lean forward. Older customers wanted colors and to sit upright. They also wanted models they could mount easily. DiCostanzo and Sherry believed they could design a bike that met those criteria and—by emulating a Schwinn beach cruiser—stoke nostalgia for simpler times and comfort. They sketched their first model on a cocktail napkin and hired a computer-aided-design professional to produce it. DiCostanzo loaned the startup \$300,000 in personal (not retirement) funds.

Finding a Chinese factory and training its workers was a predictable struggle. But the greater roadblock was distribution. Bike stores shunned the product. “It was a narrow funnel to start with and they just would not let us in,” says DiCostanzo. “They think electric bikes are cheating.” Online prospects were just as poor: People buy the bikes only after they try them.

For a while, DiCostanzo and Sherry sold bikes to their friends, who in turn sold them to their friends through parties—hardly a sustainable business model. Unwilling to try retail themselves, the pair were largely out of ideas. Then, one day in 2011, a customer asked if he could open his own branded Pedego store. A business model was born.

Virtually everyone who asks about opening a store (Pedego says it receives roughly 400 inquiries a year) discovered the bikes by riding them—typically as rentals while on vacation. Many went on to buy one, paying \$2,300 and up retail. Pedego’s average customers are a 58-year-old man and 57-year-old woman; some customers are as old as 95. As the dealer ranks swelled, the Boomer business model developed organically.

Kathy Puryear’s story is typical. Newly retired from teaching at age 57, she rented the bikes with her husband while on vacation in Avila Beach, California. Puryear had never considered entrepreneurship (“I had this weird goal of becoming a florist in a Safeway”), but six months after their trip, the couple opened a Pedego store in Scottsdale, Arizona. “After being in one profession for 35 years, to know you can do something else and be successful is pretty cool,” says Puryear.

**BY ENTRUSTING THE PEDEGO** brand to its Boomer dealers, the founders are drawing on a demographic with proven success in entrepreneurship. Companies launched by people in their 50s have a 50.3 percent survival rate over eight years, higher than those founded by any other age group, according to Cotei and Farhat. Much of that success derives from experience and networks developed in earlier careers.

With two previous startups and three decades each in management at large companies under their belts, DiCostanzo and Sherry were well equipped to navigate choppy waters. Those waters have included state and local legislation unfriendly to electric bikes and a recall of defective batteries in 2013. The latter near-debacle cost Pedego and its battery vendor a million dollars and put the



## SILVER FOUNDERS

How are older entrepreneurs different from their younger counterparts, or even from their younger selves? We interviewed more than 30 entrepreneurs in a variety of industries who started companies between the ages of 50 and 70 to find out.

### Big risks in empty nests

Older people who can’t find work after a layoff are often forced into entrepreneurship. The rest, however, make the same risk calculations as other aspiring founders. Many Boomers interviewed had weighed entrepreneurship at an earlier age and decided against it. A majority said they are more risk tolerant now because they care less about their own security than they did about their young families’.

### Ambition never withers

Boomer businesses skew smaller than others. Many founders just want to supplement retirement income, indulge an interest, or keep alive their old professional networks. But plenty of entrepreneurs—especially serial founders—are more ambitious. Some reported more than \$10 million in revenue. Several had filed for or obtained patents on recent inventions.

### Experience beats all

Many Boomer founders have previous management experience, deep domain expertise, or both. Or they are serial entrepreneurs applying all they’ve learned in starting companies to one final—or close-to-final—adventure. Perhaps most important: They know other people who have provided expertise and support in the past, and often will do so again.

### Sometimes, seniority sells

A few entrepreneurs described encountering the occasional raised eyebrow or snide comment from customers, competitors, or investors. But most said their advanced years evoke no visible negative response. Some even said it wins them additional respect. That experience is the inverse of what older people encounter in the job market, where ageism runs rampant.

### Health and balance are key

Although many Boomer entrepreneurs report working up to 60 hours a week, few claim to have the same energy as when they were younger. That said, our interviewees are a robust crowd who exercise regularly, bike, swim, run, and play pickup basketball. The Boomers also cultivate psychological health, with an emphasis on work-life balance. Many purposely spend more time with their grandchildren than they did with their children in their earlier work lives.

### Some kids are alright

Business pundits fret over how Millennials and Boomers co-exist in offices. Older entrepreneurs, however, express little but gratitude for youthful assistance. Many rely on much younger people to help with the business applications of technology. Some, however, suggested that young people require too much instant gratification to make successful entrepreneurs.

### Boomers target Boomers

Many Boomers create products and services that target other Boomers, a rich market whose spending is projected to grow more than twice as fast as younger Americans’ over the next 20 years. The Boomers’ distinctive sandwich-generation role presents still more opportunities, as some entrepreneurs turn their attention to the very old—their parents.

COIN LAUNDROMAT OWNER  
Sue Kim, Redondo Beach, Calif.



AEROSPACE ENGINEER  
Bob Bibee, Irvine, Calif.



COLONEL, U.S. ARMY (RET.)  
Dave Archer, Edwardsville, Ill.



company’s reputation at risk, says DiCostanzo.

A few Pedego dealers are experienced entrepreneurs. On the day Howard Ickes, 77, delivers his presentation at the annual meeting, he is as charged up as his product. Dressed head to toe in black, his hair and beard a contrast in snowy white, Ickes offers tips on getting the biggest bang from trade shows, fundraisers, and community events while his audience scribbles away in notebooks. (There is nary a laptop in sight.)

Ickes, whose handshake could juice an orange, opened his Pedego store in 2011. That was 10 years after he sold the \$18 million kitchen-appliance distributorship he built from scratch and retired to travel the world, golf, and fish, a period during which he felt “like a caged lion.” Ickes’s store, in Henderson, Nevada, is a laboratory for the entrepreneur’s ideas, including a simulator rigged to train people on the bikes and an indoor track for test rides when the weather’s not cooperating. He knows how to network and market. The sale of his first business gives him the wherewithal to pay a firm \$1,000 a month to manage most of his social media.

But for every Howard Ickes among Pedego’s dealers, there are several former teachers, military personnel, and government workers newly in business for themselves. First-time entrepreneurs over 50 have a lower survival rate than their serialist counterparts, according to Cotei and Farhat. Pedego’s support services were developed for them. Store owners get help with merchandising and choosing a location, among other basics. The company also sets up individual stores’ websites, manages their Google Ad accounts,

and posts to social media for them—or teaches them how to do it themselves. “The technology has been a challenge in some cases, so we will take charge of that,” says DiCostanzo.

Money is another concern. Entrepreneurs in their 50s have substantially more startup capital than any other age group—more than four times as much as the 20-somethings, according to Cotei and Farhat. Business owners over age 51 are 19 percent more likely to be approved for credit than their younger counterparts, according to Biz2Credit.

Yet if Boomer businesses do fail, their founders have less time to make up the loss. “When they are thinking about their finances, they don’t have time for a

big mistake,” says Michele Markey, vice president of Kauffman FastTrac, an entrepreneurship education program that has developed courses for founders 50 and older.

DiCostanzo and Sherry don’t discuss exit strategies with Pedego store owners. (A couple of them have turned down attractive offers to sell.) But they say the business is set up to mitigate risk as much as possible. “We make sure their financial resources are in order so we are not putting them in harm’s way,” says DiCostanzo. The company, which is not a franchiser, offers all its support and services to dealers for free and charges no licensing fee. The only charge for a startup dealer for Pedego is roughly \$50,000 for inventory that, DiCostanzo says, can typically be liquidated

**“WE DON'T THINK OF THE DEALERS AS OLD BECAUSE WE DON'T THINK OF OURSELVES AS OLD.”**

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with an ad on Craigslist.

Beyond that, Pedego advises dealers to get a three-year lease with a one-year opt-out. “That way, if everything goes to hell in a handbasket or you don’t like it, then your risk is one year’s rent,” says DiCostanzo. To date, only one of the nearly 60 Pedego stores has failed.

Despite Pedego’s efforts to keep costs low, “it was still expensive to me,” says Muscato, the former cop. “If this doesn’t make it, I am not going to starve. But things will be a lot more difficult.”

**FOR ENTREPRENEURS,** Boomers are a tempting market: a rich, juicy elephant passing through the demographic python. There will be 119 million Americans over 50 by 2020, according to AARP, one-third of the total population. Spending by that age group will increase 58 percent over the next 20 years, compared with a 24 percent hike among Americans aged 25 to 50, says data from Morgan Stanley. And who is best positioned to serve that market? It takes gray to know gray.

DiCostanzo and Sherry could design the right product because they saw their end users in the mirror. Pedego dealers can sell that product for the same reason. Beth Black and her life partner, Brian Ballard, opened their Seal Beach, California, store in 2012 when she was 56 and he was 51.

“You get on the bike for the first time and twist that throttle,” says Black, “and suddenly you’re yelling, ‘Woohooo!’ It’s

like you’re recapturing something.” She and Ballard named their first Pedegos Gidget and Moondoggie, “and you have to be a certain age to understand the joke. I tell customers Gidget is a classic, just like me, and they get it. When they see she’s still going strong and I am still going strong and we are out there riding and enjoying life, there is this sense of hope.”

Older customers trust someone who looks like them more than they’ll trust the Lycra-clad specimens who haunt traditional bike shops, say many dealers. Pedego store owners are a healthy bunch—after all, they discovered the company while biking. But even regular exercise can’t forestall all the ravages of time. “I can say to a customer, ‘Look, I

**“I can say to a customer, ‘Look, I had my knee replaced.’ And the guy says, ‘Oh, I had my hip replaced.’ We talk about aches and pains, hills and headwinds.”**

had my knee replaced.’ And the guy says, ‘Oh, I had my hip replaced,’” says John Soave, who opened his Blue Ridge, Georgia, store at age 61. “We talk about aches and pains, hills and headwinds.”

While some retirees find their worlds shrinking as work relationships trail off, Pedego dealers develop new friendships with the customers who join them on guided tours or group rides. Aaron Maynard estimates that 90 percent of his local friends are people he met through his Myrtle Beach, South Carolina, store, which he opened at age 50. Maynard offers group rides three times a week.

“The group rides translate into sales,” says Maynard. “But this is also how we’re getting to know one another.”

**TWO PRODUCTS INTRODUCED** at December’s dealers meeting, an adult tricycle and a vehicle for people with disabilities, will appeal to Pedego’s least physically abled customers. The owner of the Irvine,

California, store offers to bring the latter to senior centers on either side of the mall where he is located, so the residents can try it out.

A couple of earlier models—notably a mountain bike and a stretch bike with room on the back for children—targeted younger riders. Some Pedego employees have urged the founders to go younger with their marketing as well, by including images of 30-somethings in their collateral. “We tried, and nobody liked that, including us,” says DiCostanzo. “So we went back to using healthy-looking people closer to our age group.”

A handful of dealers in their 30s and 40s have opened Pedego stores—some working in tandem with their parents.

Conversely, a growing number of parents have brought on board their adult children. That simultaneously solves the problem of limitations on their own professional runways and creates opportunities for offspring frustrated by a slippery job market.

Meanwhile, as more stores open and the product gains visibility, the number of applications to launch stores is rising. DiCostanzo and Sherry are proceeding cautiously, seeking to add 25 new locations a year. “As you get older you get very good at evaluating risk,” says Sherry.

“We are in the first inning of a nine-inning game,” says DiCostanzo. “The Boomers see the opportunity and that it is happening right now. They want to be part of that.”

As for his and Sherry’s retirement plans, DiCostanzo shrugs. “Maybe someday.”

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LEIGH BUCHANAN is an Inc. editor-at-large.