INPAX SHIPPING SOLUTIONS: PART I – SCALING TO $15M[1]

It was 2008 and Leonard Wright pushed back in his chair. Leonard was the founder of INPAX Shipping solutions, a courier service focused on the Metro Atlanta region. Until 60 days before, INPAX had been doing $15 million in annual sales.

But the country was going through a period of economic upheaval triggered by the collapse of the housing market and the subprime mortgage crisis. INPAX's bank was going under and had just terminated his line of credit that he used to manage cash flows. Two of his largest customers had entered bankruptcy, each owing him over $1 million in receivables. And other customers were substantially pulling back on their spending.

What was the next step? Was there a business to salvage? What sacrifices might this involve?

Leonard's Journey into Entrepreneurship

Early Life and Education

Leonard Wright was born in the 1960s in Leesburg Georgia, a small town 220 miles south of Atlanta. He grew up poor, the youngest of eleven children raised by a single mother. As a Black child, Leonard was the first in his family to attend integrated schools following the Civil Rights Movement of the 1960s.

At the time, Leesburg had a population of around 5,000 and the primary industry was farming. Leonard was determined that he would be able to leave Leesburg and to do economically better for himself and his family. Growing up he frequently told his mother that he was going to do well and buy her a house.

Sports were a key part of Leonard's life growing up, and sports provided a path out of Leesburg. He played four sports – basketball, football, track, and baseball. But he excelled especially at football and basketball.

He also built his work ethic and entrepreneurial muscle through a variety of jobs. In high school, the town had a weekly newspaper, the Lee County Ledger. But they did not have a sports section. So one afternoon before practice, Leonard walked down and pitched the paper on him writing a sports section that they could pay him for. He wrote for them for several years to earn additional money. And in summers he often worked retail.

[1] *Case prepared by Ben Hallen and Leonard Wright. The case was developed solely as a basis for class discussion. Cases such as these are not intended as endorsements, sources of primary data, or illustrations of effective or ineffective management. Some details have been changed for confidentiality and instructional purposes.*

Leonard received a scholarship to San Diego State to play football, where he also played basketball. He later transferred to Albany State in Georgia, where he studied physical education.

Following college, he went to a temp service to get his first job in 1988. They sent him to a company called The Software Factory as a temporary worker. The company specialized in duplicating, packaging, and distributing the floppy disks that software at the time came on (this was before the widespread availability of internet broadband for the distribution of software). The Software Factory worked under contract for software companies.

Leonard reported for work and began to make a strong impression. The temp agency, though, had made a mistake. They were supposed to offer him $7 an hour for the job but had accidentally offered him $10 an hour. After a few days on the job Leonard was informed of the mistake and told he would need to accept the lower rate if he wanted to continue in the role through the temp agency. He informed his manager at The Software Factory that he wasn't planning on returning if he had to take a pay cut. The manager had a different proposition. He encouraged Leonard to take two weeks and then apply directly. While he couldn't pay $10 an hour, he could offer as much overtime as Leonard wanted.

Leonard took the two weeks and then joined The Software Factory. Within 6 months he was managing his old boss. The biggest client of the company was Peachtree Software, a maker of accounting software, which is now part of Sage.

Soon he was overseeing production and the shipping department. Through this time, he built a strong relationship with the owner of The Software Factory. Leonard was inquisitive and frequently asked questions about how the broader business worked. The owner went over with him the Lotus 123 spreadsheets for receivables, P&Ls, and balance sheet. He talked about how he had used debt to fund growth in staffing and equipment, as well as referrals to grow sales.

This continued for several years. Leonard also had ideas for how to increase revenue. For instance, he recognized The Software Factory was charging for many services like freight at costs, but could charge a markup. The company followed his approach, and this generated over $250,000 in additional profits for The Software Factory in the first year. But despite this relationship and the value he was creating for the firm, Leonard was not getting promoted.

An Entrepreneurial Opportunity

In 1993, Leonard had an idea. The Software Company frequently used couriers to move documents and boxes of disks from one point to another within Atlanta. Courier companies specialized in the movement of documents and files within a city, doing so faster than the postal service. As this was before the commercial internet, courier services played a key role in moving documents and files between companies and in legal filings. Courier services were frequently used by law firms, banks, and other industries that frequently needed to send signed documents, files, or samples between their local offices or to other local firms. For instance, law firms working on cases used couriers to send files to counterparties and to the courthouse. Courier services typically transported items ranging from envelope size to boxes that could be carried without a pallet.

There were only about 7 major courier services in metro-Atlanta at the time. All were local companies. Long distance delivery companies like UPS or FedEx did not compete in the space. Moreover, the market was far from saturated. Leonard began to look at the rates they were paying couriers, and figured he could provide the same service at the same price and get a good margin. While he had not grown up dreaming of being in the courier business, Leonard decided to explore this entrepreneurial opportunity further.

He realized that some of the unmet demand in the sector was in part driven by the growth in Atlanta and its booming economy. But also important were federal and state-level transportation regulations at the time limiting entry. All rates had to be publicly published. And those wanting to enter the courier industry had to get approval from the Georgia Service Commission. There the other courier companies were given a chance to argue before the judge against any new entrants.

Overall, the more he looked into it, the more he felt this could be an attractive business – assuming he could get a license. He went before the commission and got a license by proposing to focus on a particular territory. He was going to try it. He bought a van. He called up his nephew who lived in Leesburg and encouraged him to move to Atlanta to work for him. He got a business license and named the company Complete Courier. The plan was to work under contract with The Software Factory, taking over work that he had previously steered toward the other courier services. They got a phone line, which his girlfriend answered and coordinated the service.

The first month Complete Courier did $10,000. And $10,000 again the second month. This was a few times more than Leonard was earning in his main job from the Software Factory!

One morning three months after starting Complete Courier, Leonard was driving to work. He was thinking how they were on their way to $10,000 again. And he was pondering where he should be focusing his efforts. Complete Courier was going well. But if he wanted to grow the business, it needed his full-time attention and effort. He pulled off the interstate two exits before The Software Factory. He turned around and drove home. He was going to grow this business.

Building the Business – And a Setback

Leonard informed The Software Factory that he was leaving. The owner quickly reached out, concerned. They had a long conversation. He didn’t want Leonard to leave. And he cried, regretting not giving Leonard an opportunity to grow with The Software Factory. But he wanted Leonard to be successful and he would support him. The Software Factory would continue as his lead customer.

Leonard leased an old building owned by the Software Factory. And beyond the courier work, The Software Factory also farmed out additional production work to Complete Courier. So Leonard had his team build the courier business during the day, and then in the nighttime hours did The Software Factory’s production work for additional revenue.

His old boss also passed on some advice: (1) never get in trouble with the tax man, (2) don't do anything for free, always make a profit, and (3) sometimes you just have to be lucky, which Leonard thought of as being blessed.

After 5 months, the owner of The Software Factory asked to meet with Leonard. He informed Leonard that he wanted him to write out an invoice for $50,000. Leonard was puzzled but agreed after the Software Factory owner insisted. He wrote out the invoice. The Software Factory owner said "sometimes in life, people make mistakes. And I made a mistake. Here is $50,000." And to this day Leonard and the Software Factory owner are quite close.

He and Leonard also had a discussion about how to grow sales. His recommendation was that Leonard come to an existing customer, like the Software Factory owner, and ask for three other people that might also need his service. And ask them to call and provide a referral to these other firms and to request they meet with Leonard. And to then go there, get the business, do a good job, and repeat the process by asking for their referral to three more potential customers.

Using the $50,000, Leonard bought three pickup trucks and put campers on the back. He hired three drivers. This complemented the van and a box truck he had bought previously. When a call came in for one of their deliveries, they would send a driver and a vehicle to get the documents or files and deliver them to their local destination.

Leonard hired two people to work in the office and coordinate the day-to-day deliveries with customers and their staff. They coordinated with drivers using two-way radios. Everyone used maps to plan routes.

While his office staff ran the operations on a day-to-day business, Leonard focused on sales. Some of this was trying to generate sales through referrals. But he also focused on outbound sales. At this time, he was not particularly selective – in part due to the lack of the internet or a way to effectively narrow down which potential customers would likely be most interested. He went out and visited businesses in person. He knocked on doors, dropped off promotional materials, and asked what needs they might have that Complete Courier could address. He was aggressive in seeking new customers and was often willing to cut his rates to do so.

By 1994, the courier industry had deregulated. Now all it took to enter was a business license and a van. The market started to saturate. Leonard, though, leveraged the scale that he had begun to build up. Big customers wanted to work with a courier service of a certain scale and reputation. They did not want to work with the sole operator. These customers had a strong preference to work with a courier company that they believed was more capable of providing great service, had the bandwidth to handle larger delivery needs, and was not overly dependent on them as a client.

It was also easier to vet larger courier companies like Complete Courier. Complete Courier had an office that potential customers could visit and do a walk through. Potential customers could see the activity in the office, signaling the volume of business they were doing for other customers. Moreover, Complete Courier by this point had built up a base of existing customers who were large and willing to provide strong references. All of this provided advantages that many small entrants could not quickly imitate. The scale also allowed Complete Courier to make better utilization of its staff and vehicles and reduced costs per delivery.

To help facilitate growth, Leonard also subcontracted out work as needed to the smaller operators. While this required careful vetting and oversight, Leonard believed he was in a better position to do this than his customers. This allowed Complete Courier to continue to charge a premium and still capture profit margin while subcontracting when additional capacity was needed.

Within a few years the business was making about $3M in revenue annually, all based on courier delivery in Atlanta. But the business had also gotten behind on taxes. Part of the issue was that his personal spending had gotten high relative to the profits. Looking back, Leonard also believes that there were a number of distractions as a young successful entrepreneur. Leonard ultimately worked out a payment plan with IRS, but he shutdown Complete Courier as a legal entity in 1999.

2000

After six months, Leonard decided to re-enter the courier space. He setup a new legal entity, Road One Express.

Leonard approached rebuilding with a new level of intensity and focus. While he now had substantial experience, he was going to have to rebuild his customer base. His prior mentor had sold The Software Factory. And other former customers had moved onto work with other courier services. So the initial customer base for the restarted business was much smaller.

For building sales, he began with the same playbook. He knocked on doors, hired a salesperson, and asked for referrals.

Leonard positioned the firm as a premium offering, but with a particular focus on exceptional service above and beyond competitors. In the courier space, Leonard believed there were three key components to exceptional service: reliably picking up on time, reliably delivering on time, and communicating very well.

To create this exceptional service, Leonard had a particular focus on operations. While some technical tools like radios to communicate with drivers were important, he knew the other major courier services were making those investments as well. Accordingly, he was always on the lookout for how he might use processes or culture to preemptively reduce points of failure that might keep them from providing one of the three components of excellent service (i.e., picking up on time, delivering on time, or communicating well).

An example of a potential point of failure was handoffs. When some courier services were behind, they would batch pickups within a particular area and drop offs in other areas. Yet because items from one area often needed to go to many areas, many courier services would bring drivers together from different areas to do a handoff. Under this model drivers would first do pickups for each of their areas (A, B, C, etc). They then came together, often in a parking lot somewhere, to exchange packages going to different areas before heading back out to deliver in their assigned area. Yet these handoffs introduced substantial operational complexity and potential points of failure. Also, unless they were coordinated very tightly, they could leave drivers waiting for one another – both reducing the likelihood of on time deliveries and driving up costs. Accordingly, Leonard had Road One avoid this hub-and-spoke model, instead focusing on point-to-point deliveries where the same driver would pickup and deliver each package. This simplified activity system helped Road One more consistently provide excellent service and supported its higher price point.

Two other key points of possible failure that Leonard monitored closely were not having enough drivers or poor dispatch. He made sure to allocate enough slack in their driver pool to handle unexpected needs from existing customers. He also worked to ensure strong communication internally between the customer service managers, dispatch, and fleet managers (who were responsible for hiring and managing drivers). This was especially important in anticipating when additional drivers needed to be hired to support growth in demand, while balancing driver utilization and sufficient slack. This required a systems approach and understanding what activities to change to reliably achieve key outcomes. It also meant monitoring intermediate performance indicators that would give a heads up about impending points of failure.

To help support this approach, Leonard implemented a strong culture of communication. So, drivers communicated frequently with dispatch, letting them know if they encountered traffic or were running behind. Or reaching out several hours in advance if they were not going to be able to work on a given day and allowing Complete Courier to call other part-time staff.

Evolution of the Business

Around 2002, it became apparent to Leonard that customer needs and the demand side were changing. Many of the industries he serviced were increasingly sending documents electronically. Law firms were now sending files via the Internet to one another. And print companies were increasingly getting files from clients and sending proof layouts electronically.

At the same time, both existing clients and potential clients who Leonard was calling on were increasingly requesting more local freight services within the Atlanta area. This often involved the movement of larger, heavier pallets of goods. This meant a shift in the vehicles they were using. Fewer pickup trucks and vans, and instead more box trucks and tractor trailers. As demand for this new category emerged, Leonard framed Road One Express as "delivering everything from an envelope to a truckload."

This also shifted the economics. The margins for small packages were better as a percent, but the amount they would charge for each delivery was smaller. In contrast, the margins were tighter for freight, being about half of what they were for courier services as a percentage of sales. But the overall dollars for each delivery order were larger.

He also continued to evolve his sales process and customer acquisition. In 2003 he increasingly joined industry groups. He joined groups for courier services and for minority-owned businesses, like the Georgia Minority Development Council (GMDC). He networked with larger companies. He also joined two national courier organizations, the ECA and the CLDA, and attended their national tradeshows and networked. Additionally, he began exploring other industries when they had events in Atlanta, for instance attending food industry conferences. At the shows he would go around, introduce himself, and leave a card and a pamphlet. Where there seemed like there might be a lead, he was sure to get a business card and would often leave the show with 20-30 leads to follow-up on.

He had a formula for sales that he followed himself and which he taught his sales team. He aimed to make at least 100 phone calls a day for 3-4 days a week, doing so on those days when he was not out having meetings. His aim out of these calls was to setup 30 "handshake" meetings. A handshake meeting was where there was enough interaction to give a short pitch, handover a business card, and get the other person's business card. At the time, these were in-person meetings. Some of these handshake meetings were the result of cold calls and others were the result of attending conferences or serendipitous interactions in the community. From the combination of these handshake exchanges and the cold calls, he sought to have 5 sit-down meetings with prospective customers each week to go deeper into the potential customer's needs and Road One's offering. Over an 18-month process, the aim was to generate about $2.5 million in business. Moreover, given the nature of the business and customer stickiness, a high fraction of generated business was recurring.

Leonard also strived to make Road One a great place to work, though expectations were high. Not a good place to work, but a great place. As he told employees, they often spent more time with each other than they do non-sleeping time with their families – especially as employees often worked 8 to 12 hours a day. For everyone's birthday, they had a catered birthday lunch and invited the entire company. They offered strong benefits, including 401k and health benefits. Overall, this created a workforce where people were more likely to be terminated than leave.

In 2005, he opened a small office in Nashville to follow the same playbook there. He also began to acquire some small, related services. As part of this expanded offering, he renamed the company INPAX Shipping Solutions in 2006.

As they did more local freight shipping on pallets, there was an increasing need for buying larger trucks and facilities. (Growth in smaller envelopes and boxes was often facilitated through subcontracting.) To help support this growth, INPAX used debt – especially to buy equipment to support the increased sales. Given the boom in the economy, Leonard was frequently being approached by banks and others offering attractive terms on additional debt financing and lines of credit. Leonard personally guaranteed many of these loans. Throughout this time INPAX was doing a combination of on-demand services and scheduled, where the latter involved repeat services at consistent times for clients.

2008

At the start of 2008, INPAX was doing over $15M in annual business. But then the great recession arrived. While it started with the subprime mortgage crisis, the broad drop in the banking and housing sectors created a contagion effect that had knock-on consequences throughout the economy.

As part of this recession, Wachovia went under and was ultimately acquired by Wells Fargo. Wachovia had been INPAX's primary bank and had extended INPAX a line of credit used to support company cash flows and cover the gap between when INPAX incurred costs and when their receivables were paid. When Wachovia went down, though, the line of credit disappeared.

This cash crunch was further amplified by the bankruptcy of two of INPAX's largest customers, each of whom owed INPAX over one million in receivables. Even customers who were still solvent substantially cut back on spending. The whole country was in shambles. Within 60 days, the business went from $15 million in annual sales to $2 million.

If he was going to salvage the business, he would have to make deep cuts in staff. And maybe sell vehicles or facilities. Even then the business might owe more than it was now worth. Compounding these concerns was that Leonard had personally guaranteed much of the outstanding debt. It was a difficult situation.

(Case to be continued in class with INPAX Part II, which will be distributed during the class session)