

INPAX SHIPPING SOLUTIONS - CASE PART II: SCALING TO \$75M¹

Responding to a Downturn

Over 2008 the problems associated with the downturn amplified. Some customers went out of business, often doing so while owing money to INPAX. Other customers pulled back substantially on their spending. INPAX then lost other customers who were concerned about the company's viability as an ongoing concern.

By 2009, the company could no longer sustain the overhead. The business had been at \$15M in annual revenue at its peak with 250 employees. But they were now doing \$2.5M with the same overhead costs. This included leases and debt on the buildings and larger trucks and trailers. In April 2009, Leonard made the decision to shutdown the business. He was going to let all of the employees go and return the trucks and other assets to the debt and lease holders. The last day was to be in July.

By June, only 5 employees were left. They came to Leonard one morning and said "We know there is something you can do." Leonard responded "There is nothing I can do." And they pushed back: "We believe in you. We feel there is some way you can create something to keep this company alive." One of the owners of The Software Factory then came and said "You are not going to work for someone else. You are not cut like that. You've got to figure out some way to make it through."

Leonard thought about it. He had leveraged everything. The remaining debt was already secured against his house. He had some \$60,000 in savings to live on as he figured out what to do next, but had put everything else into the business. And he did not want to borrow any more money. But he also thought about what had driven this situation, and the role of market-level factors that were hitting so many businesses. And he thought of his own ability to generate sales and make money when customers were out there.

He told his team to give him a few days and see what he could do. He called a friend who was an attorney. As the friend dug into INPAX's agreements, he realized that Leonard had personally signed for much of the debt. So he could reorganize Leonard but preserve aspects of the business. This would entail personal bankruptcy and about \$25,000 in legal fees, which the attorney said Leonard could pay back later. And Leonard would not be able to take any of the tangible assets. So he would have to leave the phone number and the Road One Express name that they had been using. He also advised Leonard not to be the primary owner in the revised business, at least not for the next two years. While a number of sacrifices, it was a path forward and Leonard agreed.

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.

Rebuilding

In July they undertook the restructuring. Leonard's daughter was the primary owner for the new business, with the understanding that this would be for the next two years. They began rebuilding the business.

Leonard went to the 5 employees who had encouraged him to stay in business. He told them: "You had asked me how you could help keep the business alive. Here is what I propose. None of us will take a salary or get paid for one month. Nobody. No driver. No employee." His plan was to use that initial month's earnings as a basis of operating capital. The employees agreed, saying that no one was hiring and they wanted to take a chance with Leonard.

Leonard went to customers and salvaged about \$150,000 a month in business. He could not forward the phone to the new entity. But he called each of the existing customers and said there was a new entity with which he was involved and they could continue working with these customers. He still had a few vehicles that he owned outright, and which he could use to support these accounts.

They moved out of the building and into a small two room office a friend let him use for free.

He also had a set of owner-operators who were going to continue to work with him. These were individuals who owned their own trucks and worked under subcontract to provide local pickup and delivery. While they took a higher cut of the margins, the advantage of working with this owner-operators is that they assumed the operational expenses (OpEx) associated with purchasing and maintaining the trucks.

Together these actions allowed Leonard to restart servicing in July, while also building up a capital base of \$150,000 through not paying that initial month of salary or wages.

The major banks, however, had substantially cut back on lending. Especially for businesses like INPAX whose revenues had seen substantial hits. The second-tier lending market was still active though. Leonard found a small bank in Nashville TN that was willing to "factor" his receivables as collateral. So as Leonard secured additional customer sales, he could borrow against that booked business before he was paid by these customers. While the interest rate was high, it provided additional capital. The bank was willing to provide a 95% borrowing base. This meant that if he booked \$200k in business, he could borrow \$190k. And this was on top of the \$150k in cash saved from the initial month.

For the rest of 2009 and 2010, Leonard and INPAX focused on servicing the existing customers and was not aggressively marketing to new customers. He continued to call on the existing customer base. This was key to growth during this time, and Leonard sought additional business from existing customers as their own firms bounced back. And as before, the model was still local deliveries that ranged from envelopes to truckloads.

2011-2013

At this point Leonard stepped back into the business as the primary owner and was in a position to more aggressively grow the business. The company was on track to do about \$3.5M in annual business, largely on the basis of existing customers growing their use of INPAX.

Leonard began allocating substantial time toward sales outreach. But given the pain of the last few years, he also shifted the strategy. From 2004 through the recession, much of the focus had been on “on demand” business, where companies needed courier or local freight services at the last minute. In contrast, Leonard now focused INPAX on “scheduled” services that occurred regularly and frequently. For instance, picking up a load every day, six-days a week, and moving it across town to another location. While customers were willing to pay a premium for on demand, Leonard now felt scheduled services were a more attractive area as he could achieve better utilization and there were less-likely to be unexpected fluctuations in customer usage. This also aligned with his primarily working with owner-operators, who were paid a percentage of each job. But INPAX was typically able to make high utilization of each owner-operator with whom they worked, often engaging them for 6 days a week.

Beyond simply focusing on scheduled work, Leonard also sought work related to the burgeoning e-commerce industry. So Leonard noticed strong increasing growth in e-commerce related companies needing scheduled local freight and courier services within the Atlanta area.

Operational Excellence

Throughout this process, Leonard also focused on ensuring a high-level of operational excellence. A core tool was process. For instance, in customer service, the company policy was all emails needed to be answered in 5 minutes. Customer service reps not answering emails within 5 minutes were subject to be terminated or written up. And sometimes this means just sending a short response saying that the employee will look into it and follow-up with the answer soon.

Leonard placed a high emphasis on coaching, repetition, and accountability. He spent a lot of time with employees, both as they joined and holding them accountable along the way to the standards of INPAX. On the hiring side, Leonard invested heavily in meeting with applicants and getting a feel for whether they were likely to thrive in and understood the culture.

Leonard also kept a close eye on any problems that might be arising across the business. For instance, when the night shift started to see a drop in on-time deliveries or drivers not showing up as expected, he reworked his schedule so he could be there for several nights in a row. This allowed him to search for “root causes” that were driving points of failure and to revise processes and structures accordingly. With the night shift, for example, he realized that they needed to insist that drivers notify them at least several hours in advance to verify they would be there on time that night, and that failure to do otherwise meant that they would not get work that night.

A Development

By 2014 INPAX was doing \$10 million annually. Leonard had been hoping to accelerate growth even further. As part of this he was going to a variety of shows to prospect for new customers. Some of these were courier specific and others were more focused on client industries (e.g., food, retail). One of these shows he attended in 2014 was the Express Courier Association (ECA). This show provided an opportunity for shippers and couriers to connect.

At the conference he began to engage with a major e-commerce retailer. The retailer had begun offering 2 and 4 hour delivery options. To enable this, the retailer was working with local courier services who could pickup a load of packages in cars at set times and then deliver them in the next few hours. INPAX secured the business both for Atlanta and Chicago.

By 2016, though, the retailer decided to change their approach. They were no longer going to offer the 2 or 4 hour delivery option. But the company was now going to conduct last-mile delivery with retailer-branded vans (what are sometimes now called the blue vans). The retailer, however, was not going to own its own vans. The retailer instead wanted to work with 5 or so couriers who would operate this service under contract. Each courier would get a region and would be responsible for their van leases and hiring and managing associated staff.

The retailer wanted Leonard to help launch this service and be one of the 5 couriers, focusing initially on Illinois. (The other 4 courier services would each focus on Los Angeles, New York, Miami, and Boston) But this would involve a substantial investment in capital in vans and a commitment to leases. And the hope was for the program to aggressively scale nationally. Meaning that if things went well, Leonard would need to get even more leases, vans, and staff.

At this point INPAX and Leonard had a strong credit history, so they were in a position to take on the additional commitments. INPAX had also done \$23 million in sales the prior year. So things with the core business were strong. But beyond the capital, moving into this new business would be a major undertaking of time and effort. And it was also for a single customer, creating single dependency risk. Leonard faced a decision. Should he work with the large retailer on helping launch the new last-mile service? What were the upsides and risks? Were there ways Leonard should structure the new service to preserve the upside while helping manage the risks?