# An entrepreneurial decision:
# What if the market moves away from you?

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## ABSTRACT

This case depicts a real entrepreneurial company and reveals some of the challenges faced by its founders. The small, closely held, C-corporation is facing a dilemma. By all accounts, the firm is successful: after nine years in operation, it has never had an unprofitable year; its gross revenues have grown nearly every year; it has reached $7 million in sales and employs over fifty; some of its customers hail from the Fortune 100. However, the technology industry in which the firm competes (repair and professional services for rugged mobile computer devices) has evolved dramatically. The firm succeeded by deploying a niche strategy. It provides services focused on only one manufacturer, who dominated the industry during the firm's early years. However, new entrants into the market have supplanted the original dominant manufacturer. The devices have evolved from being very manufacturer-specific to becoming virtually plug-and-play with other manufacturers' devices. Finally, the price of the hardware has contracted by well over fifty percent. At the present price levels, covering equipment with expensive, post-warranty service contracts makes less economical sense. Following the firm's annual strategic planning meeting, the owners can "see the writing on the wall." They must make a decision to preserve the equity that they have created in the corporation. The firm is facing a "leaky bucket" problem and its options are limited. Is it time to bail out of the ship? The case ends by asking the reader to make the decision for the owners.

Keywords: entrepreneurship, business services, exit strategy, service, repair, mobile computing

## INTRODUCTION

Interactive Services Group, Inc. (ISG) (www.isg-service.com) specializes in mobile device repair and other related professional services. In fact, the firm is so specialized that it only repairs mobile devices manufactured by ONE company named Intermec Technologies (www.intermec.com). Intermec is a $1.0 billion manufacturer of mobile devices used for supply chain management, asset management, and field workforce management. The firm is also a leader in the radio frequency identification market with approximately seventy-five patents (Taghaboni-Dutta, A. Trappey, C. Trappey and Wu, 2009). As of 2003, ISG employed approximately fifty full time employees, had sales that exceeded $(US) 7.0 million as shown in Figure 1 (Appendix A), and had been in business for ten years. By all accounts the firm was very successful. However, the owners found themselves facing an important decision. They had just finished the 2003 annual strategic planning meeting. The owners conducted these meetings every year since the inception of the firm. It afforded them the opportunity to gather important input from the staff, reflect on developments that occurred during prior year, and establish a plan for the future. Part of the process is to conduct a "SWOT" analysis of the firm and its operating environment. A SWOT analysis is undertaken to determine the strategic direction of a firm (Karadakis, Kaplanidou and Karlis, 2010). The SWOT analysis examines the external threats and opportunities facing a firm and the internal strengths and weakness that define it. ISG gathered this data annually from many of its employees, partners, board members, and other key stakeholders. Once the information is gathered and consolidated, the owners review it, and use it as the basis for the formal annual strategic plan update. Interpreting input from so many people is similar to reading tea leaves. This year's interpretation of the tea leaves signaled a message of impending doom.

## THE FORMING OF THE ENTREPRENEURIAL ENTERPRISE

ISG opened its doors for business in the first quarter of 1995. The firm was started by a father and son pair, Barry and JB Dickinson, respectively. Barry had worked in the computer repair business for nearly his entire professional career. When he began working in the industry, computers used punch cards and magnetic tapes to store information (see Yonck 2010). That was a LONG time ago! But he remained in the industry and continued to repair and maintain computers, and related technology, as the technology evolved. He worked for some of the most well-known computer manufacturers in the world including Honeywell, Okidata, and Hewlett Packard. His most recent corporate position was as regional service center manager with Intermec (then Norand Corp.). Barry's tenure with Intermec lasted approximately twelve years. In 1994, Barry unexpectedly found himself without a job. Intermec decided to consolidate all of its regional service centers into one main plant in the Midwest. Barry was given the opportunity to move to the Midwest and take a management position---of the night shift! He declined and started to investigate his options. Being in his mid-fifties, he was concerned about finding a new position with a new employer. Research certainly bears out his concern as up to 15% of older job seekers become discouraged workers and never find suitable employment (Maetas and Li, 2006).

Perhaps fortuitously, his son, JB, had just completed a Masters of Business (MBA) program in 1994. JB was in his mid-thirties at the time. Prior to, and during, his MBA program, he owned and operated a small business that helped pay the bills while he finished his degree. He had always believed in education and that having an MBA would improve his management skills and entrepreneurial spirit (Zhang and Yang, 2006). However, he decided to take a bit of a detour following the completion of his MBA. He decided to enter a doctoral program in business at a local university in the fall. This move would provide a deeper understanding of business, provide a sound educational foundation for the future, and allow him flexibility should he decide to move into teaching in the future (Enders, 2002). However, at the same time, he was very concerned about his father's situation and did not want to see him have to resurrect his career. Research indicates that his prospects were not particularly good (Sterns and Miklos, 2002). JB was determined to assist him in any way possible. Since his doctoral program and small business would not consume all of his time, he had could help his father pick up the pieces. Research indicated that one can manage both work and family obligations if commitment is high (Berg, Kalleberg, and Appelbaum, 2003).

JB approached his father with an idea: Why not start a business doing the same thing Barry had been doing for the last twelve years, repairing Intermec devices for end users? The only new wrinkle would be he would be doing it in competition with Intermec for service customers. Barry had already received calls from former customers asking him what they should do, as well as former employees. The only concern was Barry's non-compete agreement with Intermec. Some basic research indicated the lack of a time limit left the document virtually unenforceable (Vermeer and Johnson, 2004). JB verified this suspicion with a visit to a local labor attorney. Feeling confident that the non-compete agreement would not be a hindrance, they felt confident they could work together, bringing different capabilities to the table. Moreover, JB knew that partnerships were much more likely to succeed than sole proprietorships (Duchesneau and Gartner, 2002).

As they talked, they realized that there were several compelling reasons to start this business:

- There were very few competitors in the market. Almost all of the companies that bought Intermec devices just used Intermec for post-warranty service. There were only a handful of independent service organizations in the mobile device market, none of whom could repair Intermec devices. The new, prospective company would compete directly only with Intermec. JB knew that understanding the competition within an industry was a key ingredient in increasing the probability of success (Porter, 1980).
- Barry had an excellent relationship with his former customers and an excellent reputation in the service industry. Research indicates that reputation is correlated highly with customer perceived value and the new firm hoped to leverage Barry's reputation with his former customers (Cretu and Brodie, 2005).
- JB had experience operating a business and knew what was necessary to improve the probability of success. He also was very adept at conducting research which would be a key success factor in building a reliable supply chain, locating vendors, identifying prospective customers, and determining competitive actions. The new partners viewed the development of an effective supply chain as a critical issue for success for the new firm (Arend and Wisner, 2005).
- Barry had deep relationships with a broad network of mobile device market salesmen, suppliers, vendors, resellers, and potential employees. He also had access to a substantial supply of parts and equipment, schematics, engineering changes, customer lists, and other technical documents---all of which Intermec had instructed him to discard when he closed his office. The company had no interest in his inventory.

The two talked over the next few weeks and decided to investigate the idea further. JB began to put a strategic marketing plan together to ensure they were not missing anything and to develop a plan of action. JB knew that the development of a formal strategic plan was important for the long-term success of the firm (Berry, 1998). Once the plan was complete, along with a skeleton pro forma financial statement, they discussed it with several business leaders whose opinions they valued. Virtually everyone agreed it certainly looked like a good business concept and had a good chance for success. JB assembled a detailed business plan, including a series of five-year pro-forma financial statements. The Year 1 income statement pro-forma projected gross sales of $250,000, which would result in a profitable initial year. They decided to move ahead with the plan. Barry and JB began talking to potential employees (Barry's former technicians), lining up vendors and suppliers, acquired leased office space, and putting the marketing plan in action (Hellman, 2002).

**GETTING OFF THE GROUND**

Once everything was in place, Barry and JB began the process of drumming up business. Since they were selling ISG repair services to other companies, they were squarely in the business-to-business market (Reid and Plank, 2000). Therefore, they relied heavily on personal sales as the primary form of promotion. Personal selling is the best way to deploy a relationship marketing strategy in business markets (Weitz and Bradford, 1999). The primary target market, initially at least, was former customers of Barry while he was employed at Intermec. He knew they would not be happy to have to send their equipment half way across the country for repair instead of simply dropping them off at his office (Boyne, 1998). One of the first prospects they approached was a former, long-time customer with offices five minutes from the new ISG service center. This former customer was in the soft drink bottling industry and used approximately 500 mobile computers, printers, and other peripherals. If ISG could win even a percentage of this business, it would be a fantastic initial customer. Barry knew the contact at the bottler well and they had a great rapport. A meeting was arranged and Barry and JB told the ISG story. In response, the bottler said, "I have about 50 devices coming off warranty in a couple of months. I will notify Intermec that I don't want them rolled over to our standing post-warranty service contract. I will award the service contract on those devices to your company and we will see how well you do." The prospect knew that one way to reduce the total cost of ownership (TCO) was to maintain continuous maintenance coverage (Chen and Chien, 2007). This was great news! JB told the contact he would get a contract over for her to review in a week or so. The next day, Barry received a phone call from his contact. She told him she needed a contract today. The contract would not be for 50 devices, but for all 500! She had called Intermec customer service and told them not to roll over the 50 devices coming off warranty into a post-warranty maintenance contract. The Intermec representative essentially told her "it was all or nothing." The representative continued, stating that if she did not keep all of her equipment under a post-warranty maintenance contract, the cost of her hardware equipment would increase in the future. After hearing this, the prospective ISG client responded, "Lets just make it nothing, in that case." ISG earned its first service contract, for 500 devices, representing nearly $50,000 a year in revenue. This sort of big business inflexibility continued to alienate Intermec customers following the consolidation and translated into new ISG customers (Parasuraman, 1998). All was going well and the original strategic plan was working beautifully. During its first year of business, ISG booked over $1.25 million in gross sales!

The firm continued to thrive. It opened a second office in the southwest when Intermec shuttered that regional service center. ISG hired the service center manager and most of his former technicians and employees. The original office in NJ expanded several times over the years due to growth. By the end of 2004, ISG had exceeded $7 million in gross sales, employed over fifty in both offices combined and established itself as a dependable and reliable alternative to the manufacturer for repair services. Its list of customers included a number of Fortune 100 companies. ISG had built a reputation for standing behind its word and being very customer centric, which often translates into success (Sheth, Sisodia, and Sharma, 2000). It also had built a good core of very loyal and knowledgeable employees. Firms with employees possessing these characteristics often achieve superior financial performance (Loveman, 1998). The firm always put its employees first. The owners knew this was the best way to ensure that the employees would put the CUSTOMERS first (Webster, 1988). All fulltime employees earned salaries well above the industry norm, given 100% company-paid health insurance, offered a 401K retirement plan (to which the owners made matching contributions), and very generous paid personal time off allowances.

## THE EVOLVING INDUSTRY

On the surface, things looked very promising for the upstart firm. But the 2004 planning meeting brought out several concerns about the future of the firm, and the industry, that could not be ignored. These issues had been evolving over time, so it was no surprise to the management team. However, it was evident that something had to be done to address them. The first issue was a gradual, but important, change in the industry that represented a threat in the SWOT analysis. When ISG opened its does in 1995, the mobile computers were very proprietary, in nature (West, 2003). Each manufacturer's devices were unique and managed by operating systems that were unique (among approximately ten major players in the industry). The printed circuit boards inside the devices were unique to the manufacturer and model of device. If one wanted to print from a mobile computer to a printer, the printer had to be from the same manufacturer as the mobile computer because communication between the two was proprietary (as was the physical connector). Additionally, one mobile computer sold for approximately $6,000 and one printer sold for over $2,000! At that level of capital investment, protecting the devices with a post-warranty service contract valued at approximately $200 per year was a no-brainer. That sort of capital outlay needed to be protected and the service contract was a bargain. By 2004, the industry had changed substantially. Virtually all mobile computers were running on a standard Microsoft operating system (Pocket PC and/or Windows Mobile), could communicate among other devices with a standard wireless protocol (802.11, Bluetooth, wireless wide-area radios), and be able to print to any printer (regardless of manufacturer) (Chang, Chen, and Zhou, 2009). Since all of the devices now were running on Microsoft platforms, the architecture (CPUs, video drivers, charging systems, etc.) became standardized across manufacturers. This all translated to one very apparent result---the price of the devices dropped dramatically (Varshney, Vetter, and Kalakota, 2000). By 2003, the price of a new Intermec mobile computer was just over $1,000 and Intermec mobile printer pricing hovered around $500. With the price of the technology coming down so drastically, the value of the post-warranty service contract dropped substantially in the buyers' minds (Stremersch, Wuyts, and Frambach, 2001). They started considering the devices as virtually disposable. Moreover, companies were beginning to take a hard look at expenses. ISG knew for years that maintenance contracts were not a good deal for the buyer. The buyer was much better off financially sending in devices for repair and paying a non-contract, per-incident fee than covering ALL of its devices for an annual fee. Buyers who scrutinized their expenses began to realize this fact. They looked at the number of repairs they sent in during a year and multiplied it by the per-incident price for each device. The total annual cost of service was virtually always dramatically more for an annual maintenance contract as compared to the per-incident total.

**CUSTOMER CONCENTRATION**

There was another change in the competitive environment that affected ISG dramatically over recent years. Intermec-related repair services represented nearly all of ISG's revenue. Revenue associated with services for other manufacturers' devices represented only about 5% of ISG total revenue. This customer concentration posed difficulties for ISG moving forward (Mulhern, 1999). This worked wonderfully over the years because Intermec dominated the mobile device market. At times, Intermec's market share of the mobile device market approached 85% (Mossannen-Amini, 2008). More recently, Symbol Technologies (now a subsidiary of Motorola) made dramatic inroads into the mobile device market. By 2003, Motorola controlled over 65% of the market and ISG did not repair Motorola devices. ISG had been watching major, long-time customers cancel contracts because they moved to a Motorola platform for several years. ISG had no way of recovering these lost accounts because it could not repair the Motorola devices. One of the things that had made ISG such a success, it unique expertise in repairing Intermec devices, was rapidly becoming its Achilles heel.

**LAYING OUT THE DILEMA**

These issues left the owners of ISG with a feeling of impending doom. Barry and JB had finally come to the realization that something had to be done. The owners believed that they had no more than three years until the firm begin to lose money. To date, ISG had never had an unprofitable year. The firm had, for years, attempted to expand its service capabilities, to no avail. As they saw it, shifts in the macro-environment in which ISG operated would dictate the future of ISG:

- The price of mobile devices, even ruggedized models, would continue to decrease. This makes long-term post-warranty maintenance contracts much less attractive.
- Open architecture makes the mixing and matching of various manufacturers' devices simple. This dilutes the effect of the unique expertise ISG possesses in repairing Intermec devices.
- Large, former ISG customers were migrating towards non-Intermec platforms.
- Industry consolidation (dairies, beverage bottlers, snack manufactures, etc.) makes it more difficult for ISG to attract new clients since they become acquired by large, global enterprises.

Even though the firm just completed a record year in sales, the writing on the wall was evident. The future of the firm was in jeopardy and the owners new something had to be done very quickly to preserve the equity they had built over the years. As the owners saw it, it was time to move forward with an exit strategy. They assembled a list of pertinent facts from which they could frame their decision:

- Barry was in his mid-sixties and ready to retire.

- JB was forty and still had many years of work ahead of him before he retired. He had two young children at home, ages one and five.
- JB and Barry had an open line of credit of $1 million for ISG, secured by personal guarantees signed by both owners.
- JB had completed his doctoral degree and had a passing interest in teaching college business courses.
- ISG was a closely-held, Delaware C-corporation, even though it was located in NJ and TX. If the owners do sell the company, the buyer (s) would have to acquire not only the assets of the firm but also the corporate shares.
- There were no "skeletons in the closet." That is, there were no lawsuits or legal proceedings pending or expected.
- About 20% of the employees had been with the company since the first year of operation.
- Both Barry and JB were paid salaries in excess of $100,000 per year. There was a management structure in place, relieving either Barry or JB from needing to be in the office on a daily basis.
- Both Barry and JB had amassed sizable 401K accounts by contributing the maximum amount allowable every year.

## OPTIONS AND A DECISION

The owners saw their options as follows:

1. JB could buyout Barry and take over sole ownership of ISG.
2. ISG could find another firm with whom to partner.
3. The owners could sell the company to the ISG employees, forming an employee stock ownership program (ESOP).
4. JB and Barry could sell the entire firm to a buyer.
5. They could continue with a status quo strategy and hope that their prediction of the future was wrong.

If you were Barry and JB, which option would you select from the list above? Why? Are there other options available to the firm that the owners are overlooking?

**APPENDIX A**

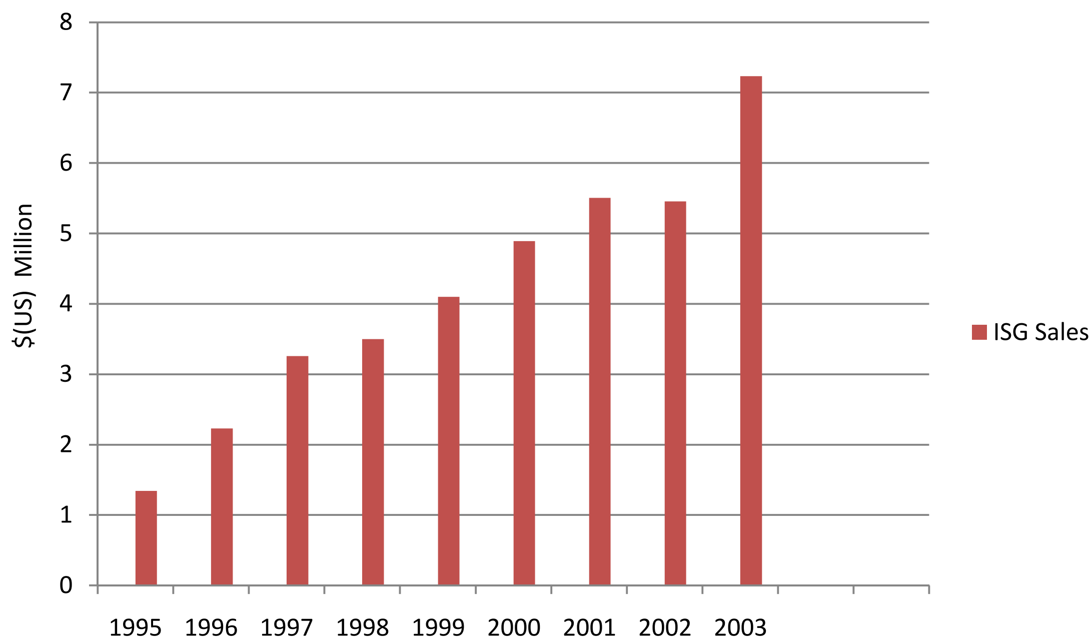


Figure 1

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