Expeditious Expediters

1989: Starting Line

In 1989, three freight expediter companies open their doors. Each founder possesses far more intellectual than monetary capital and each has worked in the business at least 15 years. Let's follow their companies from the same starting line to three very different finish lines.

1999: Ten-Year Anniversary – Inflection Point 1

Each company has grown to $5M in revenue. Compensation and other distributions to each owner totals $250,000. Each owner has been handling almost every almost every aspect of the business, but at this point, each owner takes a different ownership and management style path. The choice each owner makes is the first inflection point[1] on the company's growth curve: it is the decision to grow through delegating tasks and eventually management responsibility to others, or not.

Meet the Owners

Arnie DeHoek

Arnie is quite happy with his eight-person company. He enjoys controlling all aspects of the company and doesn't mind working 50 to 60 hours each week. The company is stable as is his income so he sees no reason to change his "hands-on-head-down" approach to ownership.

Brent Bridges

Brent begins to delegate many responsibilities to others within the company. This eventually allows him to reduce his workweek to 30 to 40 hours and he does only what he enjoys in the business rather than everything he did before. His style is "hands-off-head-down." He begins to travel and volunteer in his community. He delegates all tasks other than managing the management team and making important financial decisions.

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[1] Investopedia: "An inflection point can be considered a turning point after which a dramatic change, with either positive or negative results, is expected to result." http://www.investopedia.com/terms/i/inflectionpoint.asp

Charlotte O'Hara
Charlotte's management style is similar to Brent's but Charlotte envisions that her company will one day be a market leader. She delegates responsibility more to grow the company more quickly than she does to work fewer hours. She's a "hands-off" owner, but is also emerging as "heads-up" leader as she pursues her vision.

2004: Fifteen-Year Anniversary

Arnie
Revenues are stable but earnings are slowly declining. Arnie just cannot pedal any harder. He has heard that businesses like his are selling for seven times EBITDA so he decides to sell before his health fails.

Brent
Revenue has reached $20M and EBITDA almost $1M. Brent's compensation and distributions total $250,000, but he continues to personal spend about $250,000 per year. The company employs 25 full-time workers. Growth is slowing as the industry has matured. Brent finds that he's enjoying his volunteer activities more than his work so decides to test the waters to see if there is a buyer for his business. He is being pulled toward an exit, not pushed out because of boredom or burnout.

Charlotte
Charlotte's company's profitability and revenues have surpassed Brent's, but her compensation remains $250,000 as she uses all available cash flow to strengthen the company. Given her "hands-off-heads-up" style, Charlotte realizes that the days of rapid growth are over unless she injects significant capital into the business (to be used to acquire other businesses and state-of-the-art systems and software).

Charlotte realizes that her company needs more than capital to move to the next level: her management team is limited by it lacks experience at that level and, possibly, ambition. She appreciates that if she doesn't take steps to grow her company, bigger, well-funded competitors with better economies and efficiencies of scale will crowd her out. The signs of consolidation within the industry mean that the big boys will get even bigger.

As Charlotte sees it, her choices are:

A: Stay in the business knowing full well that revenue and profits may stagnate or decline.

B: Sell to one of the bigger industry players—three of whom have approached her in the past nine months.

C: Use bank financing and all excess cash flow to fund the purchase of smaller competitors or of the same software used by the industry leaders, add employees, space, etc., and to hire “best-of-class” professional management capable of taking the company to the next level. These costs exceed what the current cash flow of her company can bear.

Charlotte has reached the second inflection point.