

The
**PORTABLE
MBA**
in

ENTREPRENEURSHIP

**CASE
STUDIES**

William D. Bygrave
and
Dan D'Heilly, Editors

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THE PORTABLE MBA IN ENTREPRENEURSHIP CASE STUDIES

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PREFACE

This book is a collection of cases about starting and growing new ventures. It deals with entrepreneurs, their opportunities, and the resources they need to create their ventures. The book is designed to be used as a case book companion for the second edition of *The Portable MBA in Entrepreneurship*. It would be much too narrow to claim that there is one case designed specifically for the conceptual topic of each chapter. After all, starting a new business is a holistic process that cannot be conveniently compartmentalized into “classic” management disciplines, such as marketing and finance. However, each case has an emphasis. For example, “Beautiful Legs BY POST” illustrates many of the concepts in both Chapter 5, “Creating a Successful Business Plan” and Chapter 6 “Financial Projections: How To Do Them the Right Way.” But the same case also raises issues dealing with the entrepreneurial process, recognizing and shaping opportunities, entry strategies, marketing, venture capital, debt, and harvesting—topics covered in Chapters 1, 2, 3, 4, 7, 8, and 14.

We carefully selected the cases so that all the important topics in *The Portable MBA in Entrepreneurship* are covered at least once. The cases contain consumer and industrial products, manufacturing and service businesses, low technology and high technology, lifestyle and high-potential firms, many different sources of financing including founders, family, friends, angels, venture capitalists, factors, credit cards, and banks. The cases are contemporary with almost every decision point occurring in the 1990s. Students relate to the entrepreneurs in the cases; hence we have selected cases about persons whom we believe provide role models of entrepreneurial behavior.

ACKNOWLEDGMENTS

We are frequently asked what puts Babson College at the forefront of undergraduate, graduate, and executive entrepreneurship education. The answer is found in the unique mix of students, alumni, faculty, friends, benefactors, and administration that make Babson College a hub of entrepreneurship education. It is this mixture that provided us with the opportunities to write the cases in this book.

First, we would like to thank the principals in the cases who allowed us to pry into their ventures and reveal their innermost secrets. Each one of them has our heartfelt thanks. In alphabetical order they are: Mike Bellobuono, Axel Bichara, Glenn Butler, Addis Dickon, Steve Duplessie, Ross Goralnick, Chris Harami, Jon Hirschtick, Eric Kaplan, Peter Lamson, Ed Marram, Kerry McGrath, Ben Narasin, Brooks O’Kane, Lisa and Bill Pernsteiner, Elizabeth Preis, Mario Ricciardelli, Greg Raiff, John Roughneen, Torrey Russell, Steve Spinelli, David Wolfe, and Neal Workman.

The Center for Entrepreneurial Studies case collection has involved the efforts of many students, alumni, faculty, administrators, writers, editors, and videographers. We are indebted to Judy Carson, Beverly Chiarelli, Gail Daniels, Kevin Ebel, Mark Ford, Michael Giorgio, Carole Guarante, George Hart, Mark Helman, Tricia Jaekle, Bob Kramer, Bonny Kerrick, Dan Lang, Bob Martin, Bill Mayfield, Georgia Papavasiliou, Jeff Selander, Joe Williams, and Scott Wipper. This has been a team effort and we are deeply indebted to the inner circle of people who have made this book possible: Andrea Alyse, Jim Foster, Jo Ann Mathieu, and Sam Perkins.

Babson College’s entrepreneurship faculty have diverse backgrounds. But what makes them special is the breadth of their entrepreneurial experiences. They are entrepreneurs, consultants, board members, investors, and lawyers, who practice what they teach. We call some of them “pracademics,” our term for practicing academics. Some of them have been intimately involved in producing the cases in this book . . . so intimately in fact, that Babson faculty are principals in three of the cases. Some have supervised the writing of the cases. Some have taught the cases

and suggested improvements. Special thanks are due to Bill Johnston, Julian Lange, Richard Mandel, Ed Marram, Jim Nelson, Joel Shulman, Steve Spinelli, Natalie Taylor, and Jeff Timmons.

It is a pleasure to thank the benefactors whose generosity helped finance the writing of these cases. The principal source of our support was a grant from the Ewing Marion Kauffman Foundation. Additional support came from the Frederic C. Hamilton Chair for Free Enterprise and the Price Challenge Fund. It is a privilege to be associated with the late Ewing Marion Kauffman, Fred Hamilton, and Harold Price, whose entrepreneurial vision and leadership are a continuing source of inspiration.

A huge “thank you” to Ruth Mills, our editor at John Wiley & Sons. Her enthusiasm and insight into the market for trade books and textbooks has helped us shape this book and motivated us to produce the manuscript on time.

Finally, without the enthusiasm of our students we could never have found the energy to write these cases. It is the learning that students get from cases that makes it all worthwhile. They are a neverending source of ideas. We thank every one of our students, present and past.

THE PORTABLE MBA IN ENTREPRENEURSHIP CASE STUDIES

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1 JOHN ROUGHNEEN

John Roughneen turned off his computer and stared at the blank screen, which moments before had displayed the start-up menu for *Vending Tracker*, the flagship program of *Streamline Business Systems*. John and his partner, Glenn Butler, had founded Streamline in late 1991 to develop software for small and medium-size vending machine operators. Most of these small-business owners still managed and planned their operations and performed bookkeeping transactions by hand. Many didn't even own a personal computer. Now, in early 1993, after more than two years of development, the latest version of *Tracker* was ready for release. Complete with functions for managing inventory, calculating sales and commissions, and producing more than 40 accounting and control reports, the system incorporated numerous refinements in response to suggestions offered by prospective customers and other industry participants. The partners were confident that they had a product that met the needs of this particular market niche. However, sales had been scant and the task of achieving sufficient sales volume to propel the business forward remained a promising but elusive goal.

The previous November (1992), Glenn had given up his job at Stratus Computer to concentrate full-time on refining the software program. John, however, who was responsible for Streamline sales and marketing, had remained at his job at Pepsi. With the revised product in shape for an upcoming trade association convention, John knew that soon he would have to decide whether or not to make the leap to total involvement in, and dependence upon, the new venture. If the business were ever going to succeed, it would require John's full-time commitment. In spite of their joint optimism about the potential of the product and the business, market validation

remained a large question mark. In contrast, John's position at Pepsi was secure and his long-term prospects excellent. As one of only 120 graduates selected over a two-year period to enter a special operations management training program, John had forged a promising career path. He was currently the district sales manager for eastern Rhode Island. As John pondered his situation, he turned the computer back on, "Two years from now, how many vending machine companies might be looking at this Vending Tracker menu? Twenty? Two hundred? Two thousand?"

FAMILY BACKGROUND—EDUCATION

John Roughneen was born to first-generation Irish immigrants in Lynn, Massachusetts, just north of Boston, and grew up in the town of Lakeville, near Cape Cod. John's father, "a strapper from day one," was almost 20 years old when he immigrated to Boston following an adolescence of hard work and no school in his native land. He started high school at the age most people finish and continued his education at night, graduating in his late fifties from Northeastern University. A lifetime employee of Polaroid, where John's mother also worked for 15 years, Mr. Roughneen passed on to John a single-minded determination and the belief that he could do anything:

You have to focus all your energies in one direction. I guess the biggest thing my family ever did for me was to give me the positive attitude that you can do whatever you want once you set your mind to it.

After a high-school career replete with numerous extracurricular activities, including the class presidency his senior year, John enrolled at Worcester Polytechnic Institute (WPI), where he eventually selected a major in manufacturing engineering. John's penchant for nonacademic pursuits continued in college, initially with school-related activities, and then by starting a part-time catering business. While he believed in the value of education and graduated with distinction, John Roughneen was not one to let schoolwork and the quest for good grades interfere with the more important mission of learning and gaining experience. He had a clear perception of what success factors would determine his destiny:

I was an average student. I knew that regardless of how much I studied I was still going to get the same job offers. I concentrated my efforts on the business while I was in school. More so than studying, I had this feeling—I just knew in my heart that I was going to achieve success with or without the extra A, so I figured I'd spend my time on the business. It turned out exactly the way I thought. I learned that it's your personality and character more than what you know. . . . It's who you are, not what you are.

INITIATION TO ENTREPRENEURSHIP

John Roughneen's first entrepreneurial venture grew out of occasional work he performed during his sophomore year for a catering company in Worcester, Massachusetts, that serviced parties at the local art museum and other high society functions. Noticing that he and fellow clean-cut students were "a big hit" with the older, well-heeled crowd

who enjoyed conversing with local college kids, John polled a few of the patrons to determine their interest in hiring waiters and bartenders for smaller private parties. Based on the positive responses to this seat-of-the-pants market research, he spent \$30 on business cards and set up a sole proprietorship. John established a strict appearance and dress code for his student employees to foster the clean-cut image—the college boy look—that he regarded as the key differentiating quality of his workforce. All workers had to have black pants, white button-down shirt with black bow tie, and black shoes. John supplied ties when necessary, but deducted the cost from the employee's paycheck. Training was conducted on the job, with one new freshman or sophomore accompanying several older, experienced students to learn the basic protocols of waiting and bartending.

With good connections to the wealthy cocktail party set and a clear vision of the added value his worker differentiation could provide, John found immediate success:

It went over big because they felt they could trust you more than some other people. I guess they figured they knew the college, and they knew that these kids were coming from out of town and paying a lot of money to go to school, and thus they were probably not going to rip them off. Our workers looked clean-cut and had a good reputation.

From private parties, the business branched out into events at the Historical Society and the Antiquarian Society—societies of older rich people—and eventually into supplying workers for catering companies and even the Marriott Hotel, once for a group of parties serving 2,000 guests. Some of the work with institutions, such as the art museum, evolved into long-term contracts that continued long after John sold the business. In the spring of his junior year, John hired a student manager to run the operation when he left campus to participate in a school project in Ireland. After he returned to WPI, John kept the student manager on, satisfied that the business could succeed without his day-to-day attention and eager to avoid the “hassles” involved in rounding workers up on short notice:

So then I hired a manager. If I was getting three dollars an hour over what I paid the workers, I gave him a dollar an hour for every person he got, and the company got two. I had a guy running the whole thing for me while I was on campus, and I was just cutting checks, managing the books. So I took it to the management level. I took it one step more.

John continued the business for several years after he graduated. Although it never made the money it had during his own tenure as manager, it did continue to provide valuable learning experiences. John dealt with expenses and headaches related to Workers Compensation and other insurance matters, and learned about incorporating the business in order to protect personal assets after he purchased a house. At one point, he envisioned a regional company with operations based at college campuses all along the East Coast. Chapters of his fraternity at other schools would provide a natural launching point and initial contacts for employees and alumni clients. Although he did start an outlet in Providence with its own manager, expansion plans fell victim to full-time responsibilities at Pepsi, other business opportunities, night school (Babson MBA program), and family life:

I had to focus all my energies and go back to what my father taught me: be successful at one thing. So I had to get rid of this catering business because I was not making enough

money and I didn't see a clear future. I would have had to franchise to expand . . . I ended up selling it to my father. Really for no money. He bought it for a dollar. It's been going okay.

GROUNDWORK FOR A PARTNERSHIP

The project that took John to Ireland in the fourth quarter of his junior year was a social research study on entrepreneurship—a natural fit with his activities at WPI. John and two classmates went armed with six months of preparation research, an introduction to a professor in Ireland through professor Bill Bygrave of Babson College, and strong assumptions about the state of entrepreneurial endeavors and the needs of the populace. They quickly discovered that their “assumptions were pretty much 180 degrees in the wrong direction.” Instead of a business community thirsting for entrepreneurial information and advice, they found one practically drowned by government business assistance programs. With their original intentions thwarted, the students regrouped and revised the project, putting together a seven-page questionnaire to administer to older students about their family business backgrounds and interest in entrepreneurship. The team developed a plan to track the group and re-interview them five years later to determine the extent of their entrepreneurial activities and to identify key indicators and/or conditions of success.

In addition to the learning experience of having to adjust procedures and objectives to respond to changing circumstances, and the benefits of exploring a society's entrepreneurial attitudes and conditions, the project provided an unexpected gain. John and one of the other project team members formed a close, working relationship that would become the foundation for a business partnership. Glenn Butler had been a lab partner with John during their freshman year, and the experience had left John with an indelible impression of Glenn's abilities. In contrast to the third team member, Glenn and John discovered that their habits and work patterns (sleeping, rising, studying) were very compatible, and the experience of spending nearly every waking hour together, working on the project for more than two months, confirmed John's earlier inclination that Glenn was the type of person he would like to have as a business partner:

I identified early on that this guy was brilliant. He ended up graduating top of his class in electrical engineering, which is one of the harder disciplines in engineering, with high distinctions in several honor societies. He didn't get anything but A's, and in that school it is really difficult to get As in Electrical Engineering. He was a phenomenal person, and I knew that this is the type of guy that I would want to work with. I could see starting a business with him. I threw it out a few times when we were in Ireland. I can't remember how receptive he was. I remember feeling that I was more into it than he was.

GLENN BUTLER, FUTURE PARTNER

Glenn Butler was born in New Jersey, moved several times as the result of his father's corporate transfers, and finally settled in Harvard, Massachusetts, for his high school

years. After 20 years in the corporate world, Glenn's father left his position as CFO at Foster Grant to purchase and operate a building supply business, which blossomed and then faded in concert with the 1980s real estate boom and bust rollercoaster. Glenn's affinity for computers dated back to his use of the IBM PC (an original model) that Mr. Butler had purchased to help run his business. Glenn was one of a few high school students doing papers on a word processor.

From Glenn's perspective, the experience in Ireland with John cemented a friendship that had been good though not especially deep during their first three years at WPI. While he lacked John's distinct memories of their freshman lab experience, he did recall many late-night, after-party meetings in which they talked long into the night. Glenn also developed a clear sense of John's character and strengths, which he saw as complementing his own:

I'm a details guy and he's a "big picture, on the surface, go forward" guy. John had a knack. Of all the guys at WPI, it was obvious that he was the one who was really sociable and could get in there, do stuff, and sell. He had an incredible amount of energy. I'll say, "we can't do that," and he's almost shallow, letting nothing deter him. He's a straight-ahead guy. It's a great partnership.

FIRST JOBS

After graduating from WPI, both Glenn and John went to work for established companies (see Appendix). In spite of his electrical engineering major, Glenn decided against a job in computer hardware development, preferring instead the immediate feedback on creative ideas available from writing software: "You build it, you see it work and then you get to fix it really quick." Glenn turned down several offers doing digital circuit design and went to work for Stratus Computer in software engineering. A self-described happy-go-lucky guy, for whom things always seemed to fall into place, he had no grand plan in mind for where the job might lead. It was simply a chance to do exciting, enjoyable work on a completely flexible schedule that allowed sufficient opportunity to pursue other interests.

John interviewed with numerous large corporations and garnered offers from six prestigious firms: Arthur Andersen Consulting, DuPont, Westinghouse, Texas Instruments, UPS, and PepsiCo. In spite of his entrepreneurial experience and ambition to start another business, John knew exactly what he wanted from his first post-college employment: on-the-job business education. Although the Pepsi offer didn't match some of the others in compensation, John thought its training program would best serve his long-term goals:

I really had it in my head that I wanted a training program. I felt I was putty and I needed to be molded by a good company. At first I wasn't going to work for Pepsi but . . . I interviewed with them four times. They brought me all over the country to different places. It wasn't until the very last time when I went to their headquarters in New York that I saw the manuscript (for the training program). He showed me the loose leaf manuscript of the program and said, "Here, take a look at this." I liked it. That's what the kicker was. I had a lot of job offers making a lot more money from other companies. I took this one because it had the best training program.

Pepsi's Operations Training Program accepted 60 graduates that year (1989) and 60 the next, before the company stopped running it. For the first three months, the trainees rotated through virtually every division in the company—from manufacturing to marketing—for a week at a time. After every stop, they were tested on their knowledge of the function, from production process flow to supermarket shelf location protocols. John had a bird's eye view of everything; in his week in marketing, he was on the ground floor negotiating with Star Market on Pepsi TV ads. The next three months were devoted to on-the-job training, followed by a job assignment. In spite of his manufacturing engineering background, John ended up in the distribution side of the program. He was assigned as distribution manager for New England, overseeing the operations of six locations with 300 vehicles and a \$6 million budget. The real challenge was managing a dozen experienced mechanics, many of whom were the age of his father. John, a self-proclaimed "whippersnapper out of college" who couldn't do much more than change his car's oil, learned a great deal about managing people in difficult circumstances.

After a year and a half as a distribution manager, John was offered the opportunity to go into the manufacturing side of the business, with the likelihood of becoming a plant manager in three years at a "lucrative" \$100,000 salary. He had also made enough connections in the company, however, to secure a job through a VP of sales. In spite of the valuable experience in distribution and the opportunities in manufacturing, John saw his future outside of operations:

I went into sales because I knew I was going to start a company. I said, "I've got to get experience." I learned a lot, but I knew I never was going to do anything with transportation or trucks. I got into sales and that was the best move I ever made.

John did not find being a district sales manger for Pepsi a glamorous job:

I had salesmen, route salesmen, the guys riding the trucks delivering soda for half the state of Rhode Island reporting to me. I had quotas and sales objectives and the whole bit. If I saw a place that could possibly sell soda, even if I didn't think they could sell soda I was going to try to get them to sell soda. It was crazy. I learned a lot about how products get distributed. I ended up being the sales rep that called on 7-Eleven™ stores for Rhode Island. That's when I learned about distribution channels and how to deal with franchises. That's what was key.

GENESIS OF THE ENTREPRENEURIAL VENTURE

On Tuesday, February 20, 1990, about nine months after starting their jobs at Pepsi and Stratus Computer, John and Glenn Butler met in a Dunkin' Donuts on Park Avenue in Worcester, Massachusetts. They drank coffee and committed to a common vision of the future: starting a business. It was to be the first of many meetings over the next six months, where they'd sit and hash over potential business possibilities. Initially, the field of discussion was wide open. Glenn was tremendously excited about the idea of a new-car buying service. Eventually, however, John and Glenn came to focus on computer-related business concepts. For Glenn, it was a natural extension of