



Help Wanted — Right Now

What happens when a young firm starts knocking heads with a key supplier? Things fall apart

The company: GO Local Courier aims to bring the level of service and reliability of major national couriers to local markets. The company is counting on its innovative website — modelled after big-league systems for order-taking, dispatching, package tracking and billing — to give it the edge over its low-tech local competitors.

The situation: Since its launch, GO's website hasn't lived up to company founder Charles Lapointe's expectations. Poor performance and several outages have cost the firm key clients and left Lapointe wondering whether he should switch website developers. But will a new supplier solve his problems? Lapointe isn't sure he can afford to find out.

CHARLES LAPOINTE SIGHED as he cradled the phone against his shoulder and started scribbling delivery instructions onto a pad of paper. "Sorry for the inconvenience," he said, apologizing to his customer. "Our website should be up and running again shortly." Hanging up, Lapointe massaged his temples. The website was the heart of the operation at his 10-month-old firm, GO Local Courier, and there couldn't have been a worse day for an outage. It was Mother's Day, and GO was in the midst of its most hectic weekend ever. But that wasn't the only cause of Lapointe's looming headache. This outage, in fact, was only the latest in a series of technical crises and slowdowns that had plagued the company's site since its launch.

GO's website was supposed to be its key competitive advantage. In theory, at least, customers would be able to use it to place orders, which

would be automatically relayed to bonded and insured couriers via handheld computers. Clients would then be able to track the status of their packages online, while the system handled back-office tasks such as compiling order histories and producing billing information.

The result, Lapointe hoped, would be the creation of an elegant, simple and seamless service

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ILLUSTRATION BY ERIC PALMA

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that would bring the reliability standards of large national couriers to the local delivery market. Piloting his business in Kingston, Ont., he also hoped to extend it to other mid-size cities. The website would act as a piece of ready-made infrastructure, enabling GO to enter new markets with a service unmatched by local competitors – usually small firms that still depended on harried telephone dispatchers and error-prone radio dispatching.

In practice, however, GO's site had proved unreliable. It was riddled with cryptic error messages and pages that loaded sluggishly. Even loyal clients had begun to bypass it entirely, placing their orders by phone instead of going online. Others simply stopped dealing with GO altogether. Complicating matters, the site's developer – a local firm that had traded site development work for an equity stake in GO – had been falling short of Lapointe's high expectations for support, despite successive rounds of fixes and upgrades.

In the midst of the Mother's Day rush, Lapointe found himself taking delivery orders on his cellphone while navigating around the city streets, his car filled with flowers and cards. Stressed, he mulled over his situation as he drove. Should he continue to browbeat his developer into fixing GO's site? Or should he end the relationship and build a new site with another developer? That appeared to be an option. But with GO's cash flow already anemic, Lapointe was reluctant to spend more on web development. His clients might not react favourably, either. Their loyalty was already being tested by the website's shortcomings. Lapointe doubted they would be tolerant if a switch resulted in more downtime.

WHEN LAPOINTE FIRST MET his website developers in the fall of 2004, it seemed like a stroke of extraordinary luck. The company was

enthusiastic about GO's business model and offered not only to build GO's website, but also to incubate the fledgling firm, providing support and administrative services in exchange for equity. Before this meeting, Lapointe had been quoted costs of between \$30,000 and \$50,000 for the project. Since he was funding his small start-up with creative bootstrapping and a modest loan from the Business Development Bank of Canada, the prospect of swapping equity for development services was appealing. So was the idea of having an incubator facility from which to grow his business.

But Lapointe did have a few reservations about the offer. He'd heard rumours that some clients had not been satisfied with the developer's work. These comments, however, had come from the firm's competitors, so Lapointe was naturally skeptical. He figured his software developer, as a shareholder, would have an incentive to perform and help GO succeed. He agreed to take the company up on its offer.

The developer worked through the spring of 2005 to create GO's site. Early on, Lapointe suggested drafting "use cases," written scenarios describing describing how users would interact with the site. The developer wasn't so sure. The company agreed use cases were important, but warned that preparing them would force Lapointe to push back his aggressive start date. Opting for speed over process, Lapointe reluctantly agreed to press on.

By May, the developer had completed a site that worked, but hadn't been completely tested. The company still wanted to make improvements to the code, but Lapointe needed revenue and was anxious to launch. He decided to go forward, while the developer added elements to GO's website and refined features.

Although GO started with a website that was a work-in-progress, the company still

managed to build a faithful base of 50 local clients, ranging from small businesses to large institutions. But as the client base grew, the website became increasingly unreliable. On more than one occasion, it was entirely unavailable. Other times, it would freeze, or simply churn out error messages. Lapointe wrote urgent e-mails to the development company requesting changes, from major technical problems to minor spelling errors, but was never satisfied with the response.

Over at the developer's office, frustration of another sort reigned. The company felt the GO project was being besieged by "feature creep," as new demands piled over old ones. With tensions rising on both sides, Lapointe and the developers agreed a face-to-face meeting was in order. One evening, Lapointe and the project manager from the development firm got together at a local pub. Over a cold beer, Lapointe described his frustrations with his website's instability. The project manager parried with complaints about Lapointe's lists of feature requests and support demands. Both, however, walked away from the meeting without committing to a future plan.

As 2005 drew to a close, the issues remained unresolved. When yet another "fatal error" crippled the site, GO lost one of its largest and most important customers. The client cancelled the contract with a phone call. "When I got a third fatal error in so many weeks," the frustrated client told Lapointe, "I didn't even look for your telephone number. I just hit your competitor's speed-dial key. The shipment had to go out immediately."

Agitated at the loss of business, Lapointe decided he needed to escalate his complaints with his developer. He invited the company's chief executive officer to his home for dinner. "It was a friendly, home-cooked meal," Lapointe recalls. "I was soft on the relation-

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ship, but hard on my demands. I basically put my boot to his throat. After all, this was my business on the line."

The CEO refrained from making concrete promises (the site was a work-in-progress, he assured Lapointe), but pledged to personally oversee the project. As the two business owners finished their meals, Lapointe reminded his counterpart of his stake in the company: "You're an equity partner in GO," he said.

I can do." Lapointe was intrigued. The timing of the offer was felicitous. It was mere days before the deadline that had been set over the last dinner meeting with the CEO of the development company, and the site's bugs were as evident as ever. A fatal error crippled the site again, and GO was starting to rely as much on inefficient phone dispatching as its Internet site to keep its business going.

By May, the issue had come to a boil for La-

short days." Lapointe decided to jump. His old developer reacted frostily to the news. But Lapointe was committed to his plan. Mere days later, he was presented with new websites for customers, couriers and administration, all powered by brand new software.

The transition was executed over the quiet Victoria Day weekend – as ideal a time as any for rolling out new code. But the timing was largely coincidental. "We had to implement

Frustrated by his website developer's work, Lapointe invited the company's CEO to his home for a dinner meeting. "I put my boot to his throat," Lapointe says. "My business was on the line"

"Don't you want to make money?" When the chief executive left at the end of the night, he promised Lapointe that the website would get its fixes within weeks.

NEARLY THREE MONTHS LATER, the fixes were still not in place. At a second dinner meeting with the developer's CEO, Lapointe demanded a set list of changes, with a firm timeline for completing each. The CEO was not as supportive as Lapointe hoped he would be. "He seemed reluctant," Lapointe recalls, "but he agreed to the list and the timeline."

Shortly after that meeting, Lapointe received an intriguing e-mail from an independent web developer. Through some colleagues, the freelancer had heard about GO's technical headaches. "How about this?" he suggested. "I'll build a bare-bones demonstration website for you, entirely on spec, just to show you what

pointe. His business was in crisis – as his Mother's Day weekend proved – but his path out of the woods was far from clear. Lapointe needed a solution that would restore his technical infrastructure and provide the basis for future growth without losing any of his hard-won clients or draining his modest cash reserves. Would switching software developers solve his problem – or make his life even more difficult? Lapointe knew that if he made the slightest misstep, GO's hungry local competitors would step in and pilfer what remained of his company's customer base.

The Outcome

AT WIT'S END, LAPOINTE MET with the independent Web developer. "The new developer didn't waste time," he recalls. "He promised me a new site with new code within a few

the change," Lapointe says. "It was *force majeure*. The timing opportunity just landed in our lap." GO sent a bulk e-mail to its clients advising them of the change (billed as a "planned software upgrade"), naming the Monday of the long weekend as the launch date. On the Sunday afternoon, a day ahead of schedule, the new GO Local site went live. Lapointe's customers were thrilled with the stability and reliability of the "new release."

"If I learned one thing, it's that you should go with your instincts," Lapointe says, reflecting on his experience. "There were a number of signals that I should have spotted. We didn't develop proper use cases for the website. And I was warned by previous clients about problems with the company's service and delivery. But I ignored those signals in favour of the attractive proposition of development services, incubation and support."

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There were lessons for GO's first developer, too. Reflecting on the process, the company officials say they've learned never to compromise on planning and testing – and to be disciplined about requests they deemed unreasonable. They're also revisiting their approach to equity-for-service deals. They want to ensure that owning stakes in clients doesn't sway their commitment to best practices.

But at least the investment is paying off for Lapointe and his first developer, who retains equity in the firm. GO Local now has over 200 local customers and, with a stable technology platform in hand, it's now planning expansion to other mid-size cities.

The Expert View

By Richard Towrek

Vice-President, Enterprise
Communication Servers, Nortel Networks Corp.



WHEN YOUR SURVIVAL AS a start-up hinges on stretching every last dollar as far as possible, there can be a tremendous temptation to parcel out equity instead of paying cash for services. I've seen it first-hand: Before joining Nortel, I led a tech start-up through some very lean years. But even when we were working in a warehouse, forgoing salaries, I still avoided equity-for-service deals. Here's why:

First, they turn suppliers into venture capitalists. Suddenly, they have to consider valuation, assess risk, gauge the quality of the team and understand the business model and the market. In most cases, they also have to do this without the benefit of VC experience, discipline and horizon for returns. That's a recipe for disaster. It's tough enough planning and pricing a technology project. Having to determine a valuation for your client and structure

an equity deal complicates things even further.

Second, equity-for-service deals can kill a company's investor appeal. The last thing angels or venture capitalists will want to see is the overhang of a supplier's stake in a company. If GO Local eventually wants to expand nationally, they'll likely find it difficult to raise funds with a supplier-cum-equity-partner muddying the capitalization table.

Furthermore, such deals can dull your supplier's motivation. Most suppliers want revenues through the door today, not an outside chance of a payday five years from now. It's difficult for any supplier to keep adding to its overhead without bringing in a single dollar in revenue. Payback horizons that stretch years into the future can weaken the incentive to complete immediate work. From my perspective, equity should be offered only as a 'sweetener' in exchange for discounted rates. By agreeing to a mix of cash and equity, suppliers can cover costs while retaining a long-term interest in a client firm's success. Incentives that don't involve equity can work as well. Offering a supplier a share of revenues over a fixed period, for instance, can create a performance incentive that starts with the first dollar through the client's door.

Finally, trading shares for services is an ineffective use of equity. In GO's situation, I think equity might have been better used to build a founding team. For a business model where technology plays a pivotal role, I would have been more comfortable bringing in a chief technology officer in exchange for equity, rather than doling out ownership in exchange for development services. This goes to a larger point about planning a new venture: Never outsource the core pieces. It's tremendously risky to allow a third party to own or control key elements of your intellectual property.

Turning to the bigger picture, there are broader lessons to be learned from GO's experience that apply to any relationship with an important supplier. Here are my four lessons for managing critical supply arrangements:

1. Speed kills. Companies often rush to launch a product, hoping to trim the time spent in the pre-revenue stages. This is a dangerous impulse. It leads to cut corners, and cut corners lead to dissatisfied customers. Time spent in serious, rigorous business and project planning is almost never wasted. In GO's case,

more time spent planning and setting the scope for the project might have helped craft a more successful outcome for both parties.

2. Paper for failure, manage for success. Spend time setting out a bulletproof contract, with well-delineated scope, penalties for missed milestones and an "exit hatch," so the client or the supplier can back away gracefully. Ensure that the agreement anticipates the worst possible breakdowns in the relationship. It's amazing how tough agreements can keep working relationships productive and pleasant.

3. Focus on fit. With important supplier relationships, due diligence goes beyond talking to past clients. It involves understanding how each party works, the personalities involved, the skill sets and the aptitudes. There's no "best way" of doing software development, so start-ups need partners with similar working styles and approaches to project management.

4. Communicate regularly and formally. Dinners, drinks, cellphone calls and ad-hoc e-mails are not the way to communicate with key suppliers. Keep such relationships formal, with clear lines of responsibility, regularly scheduled meetings, channels for initiating, prioritizing and escalating requests, and an enforceable service level agreement based on measurable success factors. Informal communication may be more pleasant, but it creates too much room for misunderstanding.

My final comment is for those who are in Lapointe's position of dealing with unhappy clients: Don't do bulk e-mails. It's practically impossible to craft a single e-mail that explains the situation in a way that looks good for customers who didn't encounter a problem while appearing apologetic to those who did.

Small companies have the enviable advantage of being able to make personal phone calls or schedule in-person meetings with each of their customers. This is an opportunity and a valuable gift. In an era of online dispatching and Web-based tracking, there's no substitute for the human touch in customer relations.

Note: The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The views represented here are solely those of the case authors and are based on their own professional judgment. Certain names, scenarios or identifying information may have been disguised to protect confidentiality.