



Entrepreneurial Intensive Care

LA Startup, Boxed In By Limited Cash Flow, Finds Its Way

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Nearly four years ago, Southern California entrepreneur Marty Metro was sitting on top of the world – or so he thought. The telephones at his bootstrapped startup, Boomerang Boxes, were ringing off the hook as his concept generated media buzz reminiscent of the dot-com era.

After a full-page feature story applauding Metro's "earth-friendly solution" for collecting and reselling used boxes ran in Entrepreneur Magazine, generating nearly 400 franchise inquiries, the would-be king of cardboard reflected on his company's fundamentals. He knew he had a great idea with marketing momentum, but without proper business controls, he was hemorrhaging cash.

"Because the customers liked us so much, and because everyone was so passionate about it, I had the false security that the business would work," says Metro. "But I didn't have a business worth franchising."

At that point he brought in outside pros, venture capitalists that had funding to help the company grow and the acumen to develop a sound business operating plan for the company. He figured out what many entrepreneurs never do – that sometimes idea-men need outside management expertise to take their company to the next level. The key, though, is having the guts to let go of some tasks, leaving it to someone better suited to handle them.

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Looking back, Metro says he was not focusing on his core competencies and drafting plans based only on what he could afford. Related problems, he confesses, were poor bookkeeping, a lack of analytics and a belief that volume alone would lead to success.

"I had no problem selling boxes. The problem was in not knowing how much it really costs to run a company," says Metro, whose business is now called Used Cardboard Boxes Inc., a strategic name change intended to generate more Web traffic.

Boomerang Boxes: From Conception to Misdirection

Metro began his career as an enterprise technology consultant with Andersen Consulting in Los Angeles, where he worked with a number of mercurial Internet startups. He was laid off after Andersen's second bankruptcy and wanted to do something on his own. As early as 1996, he started thinking about how a business could be built on collecting and reselling discarded boxes.

In 2002, with a little money in his pocket and a lot of time on his hands, Metro decided to give it a go. He put up two sets of fliers around his neighborhood, one offering "free box removal" and the other peddling used boxes at a discount. He bought a mobile phone and rented a U-Haul truck on the weekends, hauling and delivering the boxes himself.

Metro brought in \$1,000 the first month, which encouraged him to keep going. He says he thought it was working at the time, but admits he failed to plan for how he would scale the business.

"I envisioned, probably, a small warehouse in each city across the country with a couple of trucks that were going out each morning, delivering boxes, and picking up other boxes," Metro recalls. "So I had what I thought was a pretty good plan. We used to call it the 'Leave full, return full' model."

He continued to grow the company, talking to fawning business reporters and creating a stir in the Los Angeles area where he operated, but was in debt to the tune of \$500,000 and unable to find investors. He says the venture capitalists, angel investors, bankers and other potential backers turned him down for lack of a compelling revenue model.

By the end of 2004, he had four retail locations, a small fleet of trucks and four full-time employees. Boomerang Boxes was burning through \$10,000 to \$15,000 each month, most of it financed by Metro's credit cards, right about the time the high profile magazine article began attracting prospective franchisees in droves.

"I thought if I could get peoples' attention, then we'd roll. And that's exactly what happened," Marty says. "I got a full-page write up in Entrepreneur Magazine, but the reality was that I sold a lot of boxes and – at the end of the month – lost a lot of money."

Understanding the Weaknesses

After being told thanks but no thanks by nearly 100 investors, he says, one VC firm was willing to give the company a fighting chance. They liked the concept and appreciated Metro's passion and dedication, but made it clear that he had to make some major overhauls.

"We told him that if he wanted our help and our money, he was going to have to listen to us and work with us to come up with a business model that worked," says David Krasnow, principal of the Acceleration Division of Funk Ventures Inc. in Santa Monica.

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The firm, which specializes in environmentally and socially conscious investments, liked the fact that Boomerang Boxes offered a solution for saving valuable resources. The fact that the company could realize a wide profit margin, if planned accordingly, sealed the deal, Krasnow says. Getting entrepreneurs to understand where they need help usually is not so easy, he says.

"A lot of times entrepreneurs are like teenagers; they think they know everything even though they don't. But Marty came to the realization that he didn't know the answers," Krasnow says.

The first major problem was Metro's approach to the business, Krasnow says. Since he was involved in every aspect of operations, he was not able to step back and take stock of what worked and what needed to go. This, Krasnow says, resulted in the company not focusing on its core competencies and finding partners better able to handle certain functions, such as shipping.

Roughly 95% of the entrepreneurs that business consultant Amy Abrams works with do not focus on what they do best. Instead, she says, they try to do everything and fail.

"I see that over and over again. Their decisions become very poor, because they are working under fire," says Abrams, co-founder of New York-based In Good Company Workplaces LLC.

The other main problem was lack of cash flow to do what was necessary for the business, Krasnow says. Like many other startups, he says the lack of funding confined Metro to a business plan that could not scale. So instead of coming up with a working business model and then finding the money to execute it, he just kept doing what he knew did not work, hoping volume and further tweaking of the model would pay off down the road.

San Jose-based consultant Doug Keller says most people he has worked with underestimate the amount of money required to nurture a young company to adulthood. The harsh reality, he says, is that a lot of investors will not back a company unless its founders already have maxxed out their credit cards and leaned on family members for cash.

“Usually the issue is cash flow, and that’s what drives startups out of business within the first two years,” says Keller, president of Ravina Management.

In Metro’s case, the lack of cash flow meant he had a difficult time envisioning the right business model, one that required much more upfront capital than he had.

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Rescuing a Wayward Startup

After taking on Boomerang Boxes, Krasnow shut down operations for six months. It was clear to him that the entire model would have to change. First off, he eliminated the retail locations, which were a big drain on resources, and worked on ways to outsource non-core functions to partners who would be more efficient. The franchise model also was on the chopping block.

In the beginning, Metro admits, he had a hard time seeing the business with fresh eyes.

“I was so engrained by answering David [Krasnow]’s questions based on what I could afford or what I had been doing, that he got so frustrated with me for not being able to see things with a clean slate,” Metro recalls.

After thorough research, Krasnow put together a detailed calculus for how the boxes could be shipped within the tight constraints dictated by UPS. Before that, Metro sometimes would lose money when trying to send boxes. And by getting rid of the trucks, Boomerang threw off the enormous risk and investment of maintaining a fleet. By working with UPS, the company was partnering with delivery experts and had more predictability in its shipping costs.

And by partnering with strategically located warehouse operators, combined with the ubiquitous reach of UPS, Boomerang was able to go from serving the Los Angeles area to all of North America almost overnight.

“I discovered that we could be much more successful if we worked with the right partners that were already doing certain pieces of our puzzle,” Krasnow explains. “Then we could very rapidly expand our business with lower expenses, less overhead, and really grow the company faster than we expected.”

Neither Krasnow nor Metro would discuss details of their fundraising activity, except to say they raised a small early round of financing to test the new model, expanded operations to attract more investors, then closed another round to launch the company.

The company re-launched in June 2006, after changing the name to Used Cardboard Boxes (.com) Inc. and established a Web presence. Metro says they had scant activity until a couple of months later, then grew ten-fold between January and June of 2007. This year, Metro and Krasnow say they will focus on the business-to-business segment.

Metro had the initial brilliant idea and the initiative to start a company, but he credits Krasnow and Funk Ventures for helping him create a functioning entity, he says.

“What I share with other entrepreneurs is that it’s not about creating something that you’ll figure out later,” Marty says. “But something that works now and also works 100 times without needing 100 times more expense.”