

Corporate Governance Issues at CarBoulevard.com

A Case Study

Michael Hanna
MBA Candidate, 2004
Haas School of Business
University of California at Berkeley

Corporate Governance Issues at CarBoulevard.com (A)

The People's Liberation Army soldiers lowered the flag respectfully as the late August sun set over the Forbidden City. The portrait of Comrade Mao looked on proudly, defying any of the majority of Chinese or small number of foreign onlookers to show disrespect of his legacy.

As he watched the Chinese tourists snap photos of their army comrades, Mike Harper¹ closed his cell phone, lost in thought. From the conversation he had just completed with one of his investors, Mike felt that massive reorganization of his company's managerial structure was needed immediately. He would have to cut short his negotiations with a local Chinese company and take the next plane back to Paris the next day.

Company Background

Since founding CarBoulevard in the Fall of 1999, Mike had ridden the wave of the Internet boom in Europe. Applying what he had learned about fundraising from his time in the San Francisco offices of Deutsche Bank and JP Morgan, he had moved to Europe to start his own company selling new and used cars on the Internet. Although his idea was far from original (companies such as Autobytel and Autoweb were gaining in popularity in the U.S. for the past three years), his approach was unique: as an American with few ties to Europe, he hoped to apply his knowledge of American-style company start-up creation to his advantage.

The business model of CarBoulevard was centered on helping existing automotive dealerships sell new and used cars. A client would come onto the site to research and compare cars, and then even request a "no hassle, no haggle" price from one of CarBoulevard's member dealerships. These dealerships paid CarBoulevard a fixed monthly fee plus a variable amount based on the number of purchase requests that CarBoulevard sent them. Other income sources included online marketing and sponsorship partnerships. However, Mike had a more expansive long-term vision for the company: Mike wanted to use the Internet's technology to be able to follow the automotive driver all along his or her "automotive driver life cycle," selling him value added services related to his mobility needs.

When Mike began selling his idea to investors in Paris and Munich at the end of 1999, there were very few competitive projects on the market. While looking for investment, Mike began to build a team and become as operational as possible without funding. He attracted several partners, in order to provide the local business expertise and to get the company off the ground. Together, the founding team was able to close a whopping 3.2 million USD seed investment from private "angel" investors (including some famous names from the automotive, technology, and French political worlds) in February 2000.

Mike had met Andre Loesegelt at a management conference at Switzerland's University of St. Gallen in 1996. Andre was a graduate of France's HEC business school and a French and German national. Mike convinced Andre to join him in his search for money and Andre quickly quit his job and committed fully to the project. Based upon his local contacts and dual market understanding, Mike agreed that Andre would be best suited for the CEO position, and Mike was happy to assume the role of chief strategist and business developer.

¹ While the events contained in this case study are true, the names of the characters and some companies have been changed.

From the beginning, Mike and Andre had a productive working relationship: Andre was an expert salesman and marketer, while Mike was the stronger organizer, planner, and visionary. Together, they had been able to convince their investors about the business model and their abilities to execute upon it.

The initial capital structure of the company was divided equally between Mike, Andre and the investor consortium. The Board consisted of both partners and one investor, Francois Geiger. Francois was the VP of Europe for WideVision, a leading e-commerce application software provider. In choosing software providers for their web site, Mike and Andre had been introduced to Francois by WideVision's French sales team. Upon hearing that CarBoulevard was raising a seed round of investment; Geiger expressed his strong interest in the company and decided to invest his personal funds in the venture. Because of his early and enthusiastic support, Geiger accepted a seat on the Board of the company after the closing of the investment round on February 14, 2000.

After the fundraising, Mike and Andre began to hire employees and begin operations. A fundamental part of the company's business plan was to launch simultaneously in France and Germany. Country Managers were hired for each country. Xavier de Rouquette (31 years old) brought strong automotive industry expertise to the French business, having worked for eight years at Toyota where he had developed the brand's dealership network. Johannes Schultz (45 years old) brought even more experience: previously, Johannes had been the General Manager of a chain of 45 auto dealerships in Germany. Andre oversaw the company's sales efforts to automotive dealerships, managing Xavier in the company's home office in France and Johannes who worked from a satellite office in Bad Hamburg, Germany. Andre also oversaw the company's finances and operations, calling upon the services of an external accountancy for the maintenance of the firm's accounts.

Mike led the conception and implementation of the company web site, overseeing the internal and external technical teams in this effort. He also prospected and signed partnerships with over 20 companies to provide sponsorship and content for the web site. These partners included insurance and commercial finance companies, news and other information providers.

Andre was busy assisting with large account sales and strategic partnerships with local automotive manufacturers. Xavier hired two sales managers, who were tasked with a territory-based sales approach. The sales team was heavily incentivized by meeting and exceeding their targets. Andre also planned and led the initial PR and offline marketing campaigns, investor relations, and legal concerns. Andre also chose to directly manage the finances of the company, calling upon the services of an outside accountant and independent auditing firm.

The French version of the site was launched officially on June 19, 2000 at a press conference the company held at the prestigious Automobile Club de France, on the Place de la Concorde. The buzz surrounding the company at the launch, heightened by Andre's efforts, was highly successful at driving traffic onto the site in the initial weeks. Leveraging this momentum, the sales team was able to sign a large number of dealerships after the launch, and the company's client auto dealerships were happy with the new customers they were receiving from their relationship with CarBoulevard. The web site being launched and initial success secured, Mike, Andre, and Geiger met as a Board and discussed the next options for the company.

Post Launch: Growth and Expansion

The three had decided early on that a large venture capital round of investment was necessary in order to execute Mike's strategy. However, since the stock market downturn in April of that year, the team knew that finding money would be increasingly difficult. However, the reality of the situation had yet to sink in fully, as the private equity market in Europe lagged that of the U.S. Pure-play dot.coms like CarBoulevard were still closing large rounds of investment. The team felt that if they could produce tangible results over the summer, both in their home markets and elsewhere, that they would be able to either sell the company or raise a second round of financing before the money ran out in early 2001.

A French Product Manager was hired to assume Mike's responsibilities, and the Board decided to task Mike with the pursuit of strategic joint ventures outside of France and Germany in order to expand the company's footprint. Mike was excited to do so, as his interests and background made him particularly interested in such work. However, he had reservations as to the robustness of the technology and the internal management systems of the company, and whether or not the burgeoning firm could handle such quick international expansion. Geiger, as the Chairman of the Board and principal investor, however, thought otherwise and convinced Mike to push forward in places as diverse as Italy, China, Spain, and Turkey.

Further, Andre agreed to hire an internal accountant and financial manager in order to assist him in his day-to-day management of the company and to allow him to focus on building the dealership sales efforts in France and Germany. On top of his other continuing responsibilities, he was also tasked with pursuing second round investors and potential buyers of the company in France and Germany. Andre also began to send all of the investors weekly email updates stating the cash position of the company in order to gain assistance in his fundraising tasks. His visits with journalists and industry leaders were intensifying, and through this prospecting, he had built strong interest in the company at the highest levels of the financial, automotive, technology, and media industries in France and Germany. He had signed numerous partnerships, both commercial and strategic, with a range of companies. These relationships gave CarBoulevard much unprecedented visibility in popular magazines, web sites, and even as the principal sponsor of a Ferrari Challenge race car. By his admission, much of this marketing was in the form of "guerrilla marketing" which packed lots of bang for the little buck that it cost. His weekly cash status reports were clear in showing significant reserves for the company for the next four quarters, based upon his report of the monthly burn rate.

Mike began to grow sceptical of these reports and, in his view, the glossy spin that Andre was presenting to the investors. In talking with his friends in the U.S. after the crash in April, Mike began to gain a sense of urgency in selling the company because a fundraising seemed to be increasingly impossible. He therefore began to reason with Andre to get him to drastically control spending, particularly the largest budgets of marketing and technology. However, when Andre questioned the expense of developing partnerships in Turkey and China, Mike defended his actions there, saying that expenses were low and that any development of such partnerships would be contingent on raising a second round of investment.

It was in the matter of marketing spending that Mike and Andre came to disagree the most. In the monthly staff meetings held at the company, Mike began to openly argue with Andre and

his ambitious marketing plans for the company. Mike questioned the figures that Andre was assigning to his expenditures, and demanded a full accounting of the expenses of the company and the immediate hiring of a financial manager. Andre agreed but continued to manage the finances of the company himself.

However, Mike and Andre did agree that the WideVision platform had been a poor choice for the company. The pair had chosen the software for its patented “1-to-1” capabilities and scalability that would help the company follow its customers all along their “driver life cycle.” More importantly, they had received their investment from Geiger in large part because of their decision to use WideVision. The two were in a quandary over whether to drop the technology and develop a cheaper, more easily manageable web site, or to continue with the platform’s expensive and timely development cycles. The slowness of development of the German version was a gating issue for the company, and Johannes was very vocal in his demands to have an operational German web site quickly.

Many of the employees misinterpreted the disputes between the two founders as a personal feud between them. So too did Geiger, who, despite Mike’s allegations, nevertheless decided to support Andre wholly as CEO. Geiger was very busy with his own full-time profession of selling WideVision across Europe, and while the Board was able to meet once or twice a month, his attention span and role at the company remained limited.

Throughout the summer, Mike worked on signing a joint venture partnership with SuperWeb, Turkey’s largest ISP, and part of TurkMobile, the country’s leading mobile phone operator. Spending up to a week at a time in Turkey, his involvement with the operations in France and Germany became limited. Andre began to work harder than ever in signing up new dealerships, but Xavier, the French Country Manager, began to complain about Andre’s tendency to micromanage the sales process. Further, Andre still had yet to hire a financial manager and he began to feel pressure from Johannes to deliver the German version of the web site, which was experiencing significant delays.

In late August, Mike took a long-delayed trip to Beijing in order to discuss a joint venture with Spark.com, the online arm of a successful Chinese trading company. The negotiations were going very well, and Mike felt that there was good potential in the partnership. In the middle of his stay there, he decided to visit Tiananmen Square, and his visit coincided with the daily flag lowering ceremony. As Mike waited in the crowd, his phone began to ring. It was Francois Geiger calling to ask Mike to explain more completely his misgivings about Andre’s leadership and to suggest a course of action. Geiger would be in Paris in two days and he wanted to meet with Mike at that time.

Corporate Governance Issues at CarBoulevard.com (B)

Mike recommended that a new CEO be found to replace Andre, and that Andre be rededicated to focus exclusively marketing and new business development in France. A VP of Finance needed to be found immediately in order to put the company's finances in order. Mike thought that if these managerial changes, if done quickly and effectively, would position the company for either a new fundraising or a sale to a strategic investor.

Gieger agreed and together they called a meeting of the Board. Andre did not agree with Mike and Geiger, and refused to step down as CEO. He defended his capabilities to manage the company to the next fundraising and beyond. As a compromise, Geiger suggested inviting one of CarBoulevard's other investors, Thierry Bensousson, to help Andre in his numerous tasks as CEO. A week later, Bensousson began to spend two days a week in CarBoulevard's offices.

In early September, Geiger called an extraordinary meeting of the Board, during which time Bensousson presented ordered accounts for the company. In his time in the company, he was able to make a full account of all of the outstanding debts to which Andre had committed the company. Bensousson found that current debts exceeded the cash position of the firm. At the shareholder's meeting, he pointed out that Andre's weekly emails, while stating the company's principal bank account balance, did not include either the German subsidiary's accounting or other large outstanding debts of the company.

Upon hearing this information, the Board again asked for Andre's resignation. At first, Andre defended his actions again, and refused to step down; however he was eventually convinced that he should pass on the responsibility of CEO. Geiger accepted the nomination as CEO and he immediately appointed Bensousson as acting COO.

Under the new management structure, many things were re-evaluated at CarBoulevard. Development in all countries except France, Germany, and Turkey were put on hold. A new CEO was recruited and marketing expenditures were reduced. However, these actions were not enough to cover the large commitments that Andre had made for the company as CEO. Bensousson was able to renegotiate most of the terms of the company's contracts with suppliers, but the company found it difficult to cover the gap. A new CEO was called in to redress the situation further, review the business model, and to plot a new development path for the company.

Pascal Lejeune (44 years old) was an experienced manager from Sodhexo, France's largest food services company. He was attracted to CarBoulevard by his friend Bensousson, and by the chance to work in an entrepreneurial environment. He quickly realized that the company needed an emergency fundraising in order to survive. The only other solution was an asset disposal precedent to an eventual liquidation of the company.

Lejeune called another Investors meeting where he asked for a cash injection that would allow the company to go forward. The investors called upon Andre and Mike to freely contribute their shares so that the subsequent fundraising would be economically interesting for the reinvesting shareholders. Mike agreed to this immediately, but Andre refused to do so. Due to the harsh investment conditions, the investors voted not to raise funds so Lejeune decided to place the company into receivership with the Paris Tribunal de Commerce.

Synopsis and Thought Questions for Case Study Discussion

Synopsis:

CarBoulevard.com was a high-growth start-up in a very risky sector. The two founders raised a significant amount of initial or seed capital but their relative lack of experience, their inability to attract more seasoned management, and their Board's lack of attention to the problems at hand, led to several operational problems that increased in importance over the first months of the company's existence. Despite these setbacks, CarBoulevard nevertheless had a significant amount of success in its market, rising to the top of user rankings in the online automotive category in France.

Thought Questions:

1. Explain the relationship between the founders and how might this have affected the operations of the company?
2. Explain the role of Francois Geiger. Could his position at WideVision be construed as a conflict of interest?
3. What are your recommendations for Mike Harper and Francois Geiger?

Bio of Mike Hanna:

Mike Hanna was the Founder & Director of Business Development of CarBoulevard.com, a Paris-based online retailer of new and used automobiles. While at CarBoulevard, Mike was responsible for putting together the initial business plan and founding team that raised \$3.0 million in February, 2000. He managed the conception of the company web site and helped expand the company through joint venture partnerships with market leaders in Turkey, China, and Spain.

Previous to CarBoulevard, Mike was a Technology Investment Banker with Hambrecht & Quist LLC, a San Francisco based Investment Banking and Venture Capital firm focused on the emerging growth industry. At H&Q, he helped raise several billion dollars of financing for various companies in the Software, Systems, Retail, Communications and Internet sectors of the Technology industry. Mike also executed Merger & Acquisition transactions for the firm. Prior to joining H&Q, Mike was employed as an Investment Banker in the Emerging Markets Group with NatWest Markets, the Investment Banking arm of National Westminster Bank. Mike has also worked with Deloitte & Touche, GEC-Alstom, and the United States Federal Communications Commission. He has advised several startups and held Board membership positions with companies in North America and Europe.

Mike Hanna is currently a student at the Walter Haas School of Business at the University of California at Berkeley. He graduated Cum Laude from the Georgetown University School of Foreign Service.