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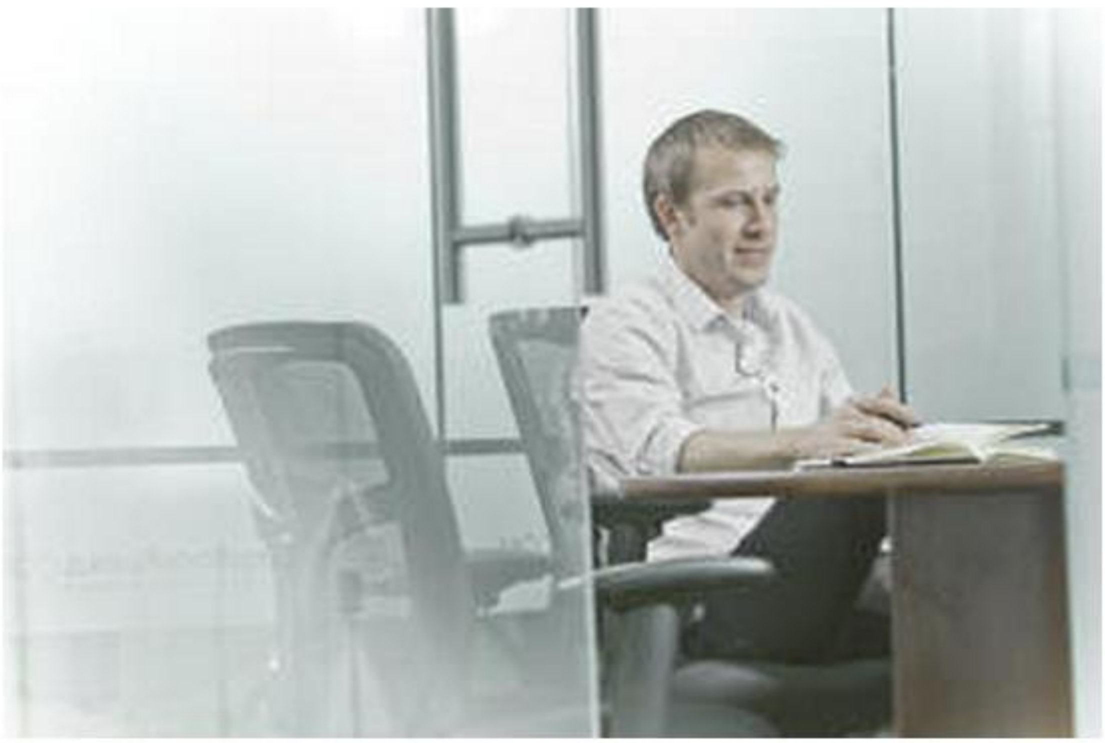
From $250,000 debt to $40 million sales: A small biz survival story

By Adrienne Burke | Profit Minded – Fri, May 31, 2013 5:29 PM EDT



CampusBookRentals founder and CEO Alan Martin

In the years after racking up $250,000 in credit card debt to launch his startup, Alan Martin hit a couple of obstacles that he says "should have sunk us." But his company, CampusBookRentals, survived and now, five years in business, projects 2013 sales of $40 million.

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Martin conceived his business idea while working his way through graduate school as a civilian contracts negotiator for the U.S. Air Force. Textbooks for his management classes were expensive, so he bought them used online, and sold them again at semester's end. It occurred to him, he says, "I'm selling every book online for what I bought it for. If I could rent them out in between, it could be a cool service for students."

His wife, some friends, and he began saving credit card offers and set up shop in his Ogden, Utah, basement with a quarter million dollars in cash advances. He quit his job and the master's degree program to build the company in phases: first renting books directly to students online, then aligning with college bookstores, and putting rental kiosks on campuses. In December, CampusBookRentals introduced RentBack, a service that lets students make money renting the textbooks they own to others.

Today CampusBookRentals is thriving in the $10 billion college textbook space, serving 1 million customers at 5,500 U.S. colleges. It pioneered an industry that is saving college students as much as half of the typical $1,000 or so they spend annually on textbooks. But when Martin started out as a 28-year-old entrepreneur, he had to learn some things the hard way.

In the summer of 2009, he says, "We were on track to do $4 million in sales. August is like Christmas for us. We go from doing a couple thousand dollars a day to $80,000 a day." But at the height of his busiest season, Martin says he suddenly noticed, "sales were cranking, but nothing was hitting the bank."

The massive jump in revenue had triggered the fraud filters at the company that processed all of CampusBookRentals' credit card sales. "They froze all of our working capital—several hundred thousand dollars," Martin says. "They didn't understand the nuances of our business. We were stuck in a pickle. We had to change our pricing structure and remove a ton of books. We lost a big chunk of business and missed serving a huge under-served population."

Martin vowed never again to keep all his eggs in one basket: "We made our portfolio of credit card processors five-deep. If anyone wanted to freeze our funds we could move. And as soon as we recovered all of our funds from that first one, we cut them."

But a year later, at the height of the 2010 textbook sales season, he had to learn the lesson again another way.

Today CampusBookRentals owns a 57,000-square-foot warehouse, but back then it fulfilled about 75 percent of rental orders through a third-party textbook supplier. "We were having record-sales days, placing thousands of orders a day," Martin recalls. "It took us three days to notice that we couldn't see the progress of books moving through our system."

It turned out that his gangbusters rentals were consuming the supplier's entire inventory. Hamstrung from winning its own customers, the supplier had unilaterally cut him off. "We had more than 8,000 students believing that their packages were about to show up for the first week of school, but we had no product on the way," Martin says. "It was a complete nightmare."

To make matters worse, he adds, "We were six months into a fundraising process, three days away from closing a round of equity financing. It was the worst kind of publicity that could happen. I thought we were toast." Martin acknowledges, "We had exposed ourselves to an incredible amount of risk."

He and his team quickly found another supplier to fulfill about 65 percent of the orders on time. To the remaining customers, he sent a personal note owning up to the mistake, apologizing for the delay, and asking forgiveness. "I was amazed at how well they responded," he says.

His investors also sympathized. His handling of the crisis, they told Martin, was "all we can expect from a management team."

"We closed the round, got the equity—a total of $11 million—and have had a lot of success from that point forward," says Martin. "And now we have an incredibly robust supply chain."