

CASE STUDY

Best Check, Inc.

By Randolph Case

Scott Riley, chief financial officer of the International Business Group, Ltd. (IBG), surveyed the tumultuous scene before him. Housewives with small children hoisted bags of sweet potatoes into grocery carts already brimming full. Househusband's squeezed turkeys and examined bunches of broccoli. Although it was not yet mid-day, on the busiest shopping day of the year—the day before Thanksgiving—Dallas' Galleria Super Foodway was already packed. With the milestone he and his colleagues at IBG had dreamed of for months only moments away, Scott glanced down at his watch. His clinched fist surprised him - why was he so tense?



Trying not to be conspicuous, Scott eyed several customers who were queuing up in front of two new Best Check terminals near the front of the store. Best Check, Inc., a wholly-owned subsidiary of IBG, leased these terminals to Foodway to approve customer checks for purchases and cash. A few minutes from now, Best Check's computer upgrade would go live. When it did, it would bring online for the first time, not only these terminals, but hundreds of others in supermarkets around the city.

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He had barely flinched when Charlie Volare, IBG's CEO, had dispatched Scott and the other members of the executive team to marquis Foodway stores like this one. "To hold Foodway's hand," Charlie had put it. Scott did have to admit it was good to be out of the office. And it would certainly be welcome: the sweet sound of Best Check finally whirring and clicking to life, the moment of *justice* when the torrent of bad checks that had caused such havoc of late at IBG was choked off at the source. Was that all that had him on edge, just anticipation of the resolution of an annoying computer systems problem? With all its flaws, the Best Check system and its perky, red terminals seemed secondary to a larger, leering presence.

Scott had certainly felt it before, but never so palpably as early that same morning at IBG Headquarters. His boss, Charlie Volare, had been waiting for him when he arrived at work slightly before 8:00 a.m. Charlie had waived him into his office and closed the door behind them. He began speaking before either man had found a seat. His words were uncharacteristically terse: Find a buyer for Best Check, Inc. – as fast as possible.

Company History

For the first decade of its existence, Best Check was a marginally profitable, but highly visible check verification service to consumers and retailers. Their tremendous growth helped Dallas Bank and Trust

become the largest retail bank in Dallas. After the bank divested its Best Check division to Teleco Inc., Best Check continued to suffer the gradual sales decline that had begun several years earlier. This decline accelerated when Foodway – the largest supermarket chain in Dallas and Best Check’s largest customer – cancelled the Best Check service for all of its 170 Dallas area stores. Having owned the company less than two years, Teleco sold it to IBG.

At the time, IBG, a diversified holding company headquartered in Fribourg, Switzerland, was looking to make strategic acquisitions in the fast growing sun-belt of the United States. IBG’s principle shareholder was Sam Breen, a Texas-born ex-entrepreneur. Sam had begun his career as a programmer for IBM, but had made his millions by founding a highly successful software company that had gone public. He brought in a new management team and exploded the value of his founders’ stock. Ultimately, Sam had sold his stake in the company, moved to Switzerland and semi-retired to a picturesque hillside chalet in Fribourg to enjoy life with his wife and manage various corporate interests. Over time, Sam realized he needed someone with more time and energy than he had to run his holding company, IBG. He met Charlie Volare on a trans-Atlantic flight to Atlanta. Sam was immediately taken by Charlie’s creative mind, his obvious flair for marketing and his varied background that included a stint as a top salesman for IBM. Soon thereafter, Sam hired Charlie to run IBG.

IBG’s largest holding was in a heating conduit manufacturing company, Gyro-Suisse, traded publicly on the Swiss market. IBG also held controlling interests in a Swiss industrial park and several large U.S. heating and cooling contractors who were major customers of Gyro-Suisse. An investment banker hired by Teleco introduced IBG to the Best Check opportunity. Charlie and Sam felt this was a business that complemented their shared background in information systems and could be purchased for a reasonable price. They also saw it as one Charlie might be able to grow aggressively.

IBG bought Best Check for \$2.1 million in cash. Along with computer and office equipment, furniture, fixtures and service vehicles, IBG booked approximately \$1.7 million of goodwill in accounting for the Best Check acquisition. At the time, sales revenues for the acquired company were slightly more than \$200,000 per month. These were roughly matched by expenses – for several dozen employees, computer and computer terminal leases, office space and expenses, insurance and advertising. The bulk of the purchase price was financed with a 10-year bank note at nine percent, borrowed against Best Check’s assets with Gyro-Suisse stock pledged as additional collateral. The remainder of the purchase price was provided in cash: \$200,000 from IBG and \$50,000 personally from Charlie Volare in exchange for, respectively, 2 million shares and .5 million shares of Best Check common stock.

The Best Check System

Retail stores throughout Dallas leased check verification terminals from Best Check and located them near the front of stores where customers could access them easily. By inserting their Best Check card and a personal check in the terminal, customers could have their checks stamped “Approved” before proceeding to the checkout lane. Any Dallas adult with a driver’s license could obtain a Best Check card by mailing in credit information and a \$25 annual fee. The card enabled “members” to approve up to two checks per day, each for up to \$300 of groceries or \$75 cash. Retailers paid Best Check a transaction fee ranging from 10 cents to 50 cents per check verified plus a monthly lease of \$100 to \$150 per terminal maintained in their stores. At the time of its acquisition by IBG, Best Check had a customer base of approximately 80,000 members and roughly 290 terminals installed in 200 plus retail locations. These numbers were down significantly from their peak several years earlier.

Best Check terminals approved checks by verifying a customer's credit status through an online connection to the computer system at Check Point headquarters. When a check that had been approved by the system "bounced" due to insufficient funds, the bank clearing system returned it, not to the retailer, but directly to Best Check headquarters. The system immediately blocked that customer from obtaining further approval at any Best Check terminal city-wide. Then, an in-house team of collection agents at Best Check contacted the customer seeking payment equal to the face amount of the check plus a \$30 service fee. Once this was paid, the customer's "approved" status was reinstated in the Best Check System. Regardless of their success at collecting on the check, Best Check was bound by contract with the retailer to remit to it the face amount of the bounced check seven days after receiving it from the bank clearing system.

Turning Around Best Check

No sooner was the ink dry on the acquisition closing documents than Charlie Volare began visiting customers to find out how the Best Check system could be improved. Most of the retail locations that leased Best Check terminals were supermarket chain stores, with several local restaurant chains also participating. Charlie was encouraged to find that many supermarket store managers who used Best Check genuinely valued the service. They appreciated the fact that Best Check removed the hassle and expense the store would otherwise have to bear to collect on bad checks written by their customers, with whom they preferred a less adversarial relationship. Most retailers he spoke to actually preferred checks to credit card transactions. Credit card companies charged what they felt were exorbitant transaction fees as a percentage of the purchase amount. Although Dallas consumers appeared to be increasing their use of credit cards, some still preferred writing checks, especially for groceries. Most store managers Charlie spoke to said they planned to retain the Best Check terminals at their stores as a service – and even a slight incentive – to check writing by their customers.

The retail consumers Charlie met had a different perspective. He interviewed dozens of shoppers who were less than complimentary of Best Check. For them, a Check Point membership meant one more annual fee to pay, one more card to carry, one more technological device standing between them and what they wanted to get done. Although some found Best Check terminals relatively convenient, many said they subscribed to the system simply because a favorite retailer wouldn't accept checks without it.

The Foodway Relationship

In early 1995, a conversation between Charlie Volare and Garrett DeNiro, Southwest Regional President of Foodway Supermarkets, showed Charlie what he thought was a way forward. Charlie managed to get DeNiro on the phone during the week after New Years, but the Foodway executive at first declined Charlie's request to meet with him. DeNiro assured Charlie, on the phone, the decision to cancel the Best Check contract nearly a year earlier had been made for valid reasons, and he saw no need to discuss it further. Ultimately, Charlie persuaded him to grant a single half-hour meeting, after which Charlie promised to trouble him no further.

In DeNiro's office, the two executives faced each other, both loaded for bear. DeNiro stated curtly that he'd grown tired of hearing his store managers' complaints about Best Check. There were costly delays in the check-out lines, good customers made angry whenever someone wanted to write a check but had no Best Check card. Or they had a card, but had lost it. Or they were rejected by Check Point, but they were positive they had made good on that other check a week ago. Or the terminal was down for some reason, or it was working but was out of ink. When these things happened, store managers often approved the check

themselves, even though this was, strictly speaking, against the Foodway policy. Inevitably, some of these checks bounced. Since they weren't approved by Best Check, the bank returned them directly to the store, and store managers had to make their own collection calls. The worst offenders didn't use Best Check, so they *used* Foodway instead.

As far as DeNiro was concerned, Foodway had been paying for a Best Check system utilized by the patrons who didn't bounce checks anyway. Most of Foodway's customers were happy to use credit or debit cards; it was obvious to DeNiro that soon, everyone would be. In any case, he had cancelled the Best Check contract himself and was glad he did. He was creating his own, in-house check approval system, which would eventually be implemented in 1,000 stores throughout the entire Southwest Region. It wasn't perfect, but it was better than forcing customers to use credit cards, which charged Foodway outrageous fees; and it was better than a Check Point system his customers wouldn't join.

Charlie Volare listened intently, nodding his head, agreeing, occasionally interrupting with a brief affirmation. When DeNiro's rant finally petered out, Charlie asked him about the new system he was creating. Would he mind sharing its most important features? IBG was new to the check verification industry, but was committed to being one of the nation's leading transaction processing companies. DeNiro said that his in-house system was very rudimentary at present, it consisted today of regularly updated lists of the names of habitual bad check writers and their driver's license numbers. These lists were photocopied and sent to all store managers. When he had time, he would completely re-design an in-house, computerized system and implement it consistently across the region.

Charlie interrupted DeNiro and asked him to describe his "fantasy system" for approving good checks and stopping bad ones at Foodway. When DeNiro was finished, Charlie had written three pages on a yellow tablet. He asked how much DeNiro would be willing to pay for such a system, adding "and you've got to tell us the truth because we both know what a system like this costs." DeNiro said a system like he had described, implemented in every Foodway store in the city, would be worth \$1 million per year to him. Charlie wrote that figure at the bottom of his last note page, drew two lines and signed the top one. He handed DeNiro the note pad, saying, "This describes the system you want, there's my signature. If you will sign on the line below it, we've got a deal. We'll deliver your fantasy system in six months."

The New System

Although negotiations between Foodway and Best Check extended beyond this first meeting, the contract eventually drafted by the attorneys and signed by both parties was not dramatically different from this first handwritten agreement. Garrett DeNiro was persuaded that the new system was the best way for large retailers like Foodway to handle check approval. Also as the "anchor" retailer in the new system, he had negotiated a price that Charlie assured him was at a significant discount to what Foodway's competitors would pay.

For his part, Charlie Volare recognized that a new system endorsed by Foodway, the largest food retailer in the nation, was critical to Best Check's long-term success. He believed other Dallas retailers would soon embrace the new system, as they had other innovations in which Foodway had been the first mover.

More important, however, Charlie was convinced that Best Check's success would always be limited by the number of members who were enrolled in the system. The more Dallas consumers in the Best Check database, the more effective it would be at stopping bad check writers and the greater the advantage to all Dallas retailers to join the Best Check system. More retailers meant more terminals, more checks through

the system and more fees. The critical constraint, Charlie concluded, was the number of consumers who would enroll in the Best Check system.

The way he and Dickey had agreed to remove this constraint was brilliant in its simplicity. Best Check would *give* memberships to every local resident with a driver's license. Since it would no longer be collecting an annual fee to defray the cost of issuing cards, Best Check would no longer require the card. Customers would simply key their driver's license number into the Best Check terminal. The Texas Department of Motor Vehicles (DMV) had recently decided to make the names, mailing addresses and phone numbers of residents with driver's licenses publicly available. Best Check's collectors would use the DMV information to contact shoppers who bounced a check; and use the driver's license number to block that person from further check approval until they cleared up what they owed.

Based on this concept, Foodway committed all of its Dallas area supermarkets – now over 300 stores – to the new Best Check System, once it was operable. Foodway would require every check writer in every store to use Best Check, no exceptions. As Charlie had predicted, Foodway's competitors soon followed suit and signed similar contracts to Foodway's. By July, 1995, Best Check had an exclusive agreement to guarantee every check in every store in five of the six largest supermarket chains in Dallas, more than 1,200 stores in all. The new system required a comprehensive upgrade of Best Check's computer hardware and software which, scheduled for completion by August 1. When this date proved too aggressive, it was first pushed back to September 15, and then finally set in stone at noon on November 22, the first and biggest day of the holiday shopping season.

New Initiatives

Buoyed by his dramatic success in signing almost the entire Dallas grocery industry to long-term check verification agreements, Charlie Volare began to make plans for the future. Where others had seen Best Check as a dying business model, Charlie Volare now saw an opportunity to re-engineer a valuable business and take it national. If IBG could revitalize the check verification business in Dallas, Charlie figured he could leverage this success in other parts of the country as well. His vision was to become a dominant transaction processor at the national level. The first order of business was to begin building the organization to support and expand the new business model he had created. A rapid fire hiring initiative quickly raised, by about 40 percent, the number of employees at IBG/Best Check headquarters in Dallas to more than 50 full-time staff. At the same time, Charlie quickly assembled a corporate executive team for IBG that would give it the expertise and clout he felt was needed to implement his bold ideas. Les Yager, a friend of Charlie's and former independent marketing consultant, was brought on as the new director of marketing. Charlie's personal attorney, Arn Ruminoff was hired as director of operations. Following these two, Scott Riley joined IBG as chief financial officer.

Scott came to IBG in August of 1995 with a background in corporate finance. He had been an M&A specialist at a struggling private investment bank when his firm was acquired – and his position eliminated – by a larger entity. Charlie brought him on board not only to upgrade the financial systems commensurate with the company's expansion, but to facilitate further expansion. In particular, Charlie asked Scott to begin seeking acquisition candidates among other regional check and credit card verification companies. Charlie's longer term vision was to “roll up” several regional companies, build a national presence, and then take the combined entity public. This would provide the investment capital necessary to transform the company from a narrow focus on check verification to what Charlie saw as the future: transaction processing.

Charlie explained his vision to Scott this way:

What everyone said when we bought Best Check was that check verification was an outmoded, declining service. They said checks were being replaced across the marketplace by credit cards and debit cards. But the real value I saw in Best Check was the consumer database and the depth of experience the company had in putting it to use for retailers. Now we have a lead client, Foodway, who has paved the way for us to upgrade our capabilities. We have expanded our computing capacity and capability more than ten-fold and developed customized transaction processing software that opens up exciting new businesses for us. We have negotiated contracts that make us the largest processor of retail checking transactions in one of the nations largest MSAs. Handling credit cards and debit cards is an obvious opportunity for expansion. But so is tracking and motivating consumer purchases. Today, if you use a Best Check terminal we know who you are, where you live, how to contact you, where and when you shop. From there, it's a very simple step to offer the capability to print a coupon at the terminal or mail you one that gives you an incentive to buy a particular product from our retailers. The obvious next step is to integrate with the cash register so that we know when you use that coupon, how much you spent and what else you bought. If you bought pie shells, then maybe we issue you a coupon to buy pie mix. There are a lot of people who will pay us a lot of money for this kind of thing.

As soon as he was hired, Scott Riley hit the ground running, intent on doing his part to make Charlie's vision a roaring success. He immediately set about contacting other regional players in the check verification industry to see if they might be for sale. In his first months on the job, he paid a visit to the chief executives of two companies that expressed particular interest: Digidata Corporation in Nashville, Tenn., and Lexington Computer Corporation outside of Boston, Mass. Both were public companies. Both provided, among other services, check verification service to large grocery chains and other retailers in their local area. Both had diversified into related transaction processing businesses with a variety of retail and wholesale application. However, neither company seemed to be genuinely for sale. Indeed, the CEOs of both Digidata and Lexington Computer let Scott know, each in his own way, that if Best Check was ever for sale, his company might be interested in acquiring it.

Conflicting Concerns

Like other new hires at IBG/Best Check, Scott was attracted to Charlie's vision, inspired by his energy and dazzled by his obvious skill with people. Charlie had rolled the dice with the acquisition of Best Check and he was obviously winning. Scott could feel the energy surge at IBG when he arrived at the office in the morning - a welcome change from the negative atmosphere he had recently left.

Having graduated only a few years before from the MBA program at Harvard Business School, his work experience since then had, at times, been frustrating. A short stint during a depressing winter at a bureaucratic Wall Street firm had convinced him to head to the exploding Sunbelt and join a much younger, more entrepreneurial investment banking firm. There, Scott was immediately charged with significant responsibilities for his age and experience level, and he learned rapidly. The firm struggled, however, from the inexperience of its management and a poorly defined business model as much as from a lackluster economy. Ultimately, its partners sold out to a larger investment bank and Scott's job was eliminated. Somewhat shaken, Scott phoned Charlie Volare, whom he had met as a potential client some time before. Within a few weeks, Scott accepted Charlie's offer to join IBG as its first CFO. Once there, he was determined to put his unsavory experiences behind him and become the excellent manager and leader he had always wanted to be.

Scott immediately set about learning as much as he could about the organization that was his new employer and trying to carve out a role. His comptroller and direct report was Jean Volare, Charlie's wife. Scott had wondered, at first, if he would be able to manage effectively someone who was married to his boss. From the beginning, however, he found her to be an ally with a kindred concern for doing things the "right" way. In the loose, fast-paced culture at IBG, this did not seem to be everyone's first priority. Jean was very different from her husband: a stickler for details, while Charlie painted with a broad brush; conservative and humble while he came across as super-confident. Jean was what one of Scott's professors in business school liked to call an *other-oriented* person with strong moral convictions. By contrast, her husband prided himself as a bit of a maverick with the pragmatic flexibility necessary to first provide, then survive – no matter what – then, profit as much as possible and have fun along the way.

Jean often mentioned her church in conversation. Scott, who had made a decision to become a Christian less than two years earlier, welcomed these discussions. He was committed to the concept of living his faith at work. True, he seldom seemed to find the opportunity to acknowledge his faith verbally at the office except in discussions with Jean about church or children. As far as he knew, few of his fellow employees at IBG/Best Check were interested in such matters, and Scott did not want push his faith on them. The other principle managers in the company, Charlie, Les and Arn – as well chairman of the board, Sam Breen, whom he rarely saw – seemed to avoid spiritual issues in conversation and did not attend church. This bothered Scott, but not for the "right" reasons, he thought. It bothered him because he looked up to Charlie. He admired his skills and wanted to learn from him, but felt, somehow, guilty about it. Charlie might not be a *man of God* but he was an inspiring and gifted leader and, in particular, a skillful risk taker.

Scott was convinced that one had to take risks, significant ones, in order to be successful in business. It sometimes seemed, however, that his own commitment to Christ had dampened the flame that had fired his natural propensity to take risk. It was not at all clear to Scott that his new-found security in the Lord had reduced the pain of his last two job changes or the anxiety he had sensed developing in this, his current job. But it had changed, to a certain extent, what he valued, how he defined success. Since his conversion experience, the financial success he had long craved seemed less important. Replacing it was a much less well-defined yearning, but yearning for what? For heaven, perhaps; for serving the Lord, loving others, growing His Kingdom. But though these were certainly more than buzz words to him, though he occasionally felt their importance at the deepest level of his soul, Scott was frequently unsure of how to translate them into concrete goals. In truth, Scott saw in himself both some of Charlie's maverick opportunism and some of Jean's convicted, caring conservatism. These seemed, at times, to pull him in opposite directions. He wondered if that tug of war didn't sometimes compromise his ability to make effective decisions in the face of risk.

A Problem

In early September, less than two months after he had joined the company, a draft profit and loss statement Jean Volare prepared monthly appeared on Scott's desk. He was surprised to see, on August sales of over \$450,000, a loss of some \$39,000. Perhaps, a small loss was understandable given the building stage the company was in. But monthly sales were already more than twice what they had been nine months earlier, when IBG acquired Best Check. Were expenses growing even more quickly than that? Scott walked the report into Jean's office and asked her to walk him through the various expense categories. She spread the report out on her desk, comparing it to July's P&L. Jean was glad to have finally gotten the new accounting software up to speed to produce these reports, but had not really thought much yet about what the final figures meant. Among the big numbers in the expense column, all seemed to

make good sense to Scott when she talked through them. Where, then, was the discrepancy between July's numbers, which showed a small profit on somewhat lower sales, and August's significant loss?

One category in the revenue section was unfamiliar to Scott: "Net Collections Revenue this month were \$41,000," he muttered. "What is that? Last month this was less than a thousand dollars."

"Oh." Jean responded. "Those are the \$20 fees people mail in when they clear up their bounced checks. No, wait, that's actually a *negative* \$41,000. What's going on here?"

"How can you have a negative \$41,000 in fees people send us?" Scott asked.

"Well, you can't, that's really a net number. Ok, it's not really just the collection fees that go here, I just think of it that way. Every month I book under 'Net Collections' the money people pay us to clear up their bounced checks – the face value plus the \$20 fee. Those go in as debits to this account. In the same account, I book as a credit the payments we make to the retail stores seven days later for the face value of the bounced checks. Usually, the cash inflow from the \$20 fees we collect more than matches the cash outflow when we pay a store for a bounced check we never collect on. So the Net Collection account is almost always a positive number, even if it's small. That's why I put it up here in the revenue section."

"So why is it a negative \$41,000 this month?"

"I don't know, maybe I made a mistake. Or, it could be that the collection team is just behind processing checks. There's a lag we have to deal with, because sometimes our members won't clear up their bad checks for weeks, but we have to pay the retailer in seven days, sharp."

These seemed, to Scott, reasonable explanations. In any case, a \$39,000 loss was not a terrible number. The manager of the collection team said they were, indeed, way behind in processing the increased volume from the new stores they had added. He couldn't analyze it further until they reached a steady state. Scott mentioned the loss to Charlie, who seemed not at all concerned.

In any case, Charlie, and to some extent Scott, were distracted by other matters. The stock market had slumped recently and this had undercut the value of IBG's large holding in Gyro-Suisse of late. Scott was thinking of following Charlie's lead and buying Gyro stock at its depressed price. He couldn't help fantasizing a bit about the money that Charlie believed could be made simply by being on the "inside" of opportunities like this. Another stock both men had considered buying personally was that of Lexington Computer Corporation, the putative acquisition target Scott had visited recently. John Houston, the CEO of Lexington Computer, had told them that his company's stock price, which had dropped some 40 percent, recently, represented a serious *undervaluing* of his company at present. Lexington's sales and profitability growth were apparently hitting, just now, a significant up-spurt and Houston, who had reason to know, expected the stock price to follow suit soon, in dramatic fashion. Scott felt opportunities like this to multiply what he considered his somewhat "meager" income were part of the justification for leaving the security of a large corporation for the rough and tumble, entrepreneurial world of smaller businesses.

But he was also distracted by other matters. Unexpectedly, the night after his conversation with Jean about the August financials, Scott's wife gave birth to their first child, 11 weeks ahead of the due date. Throughout the rest of September, his focus reeled between his concern for a very sick child in neo-natal intensive care, adventures in the stock market and his challenging new responsibilities in a fast-growing company.

The Undertoad

A few days into October, September's draft P&L statement appeared on Scott's desk. The Net Collection amount this time was a negative \$108,000, the bottom line loss for the month was \$114,000. Jean had circled these numbers and surrounded them with question marks. Scott picked up the report and strode purposefully into Charlie's office, the alarm showing plainly on his face.

Charlie appeared completely unsurprised. He had known for weeks about the "up tick" in bounced checks, had even expected it. He explained that the collection team was behind in processing the higher volume of checks resulting from the new stores on the system. They had hired two new collectors but were still working two shifts instead of one until they got caught up. When they did, the cash deficit would come down.

Scott wasn't satisfied. "Is there any reason you know of that the Collections Team might be having trouble, besides the increased number of stores on the system? Our revenues have gone up two and a half times what they were when we bought Best Check, but our disbursements for bad checks are up one hundred fold?"

Charlie seemed confident about this as well: "The cashiers at Foodway probably aren't doing their job correctly. I have already talked to DeNiro about that; it's just a matter of their being trained to do it properly."

Charlie paused, waiting for Scott to nod his understanding. But Scott did not understand. He had no idea what the Foodway cashiers needed to be trained for. Charlie continued his explanation, one bite-sized, upbeat, unconcerned morsel at a time, gathered impatiently by Scott's relentless questioning. Earlier in the summer, when it became clear that Best Check's computer system upgrade wouldn't be completed on schedule, Charlie had gone to visit Garrett DeNiro at Foodway. He had explained that it was not unusual for computer system upgrades to be delayed, that IBG's software vendor had simply fallen behind in writing and debugging the new software. DeNiro "pretended" to be shocked. He had a contract, he said. He had trusted Charlie and he expected Charlie to deliver, or compensate Foodway for his failure to deliver. Charlie had had no choice but to settle on a compromise solution. Accordingly, Best Check had begun providing service to Foodway on August 15. But that was "not a problem" since Foodway had begun paying for it at the same time. At the time, Charlie had still hoped the system would be up by August 15. Since it was not, Foodway cashiers had been, since mid-August, simply following the provisional agreement in their Best Check contract: if the system was "down" for any reason, the cashiers were to make sure that the customer's drivers' license number, address and phone number were written on the check, and then accept it. Best Check, by contract, would guarantee that check as if it had been approved by their system.

"So we have been guaranteeing unverified checks for almost two months?" Scott was incredulous.

Charlie reiterated his former, matter-of-fact assertion: the cashiers probably weren't doing their job correctly. Foodway was still providing the cashiers with lists of the driver's license numbers of notorious bad check writers. Perhaps the cashiers weren't checking the lists, or weren't making sure the information on the check matched the customer's driver's license. Or maybe the lists weren't even correct. He would ask Foodway to tighten up their procedures. This might be expensive for a few weeks, but it was the kind of thing "good companies did to keep good customers." The new computer system would come online next month, by Thanksgiving or perhaps before. When it did, the bad check problem would be effectively shut down.

“What about the payments from Foodway,” said Scott? “You said they began August 15. I’m not aware that Jean has received any of those.”

Charlie seemed surprised that Scott didn’t know. Best Check had given Foodway 60-day payment terms, since that’s what they were used to getting from their other vendors. The first of these payments was due in a few days, but since “we owe Foodway way more than that,” Scott shouldn’t expect a payment from Foodway any time soon.

Scott returned to his office, stared out the window from the 20th floor. He let his mind drift to a story in a novel he had read in college: *The World According to Garp* by John Irving. The narrator of the novel, Garp, recounted his first trip as a small boy to the seashore with his mother. She had warned him about something terrible in the water, the undertow. He must be very careful lest it suck him under the water and drown him. Garp had misunderstood his mother’s word for this terrible thing, had heard it as the “Undertoad,” picturing an ugly, green, creature lurking beneath the waves. Long after he was grown, whenever uncontrollable forces threatened his fragile sense of security, Garp claimed he could still feel the lurking presence of this malevolent creature. Back in his office now, Scott pressed his face to the window, stared down, down, through the brown Dallas smog and imagined the Undertoad, smiling back up at him.

Roll Out

During the ensuing weeks, the volume of bounced checks received by Best Check grew alarmingly. It was increasingly clear that a small number of Foodway shoppers were making big money at Best Check’s expense. One shopper had written the same (bogus) name on over a *thousand* bad checks in a few week’s time, personally receiving over \$50,000 in cash (\$75 at a time), not to mention thousands of dollars of groceries. Jean’s October P&L, drafted in mid-November, showed a Net Collection figure of negative \$232,000. To cover the rapid cash drain, Sam Breen had wired a large infusion of money from Switzerland. A week later, he had been forced to wire another, even larger sum. The steep losses, once they were fully accounted for, would doubtless dwarf what had been processed so far, since the Best Check collectors were hopelessly behind in handling the torrent of bad checks arriving daily. By November, Scott estimated that Best Check was hemorrhaging at least a \$100,000 per week. He had no way of knowing if Sam could bankroll that much, for he found himself increasingly out of the financial loop – Charlie and Jean managing the cash situation themselves, daily. The rest of the organization held their breath and awaited Thanksgiving Day, by which time the new system was promised to come online and the nightmare would hopefully be over.

On that morning, Scott found himself in the Galleria Foodway, contemplating the Undertoad and awaiting the stroke of noon. Perhaps his boss’s pithy instructions to “find a buyer for Best Check” were simply precautionary, but Charlie had looked uncharacteristically grim that morning.

Scott’s thoughts were interrupted by the anticipated sounds coming from the two terminals, a full thirty seconds *before* noon (not quite compensating, he thought, for being months late). Now Best Check, himself – his caricatured visage beaming from under a clownish stovepipe hat – flickered into view on the video display. Though he was turning flips inside, Scott put on his best flight-attendant-like (would you care for a snack?) smile and addressed the bespectacled woman at the head of line: “Would you like to verify your check?” Twenty-some shoppers in line craned their necks to watch. The woman with the spectacles deftly slid her check into the machine. Without missing a beat, she typed in her driver’s license number. Scott couldn’t help pressing ENTER for her. The Best Check logo appeared on the screen for a moment. Then,

with a long, low croaking sound from within the bowels of the terminal, the logo image flickered and was gone, replaced by the flashing red words: SYSTEM ERROR.

Scott nearly lunged at the keyboard. He pressed the RESET button, then the CANCEL button, hard, several times. Now he jabbed fiercely at both terminals, at once, but to no avail. Any words he might have spoken under his breath were overwhelmed by the angry mutterings of the shoppers in line who forgot, at least for the moment, the things they would be thankful for tomorrow. With an embarrassed smile, a store manager hurried over, beckoning the shoppers to the checkout lanes: "We will be happy to cash your checks in the way you are used to," he assured them, "and you will *not* have to use these infernal machines."

Driving back to the office, Scott noticed his clenched fists on the steering wheel. He wondered again, almost disinterestedly, at the obvious tension throughout his body. The delays in the computer system upgrade were certainly not his fault. Whatever glitches remained, he knew, would eventually be worked out. What *was* he so worried about?

Scott reflected again on his conversation that morning with Charlie. He had asked his boss what to say to potential acquirers about the volume of bad checks. "Nothing," had been the reply. Charlie had a more subtle strategy. "Call Lexington Computer. Then call Digidata. Don't be too eager. Chat with them each for a while. Then let it drop - casually - that you think, if they're still interested in Best Check, we might be willing to talk. Say something like, "We've turned it around, but realize now might be a good time to sell it to a larger entity and move on."

Scott asked one more obvious question.

"If they're interested in buying Best Check, won't they eventually find out?"

"Probably," Charlie said. "But let's get them interested first."

Prior to this one, Scott's last acting assignment had been his sixth grade Christmas play. Whatever his limited experience, his performance on the phone and in person over the ensuing weeks seemed, for the most part, effective. In delivering the line that started "We've turned it around, but...", it helped Scott's conscience that the new computer system was crashing less and less, sometimes staying on line for all but the busiest periods of the day. Yet the volume of bad checks being processed daily by the collection team was still enormous. Regardless, the CEOs of both Lexington Computer and Digidata were *definitely* interested in discussing an acquisition of Best Check, and each promptly made arrangements to fly to Dallas in December.

Then, the Undertoad leered up at him again. This time, Scott was in the Data Processing department, congratulating the systems vice president on two days straight without the system crashing. Were they getting regular updates of the driver's license information from the Department of Motor Vehicles, Scott wanted to know, now that the new system was up and running?

"No. The tape we've got from them is almost a year old."

"Then how do you know when someone gets a driver's license for the first time, or someone moves to town?" Scott asked. "Won't our system automatically reject them and keep them from cashing checks?"

"No, no one is automatically rejected by the system the first time. The DMV tapes are full of junk – social security numbers, typos, made up numbers, no numbers at all. So, to satisfy our contract with Foodway, we accept any number the first time a customer uses the system. If he bounces a check, that's when he's rejected by the system."

"But what keeps him from making up a new number?" Scott held his breath.

"Nothing. Nothing at all."

John Houston, the CEO of Lexington Computer Co. arrived first, alone. After his first long day in Dallas, he sat with Scott in a restaurant booth, poring over year-end financials, dated September 30, 2000.

"I visited some supermarkets on the way from the airport this morning. You must have a huge bad check problem. But I don't see that it shows up here," he said. "How bad is it?"

"It's not good," Scott said quietly.

"Don't you know how much it is costing you?"

"It was upwards of \$100,000 per week. I think its dropping now." Scott looked down at the table.

"That makes sense."

Houston flew home to Boston early the next morning. From the airport, he called Charlie Volare and said he had enjoyed his visit but didn't think Lexington Computer and Best Check were a good fit.

A few days later, the CEO of Digidata arrived in Dallas with an entourage of four subordinates. Though they studied reams of files, spent many hours with Charlie and interviewed dozens of managers from top to bottom of the organization, they did not appear to "catch" the critical flaws in the new Best Check system. No one volunteered this information. On the second day in Dallas, they began to talk turkey with Charlie. The men argued that the purchase price Charlie suggested was far too high, Best Check's new system, though apparently up and running, was still not fully proven. At one point, Charlie, appearing exasperated by the negotiations, claimed to have an important out of town meeting and left the Digidata executives his office to use for the rest of the afternoon in his absence. In plain view on Charlie's desk was a letter from the CEO of Lexington Computer, written less than a week before, expressing strong interest in acquiring Best Check.

Upon Charlie's return the following day, the CEO from Digidata seemed markedly more amenable to a deal. That afternoon, he sat down with Charlie in the conference room and reached an agreement in principle to buy Best Check, Inc. from IBG. The purchase price was to be three million shares of Digidata common stock, currently trading on the NASDAQ stock exchange for approximately \$2.25 per share.

During the days these negotiations took place, Scott was never interviewed by Digidata's CEO out of Charlie's presence, and only in a somewhat cursory manner by the other Digidata executives. Scott took this as confirmation he would not be offered a job by Digidata going forward. That afternoon, shortly after the deal was struck, Charlie indicated that the same was true for IBG. Sam Breen was apparently retrenching. The cash drain of recent months having reminded him why he left high tech a decade before. Without Best Check, he was no longer in need of a CFO. Scott's last paycheck would be dated December 31, the same day the purchase of Best Check by Digidata was to close.

Anticlimax

Scott drove home slowly from IBG headquarters, watching his hands gripping the wheel. His mind shifted between the thoughts of all that had occurred those last few months. A heavy, thundering dread rolled and heaved against the inside walls of his stomach. Every possible path, every dark vista that stretched before him – whether Best Check was sold or not – seemed to point inevitably to his own, very personal, failure.

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