

Facing the music: an entrepreneur's struggle with e-commerce failure

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Michael Maher sat in his dark kitchen, drinking a beer and contemplating his situation. There was no doubt that his business, which focused on developing and selling branded products on Amazon, was going to fail. He did not have enough money left to make payroll or purchase inventory, never mind pay his own salary. Worst of all, although the downward trajectory started six months ago, he had still not told his wife. Michael was filled with regret about this, even as he struggled to motivate himself to tell her now.

Michael reflected on how he had gotten here. He thought back to how, after his high school graduation in 2004, he had enrolled at the University of Cincinnati (UC). He had done so at his parents' urging and his heart was not in it. All he had wanted was to make a career playing music. Eventually, he dropped out to focus on his band. Unfortunately, however, despite lots of local gigs and positive reviews, his bandmates' priorities had changed. The band split up, devastating Michael and leaving him discouraged and directionless.

After the band broke up, Michael re-enrolled at UC. Now he felt motivated to finish his degree, but his primary goal was to obtain a diploma as quickly as possible. Based on the courses he had taken, the fastest way to do this was by majoring in Asian Studies. He declared the major and completed the requirements, despite having no real passion for the field or subsequent career plans.

While in school, Michael took a job as a barista at Starbucks to pay his bills. He was effective in the job and was steadily promoted. Soon after graduating, he was managing the store. Initially, Michael liked the job - or at least found it tolerable. After about a year, though, Michael was tired of the long hours and day-to-day headaches of running a retail store. He felt depressed and unfulfilled. He knew he had to make a change.

After his band broke up, Michael also started selling musical equipment on eBay. He would look for deals on Craigslist and resell what he acquired for a profit online. He also began buying damaged equipment, doing a little bit of rehab and selling the repaired items. It was a nice way to use his musical background to make extra money, but initially he did not really think of these activities as an entrepreneurial venture or potential business.

Michael's perspective shifted after a friend told him about his own ecommerce business. Michael realized that, like his friend, he had developed the skills needed to buy products wholesale and sell them for a profit on eBay. At first, he sold anything he could acquire wholesale, including fashion watches and cell phone cases. As his business grew, Michael left Starbucks to focus on it full-time. He also began to recognize some of eBay's limitations and the benefits of selling on Amazon instead. He began listing items there and saw some initial success. Michael also started to see the power of branding on Amazon and began to develop his own brands. He focused on fitness products because working out was another one of his hobbies. As orders grew, he hired three employees to handle shipping and customer service.



Disclaimer. This case is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

Like any business, Michael ran into challenges. He could not always accurately predict demand and sometimes found himself sitting on unsold inventory. Overall, though, the business was growing and Michael felt relatively fulfilled. Unfortunately, his progress was interrupted by a major change to Amazon Marketplace.

In 2015, Amazon opened its Marketplace to sellers in China. The Chinese entrants were often large, well-funded and able to use their country's low labor costs to drive down prices. Michael's Amazon sales – about 70% of his revenue at this point – immediately took a dramatic hit. Michael noticed the shift right away and had been trying to battle back for six months. Unfortunately, he was failing – as was his business.

Michael's physical health had declined alongside his revenues. Despite long being a gym rat, he mostly stopped working out. He began to eat less healthily and, although he was not drinking heavily, most nights he downed two or three craft beers. He knew he did not need the calories and the beer was contributing to his steady weight gain. Yet, he could not help rewarding himself after making it through his daily struggles.

Even more than his expanding waistline, Michael was troubled by the fact that the depression and other mental health issues he had long struggled with were becoming more intense. He felt closed off and unable to share his difficulties even with those closest to him. He knew this was why he had kept his situation from his wife.

Michael sighed. He was not an entrepreneurship major and had little business experience beyond Starbucks and his now floundering business, but he knew that his failure wasn't unusual. He had seen articles suggesting that up to 95% of all new businesses failed (e.g. Nobel, 2011). He knew that entrepreneurs are supposed to celebrate failure and see it as a learning opportunity. He also recognized that his issues were driven by Amazon's policies and largely beyond his control. Yet, as much as he tried to be logical and positive, he was filled with disappointment and shame. Michael felt like he had let everyone down, including himself. All the time and work, and for what? He was in a worse position now than when he started six years ago. He was anxious about telling his wife, but the bigger issue was how to move forward. His confidence and motivation were at an all-time low. He knew he could probably go back to Starbucks, but the thought of doing so was unbearable. He also doubted his ability to marshal the resources and motivation to start his entrepreneurial journey over. Luckily, his wife had a stable job and they would be able to scrape by for a while. But ultimately, he needed to contribute. Plus, he did not want his wife or young daughter to have to "scrape by" or to be unable to provide for them.

Michael heard the front door open. His wife was home. He took the last sip of his beer and tried to work up the courage to go to meet her in the living room.

Reference

Nobel, C. (2011), *Why Companies Fail – and How Their Founders Can Bounce Back*, Working Knowledge – Harvard Business School.

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