

## **PinnacleJobs.com: To Sell or Not to Sell**

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### **Introduction**

In October of 2016 the early winter clouds hung low over Mammoth Lakes, California as Jeff Engelmann zipped his jacket as the last step before his daily afternoon mountain bike ride. He stepped outside, brushing the falling snow from his hair as he fitted his helmet, shivered in a blast of frigid air, and tried to focus on his workout. As he began peddling, his mind drifted to the implications of the phone call he received just yesterday. “Would Jeff be willing to sell his business?”

His website, PinnacleJobs.com, had stabilized its cash flow over the past five years. The business required regular, but only token maintenance and time commitment on a daily basis. He had occasionally thought about selling his company, but the phone call deepened his resolve to develop a plan for his future and the future of his business.

Jeff moved to Mammoth Lakes from the seemingly perpetual hot and humid Houston, Texas five years ago where he worked as a software engineer. A family winter vacation to Mammoth Lakes had solidified his resolve to enact his dream and relocate to California. A strong family man, Jeff, Melissa, and their three grade school children had a family meeting shortly after their vacation and all agreed to make the move when school was out for the summer.

Jeff was a computer science major in college and became an excellent software engineer. Fresh out of college, he worked for AT&T computer systems. A few years later, he moved to SmartGraphics, as director of sales for the graphics card manufacturer, a company in which he owned 10%. He soon married and shortly thereafter, he had his first child but was growing increasingly tired of the repetitive tasks at SmartGraphics.

Having started several small businesses while in college, Jeff believed he could leverage his software engineering skills to start his own home-based business and allow him to spend time with his family. If he committed to a home-based business he, and his family, could move from the big city to a more family friendly location. Mammoth Lakes seemed perfect, and after some research they felt confident that his wife, Melissa, could quickly find a job in the local school district with her education degree.

## Company and History

While the decision to move was being made, Jeff called a former college roommate, Steve Wilson, who lived in Sacramento, California and had started a successful professional recruiting business. Since Sacramento was only about 250 miles from Mammoth Lakes, they decided to partner in Steve's recruitment business having determined that they could leverage Jeff's software skills with Steve's recruitment background, and they named the company Pinnacle Career Management. Working in the evenings before his move, Jeff developed the database software for Pinnacle Career Management and the newly formed company grew rapidly continuing its focus on the Sacramento and northern California market.

Upon arriving in Mammoth Lakes, Jeff was able to focus full-time on two primary functions in the company. First, he actively participated in professional recruitment. More related to his background, he wrote all software and routines for the company database of resumes, and developed a methodology to extract individual resumes from other websites and repost those resumes at their website. As they hit 20,000 resumes in their database, they also decided form a new company, PinnacleJobs.com, to branch into online posting services for employers as well.

In spite of their success, Jeff soon grew tired of professional recruiting, particularly the associated "cold-calling". Although they remained good friends, it was becoming increasingly difficult for Jeff to work with Steve Wilson on a daily basis. He felt like he needed some independence. After some discussion, they split the business with Steve taking the professional recruiting portion and Jeff taking the PinnacleJobs.com portion of the business. To finalize the deal they both signed non-compete agreements for the portions of the company they gave up.

## The Business Model

PinnacleJobs.com flourished during the next five years and Jeff's one-man business was on autopilot. He sat in his office most days developing traffic to his website. He developed strategies for search engine optimization as well as back-link networking by posting his jobs at both government and university websites. This back-linking enhanced his ratings at Google, for example, and his ranking in searches evolved to the point where he was typically near the top for job searches. In addition, he purchased domain names based on both geography and industry, which also increased his position in Google searches. He did all this while he managed his current list of individual client resume postings and matched those to his current list of company postings.

In terms of market niche, Jeff had significant advantages. First, he leveraged his small size and minimal expense structure to allow him to react quickly to changes in industry and competition. Second, he used a "push" technology to keep in contact with his clients. Although Jeff stopped spamming many years ago, he still sent out over 20,000 emails per week, one to each individual in the PinnacleJobs.com resume database. He also pushed all the jobs listed at his website to other "free" job posting websites, which would then redirect any interested employer back to the PinnacleJobs.com website. These postings at other job posting websites also carried the PinnacleJobs.com name -- one of his long run strategies for market exposure.

Although it created no direct revenue, anyone could submit a resume for free posting at PinnacleJobs.com. However, his matching algorithms were valuable to employers from which he earned most of his revenue.

About two years ago, a major job posting competitor partnered with a large local radio station. Jeff quickly saw that this advantage for his competitor could be utilized in his company as well. He called the manager of a major local TV station for a meeting the next day, and they quickly developed a one page contract to partner in job postings. Their agreement stipulated that Jeff would create and maintain a job posting webpage for the television station that would look similar to the television stations own website. Jeff benefitted from this by collecting a small fee for each posting that he managed for the television station and increasing his web presence.

To increase his market exposure, Jeff also began to purchase relevant keywords at the major search engines to increase his visibility whenever individuals or employers conducted searches. As a result, PinnacleJobs.com job postings soon rose to the top search engine hits regardless of where or what type of job one was looking for.

### **Revenues and Expenses**

Outside of his token collections from the television station, PinnacleJobs.com had two major revenue streams, both from companies seeking new employees. First, employers would pay a \$295 fee for the right to search the PinnacleJobs.com database on their own for a 30-day period. Employers generally chose this option when they did not want to publicly announce or post their open position. Also, PinnacleJobs.com charged employers a variety of different fees for single and bundled job postings where prospective employees could search a unique website created by Jeff for each company's posted employment opportunities.

Being a one-person firm, PinnacleJobs.com had minimal expenses. The major operating expense was the purchase of a web hosting service for about \$1,000 per month. This service provided adequate technical support, storage, as well a 24x7 web presence. Keywords purchased at auction on Google and other popular search engines ran about \$250 per month, although prices for these keywords were beginning to increase. Other minor expenses amounted to about \$2000 per year. Jeff considered his business very profitable, particularly considering that, as a software engineer, he would only earn about \$150k annually.

Annual revenues and expenses for the last year are listed in Table 1 below.

**Table 1: 2016 Annual Revenue and Expenses**

<b>Revenue</b>	
30 Day Postings	\$200,000
Single and Bundled Job Postings	75,000
Television Station Partnership	<u>10,000</u>
<b>Total Revenue</b>	<b>\$285,000</b>
<b>Expenses</b>	
Web Hosting Service	\$12,000
Keyword Purchases	3,000
Miscellaneous Expenses	<u>2,000</u>
<b>Total Functional Expenses</b>	<b>\$17,000</b>
<b>Net Profit</b>	<b>\$268,000</b>

### **Industry and Competition**

Although Jeff has established a successful small market niche outside of the radar of major job websites, he still sensed increasing competition in the job posting industry the past few years. As a one-man shop, Jeff had begun to feel pressure from the increasing breadth of services offered by major players such as Monster.com, Hotjobs.com, and Careerbuilder.com. These companies were beginning to implement new techniques for tracking potential candidates as well as validating a candidate's qualifications. The labor requirements to conduct increasingly personalized services, deeper candidate analysis, interviews, and even candidate testing was far beyond the scope of a small company such as PinnacleJobs.com.

Jeff had recently read a report on the Employment and Recruiting Agency industry. The industry had grown at an annual rate of just over three percent the last five years, slightly lower than his 5% revenue growth. Total industry revenues were project to eclipse \$28 billion this year, with roughly 50% of that revenue coming from permanent placement services, Jeff's focus.

He also knew that companies interested in posting jobs were increasingly taking advantage of new online technologies and platforms that allowed them to easily create their own branded online job listing sites. Several previous corporate clients had left PinnacleJobs.com for this reason. Smaller regional employment websites were also successful starting up using these technologies.

Major consolidations had also begun to change the landscape. LinkedIn, which had started as a small start-up in early 2000s and which had become one of the largest players in recruitment and professional networking, was purchased by Microsoft in late 2016. Monster.com was also consolidated into Randstad Holding NV through a December 2016 purchase. Jeff knew deep inside that these changes would only continue.

## The Decision

Of course, all these concerns really struck home when Jeff picked up the phone yesterday. Mark Williams was CEO of a large and successful job posting website in Los Angeles who Jeff had met at a number of industry conferences. Mark intended to expand his business, with venture capital backing, into the northern California market. Mark told Jeff that he preferred to simply purchase the PinnacleJobs.com infrastructure at a reasonable price. He also told Jeff that if they could not agree to a price, he would be entering the northern California market with a dedicated team of his own.

Jeff knew he had a tough decision with only three realistic choices. He could sell the business to Mark, but was unsure of how to value his business and what would even be a reasonable price. He did go online and find that rates he might use to discount his cash flows might range from 20% to upwards of 50%, depending on the perceived risk of the anticipated future cash flows. Jeff could also continue to run his business and try to create a plan for the changing industry and the challenge of Mark's eventual competitive entry into his market. He also thought that maybe it was time to change his line of work, cash-cow the business over the next few years as he looked for a different business opportunity.

After he finished his bike ride, he sat down on his deck with a Perrier and wondered what to do next. Deep down inside, he knew he had to spend some time and carefully outline all the details of his options. After carefully weighing each, he felt certain that he would be able to make the correct decision.

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