

The Right and Wrong Way to Grow Out of Trouble

By Chris Mittelstaedt, as told to Jennifer Alsever
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Struck by the idea that healthy snacks can make office workers happier, healthier and more productive, Chris Mittelstaedt co-founded FruitGuys in San Francisco in 1998. A dozen years later, the fruit delivery company ships nationwide and has \$6.5 million in annual sales. But Mittelstaedt, now the company's "chief banana," had to survive a tech bust and an early failed expansion before he could achieve sweet success.

I was 27 and delivering faxes in a San Francisco hotel. My 19-year-old boss often rolled in hungover and mockingly called me "fax boy." I knew I had to make a change when my wife became pregnant with our first child. After talking to downtown programmers who said they were living on cola and espresso beans, a friend and I decided to start FruitGuys, a company that would deliver fresh fruit to offices. I went to one of the city's tallest office buildings and wrote down the names of 500 businesses listed on the lobby directory until my hand started cramping. Four of them bought fruit from us.

The perils of staying local

Over the next four years, my business continued to grow, as I spent my nights buying fruit, packing crates and loading trucks and my days delivering it. (My partner later left.) Things were cranking until 2002, when the dot-com bust nearly killed the business. I discovered locks on the doors of bankrupt clients. When I had to lay off half of a 15-person staff, I threw up all day. I charged \$100,000 on my credit cards to make payroll, settle \$30,000 of unpaid customer tabs and pay off five refrigerated trucks I had bought just months earlier. Yet the lessons I learned during that time are the key reasons my 40-employee business survives today.

Right instincts, wrong timing

Most business owners would take out the ax and cut when times get tight. I did the opposite. While I had to be frugal, I kept thinking about ways to grow out of our situation. I planned to expand. I figured that FruitGuys would be less vulnerable if we weren't relying on just one local economy. Yet my plan didn't work — at least at first.

I picked Chicago for expansion in part because a guy there approached us, saying he wanted to start a branch. We were shipping fruit to the Midwest already, so we thought, "this is going to be

easier than we thought. Lucky us!” My mistake: letting enthusiasm take over and not asking myself whether this was the right person or the right time.

It turns out, the Chicago guy wasn't the right person, and it wasn't the right time. With sales of just \$1 million, FruitGuys didn't have the cash to train and support him. He soon got fed up and left to start a competing business. His plan fizzled out. I had run into a problem many founders face: How do you know when to pull the trigger on expansion? As it turns out, I had the vision, but technically I wasn't ready.

Making expansion work

Fast forward to 2007: we tried expansion again. This time it worked because we were prepared. We picked Philadelphia because we could buy fruit locally and deliver easily to New York City, Boston and Washington D.C. I spent several weeks in Philly getting to know the city. I talked to business owners to see what they thought of our service. I checked out the cost of real estate, taxes and supplier relationships.

When we decided to jump in, we sent one of our own people, Rebecca North, who knew our quality measures, how we handle our production facility and how we treat our vendors. By 2007, we also were a bigger company — booking revenues of \$5 million — so we were able to train new hires in Philadelphia, and we had better internal software for ordering and shipments and an improved website for customer service.

We later applied the same method to expand into Chicago, and we have since grown revenues by shipping orders across the nation, by serving schools and by taking orders from consumers who want to take fruit home from the office. Our sales have dropped slightly in the past year — to \$6.5 million from \$7.69 million in 2008. But we're alive, and despite the economy, we're not cutting back.

Looking for signs of what's next

Right now, we're hiring. But figuring out whether our timing is right is still tricky. The times I've gotten off track have been when I'm not realistic about whether growth will really work.

Following speeches I give at wellness and human resources conferences, I try to talk to HR people about trends that might affect the produce industry. I read about trends that are totally unrelated to my industry and think about how they will affect us — from what's happening with social media like Facebook to population or job growth statistics. I read the local newspapers, The New York Times and various business magazines, and I get trend articles sent to me via email each week from services like MeltwaterNews.com.

I want to keep thinking about how everything is meshing together so I can better guess about what's coming up next. Time will tell whether I'm good at it. But the fear of missing the signs and

failing — and the nauseating memory of laying off my staff eight years ago — drives me to continue trying.

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