Market Timing: A conversation with Julie and Mike Keough, CEO and President of E-Structors, Inc.

By: Newt Fowler

How do you get an industry to catch up with your great idea? Julie and Mike Keough have built a great electronic and data recycling company waiting for that day. Their story is one of patience, of getting clocked a couple of times, and of never losing sight of the end game – to have the winning model in a rapidly evolving industry.

The Skinny. E-Structors is one of the few recyclers to provide secure and environmentally responsible electronics and document destruction. E-Structors' clients include government agencies, health care and medical centers, school systems, corporations and national electronics retailers. E-Structors destroys sensitive data and guarantees environmental compliance with 100% recycling of processed materials.

An Ugly Waste Stream. Mike grew up in the recycling business. **It can be ugly**. In Mike's mind, few of us are willing to think about the "end of life" aspects of the waste stream we generate. For he and Julie, we might talk about tuning into our "carbon footprint", but the reality is that **we don't think twice** about the cell phone or cathode ray TV we drop off at a land fill or at Best Buy. They do. When you grow up with an industry, its behaviors either co-opt you, or you flee from them, or **you try to co-opt the industry**. They have chosen to do the latter.

No Worries. Julie shared another curious twist to this industry. With the increasing concerns over personal information, whether in patient or financial data, the health care and financial services industries have varying mandates to ensure **destruction of paper records**. For Julie, it's curious the hoops these organizations go through to destroy paper records, and of the indifference with which they dispose of a hard drive with the same information. The parallels of e-waste to medical waste floating up on Jersey shores isn't lost on Mike and Julie. In their mind, it is unfortunate that it may take a colossal data breach from **access to hard drives** with personal financial information to cause meaningful change.

Doing the Right Thing. So instead of letting scrap head off to poison Chinese dismantlers or to end up in a Virginia land fill, Mike and Julie chose to develop a business model that **met the privacy standards** that should apply to **destruction of both paper and electronic records** and to ensure that the waste stream was responsibly recycled. Since the law doesn't really require it, they set out to convince customers, essentially generators of waste, that it should be confidentially and responsibly handled, that getting some sort of "certificate" of disposal wasn't enough – that they should have a vested interest in ensuring that the data is destroyed and properly recycled.

The Rub. The challenge lies in the reality that the **residual component value** in the electronic waste stream is dramatic. Depending on the commodity cost of the day, there are haulers who will take an electronic waste stream off the hands of a generator for free – as **the money is in the scrap**. "Want a certificate, sure." There is **no audit trail**, no assurance that the hard drive and other storage elements have been destroyed. "Out of sight, out of mind," says Mike.

The Opportunity. "Getting customers to acknowledge what is a meaningful solution to their sensitive waste stream" is a challenge, says Julie. Few customers are willing to focus on who can competently

handle it. For Mike, the sale effort is frustrating, because "the executives who agree with their responsibility rely on subordinates to execute that policy, but the **guy on the line is cost driven**, and handling it is based on his budget pressures." Until the law catches up with the problem, Julie says "the sale is a **sale of conscience** in the end." For now, "some customers do care" and that is who they focus on. Meanwhile, there is a technological sea change occurring, generating an ever increasing e-waste stream, from the shift from CRTs to new storage devices, from telephony switch changes to server migrations. And the older materials being taken out of service are **increasingly toxic**. And, for Mike and Julie, where they end up is increasingly scary.

Tough Game. "Imagine the numbers of hard drives," says Julie, "that sit on loading docks that aren't being properly destroyed." "There are players in our industry that strip the valuable components out of [electronics], where the **data literally sits in an unsecured lot**." Given the highly volatile nature of the commodity pricing, "it is a challenge," Mike indicates, "to establish long term contracts that work." What happens is you agree to pricing, and someone arrives to take away the more valuable waste for free, leaving you with the most expensive materials to recycle. "It's a **tough industry**," Julie muses.

Ahead of the Curve. On reflection, Mike admits that "we're ahead of where the industry will inevitably end up." So as they are **waiting it out**, Julie and Mike continue to work with companies that understand their responsibility without having to have a regulatory mandate to do so. "The stakes are high," says Mike. There is a lot of money in this waste stream and he can already see industry driven efforts to **shape how the regulations should work**. In the end, Mike is concerned that if the regulations don't ensure that there are **financial incentives for properly destroying** confidential records (paper or electronic) and for ensuring proper recycling of the resultant components, there will be continuing pressure to not behave in the best interest of those who would be affected by a data breach and for the environmental consequence of dumping toxic waste.

The Take Away. Realizing that E-Structors has been very successful in its industry, I asked them what they would do differently, knowing now how far ahead of the industry norms they are. Mike was quick to respond, "don't get so far ahead of your industry that you can't survive until it catches up." How far is far enough? "When you see the big players in motion, they're figuring it out, so you should assume they are closing in on your vision," says Julie. Then it's time to stretch your model again. If this sounds a bit like a David and Goliath story, where the BFIs and Waste Managements of the world are continuously poised to clobber an organization like E-Structors, think again. If you worry about what should be important in such a fight – for Julie and Mike – the worry is about the security of personal data and about environmentally friendly recycling – then you might bet on David. Their next fight - to ensure that the evolving laws properly weight privacy and the environment concerns – might even lead one to decide that David has one heck of a hard drive in his sling.

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Learn more about E-Structors at: www.e-structors.com

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With more than 25 years experience in law and business, **Newt Fowler** advises many of the Greater Baltimore region's entrepreneurs and technology companies, guiding them through all aspects of business planning, technology commercialization, and M&A and financing transactions.