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Making the Most of Inefficiencies



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Marketers may be awestruck by Groupon, the social commerce website that has revolutionized consumer promotion and is one of the fastest Web-based businesses to garner a billion dollars in revenue. Yet the lesser-known company that spawned Groupon, Chicago-based InnerWorkings Inc., might be even more relevant for marketers.

Founded in 2001 by Rich Heise, Brian McCormack and Erik Lefkofsky, "InnerWorkings is a technology-driven procurement organization," says Eric Belcher, the company's president and CEO. "We assist corporations in buying printed material, things like direct mail, signage, packaging, labels, basically ink on any substrate. We exist because the printing industry is one of the largest, oldest and most inefficient industries in the world."

InnerWorkings literally profits from the print industry's inefficiencies. Here's how: Let's say that a client is considering running a brochure or direct mail campaign. He can enter the job specifications into the InnerWorkings system and have access to the top 10 comparable jobs completed within the last month in InnerWorkings' pricing database. The client also would automatically query a second database that breaks the printing job into its ideal manufacturing components and find the optimal equipment, plant and location to produce the job.

The results of this improved procurement are savings as high as 30% to 40%, according to Belcher, and InnerWorkings makes its money by taking a share of those savings. "We provide a savings commitment in a contract, usually in the range of 10% to 15%. We take an 18% to 20% management fee on the remaining cost," Belcher says. "If we can save more, we split that 50/50 with the client."

Consider a company that spends \$1 million annually on printing. "You would spend \$900,000, at most, with us—probably less," Belcher says. "Of that \$900,000, about 20% of it would be our fee and the rest would be the cost of the printed material. We take over the responsibility for all the labor costs associated with the buying and the technology required to execute against the savings commitment. That's how we make money and the client gets savings."

Clients, by the way, include Unilever, Scotts Miracle-Gro, InterContinental Hotels Group and AT&T.

Belcher joined InnerWorkings in 2005. It went public in 2006 and he was named CEO in 2009. Since Belcher arrived, he has witnessed InnerWorkings' significant

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growth, from roughly \$40 million in annual revenue to upwards of \$600 million. "There is not one person among us that doesn't expect the company to be a multibillion-dollar business," he says.

Speaking of significant growth, here's where the Groupon part comes in. InnerWorkings is one of four sister organizations that were founded on the concept of bringing information to an inefficient market using disruptive technology. Two of the companies—Echo Global Logistics and MediaBank—strive to create efficiencies in the logistics and media-buying markets, respectively. And Groupon, well, as Belcher says, "Everybody is familiar with Groupon."

Groupon's founder, Andrew Mason, once worked under Belcher at InnerWorkings. In fact, after he hatched his idea for the Groupon "collective buying" platform, "we sublet the corner of our office to his

company and had a couple of people working on getting it off the ground," Belcher says. And InnerWorkings co-founder Erik Lefkofsky ultimately signed on as a Groupon co-founder.

Belcher sees no irony in the fact that a print-related procurement organization served as an incubator, of sorts, for a digital deal site that's leaving print coupons in the dust. For him, it is all about growth and the entrepreneurial spirit that seems to permeate the InnerWorkings office. "We take pride in revolutionizing old-school industries and making a difference. We think about finding better ways of doing things," he says.

But if Mason's entrepreneurial effort doesn't pan out as expected, Belcher has a tongue-in-cheek offer for him: "If this whole social commerce thing doesn't work out for Andrew, he's welcome back at InnerWorkings anytime." **m**