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Chairman Blake Farenthold

Introduction

Over the past two years, my cofounder, Evan Baehr, and I led a team of extraordinary individuals who each took on incredible personal and financial sacrifices to launch Outbox, an innovative approach to postal mail. We had the support of world-class investors – the same early backers of Twitter, Facebook, SpaceX, and Tesla – who risked millions of dollars to fund our operations.

I assert this to highlight that there are smart and talented individuals who care deeply about our country and the problems we face as a nation. These innovators are smart, passionate, and have already brought about tremendous societal change through new technologies and business models. Yet while their advancements have benefited every person in this committee room, they are too often left out of the governing process.

While it is shortsighted to ignore innovation, it is profoundly distressing when innovation is not simply overlooked, but suppressed by our government. If we are indeed a government established "by the people, for the people" then it follows that ours should be the most receptive to innovation, since we are history's most innovative society.

Yet our government is following a curious pattern observed not only in political history, but in business history as well. It is the pattern of *disruption*, whereby incumbents, acting in seemingly rational ways, attempt to protect their established markets by turning away from innovation. Time and again, it has been observed that these incumbents do not simply get disrupted, but are overtaken to such an extent that they completely vanish from existence.

A Primer on Disruptive Innovation

Vanish. Too bold a word? Consider the following statistic: In 1960, the average tenure of a company on the S&P 500 was approximately 60 years. Today, the average tenure is 15 years. Amazingly, since the inception of the S&P Index in 1926, the only company to remain listed is General Electric.

One. Single. Company.

Harvard Business School professor Clayton Christensen first documented this phenomenon in his book *The Innovator's Dilemma* by observing that seemingly prudent decisions of established companies ultimately led to their demise. In each case, managers would protect cash flows associated with proven business models, and would ignore business models that produced insufficient cash flows from smaller or less established business models. This was, after all, the "rational" decision.

But instead of leading to success, the more proven and established models would be overtaken by the swift adoption of newer products and services, feeding the cash flows of new entrants. These new products would often appear uninteresting to the incumbent, seemingly "not good enough" for "the job to be done." It was often believed they were serving two different customer segments. Yet over time, these newer products and services would end up serving the same customers via a relentless pursuit of improvement, until the incumbent had no more customers to profitably serve.

This is the heart of the *innovator's dilemma*: it is only by embracing newer marketplaces that an innovator can protect her established company. But in doing so, she must embrace uncertain cash flows from a product that appears to be "unprofitable."

Fortunately for the members of this committee, Professor Christensen did not end his research on this pessimistic note, and followed his initial findings with *The Innovator's Solution*. I have brought copies for each member of the committee, but in the spirit of brevity, I'll give you a hint on his findings: ***embrace innovation, don't ignore it.***

The USPS at a Crossroads

As I have seen first hand, the U.S. Postal Service (USPS) is following the textbook model of all those companies that vanished from the S&P 500: they are protecting the cash flows of their established products. Instead of embracing innovative new models, they are operating on one that has not changed in over 200 years. The only differentiator of the USPS from other historical companies is the unlimited support by our government, covering billions of dollars in losses.

But eventually, not even the federal government will be able to prop up this failing business model, as our society continues to progress and develop innovative communication tools. With each email, text message, tweet, and snap, the old methods of paper communication are being eroded.

I propose to this committee that the only way to prevent further decline is for a fundamental reworking of the USPS business model – one that embraces new models of customer engagement, empowered by consumer choice, instead of the established cash flows from volume mailers, which usurps consumer choice.

The Beginning of Outbox

Outbox was founded on the belief that this small change – giving customers choice – could become the spark to redefine this long cherished but broken medium of communication. We did so during a tumultuous period in the history of the USPS, which has experienced declining mail volume and staggering deficits for the past ten years.

While we knew that the USPS would not naturally choose this path, perhaps naively we hoped to partner with USPS to provide an alternative to the physical delivery of postal mail to a subset of users, hoping this would spur further innovation and cost savings.

Although an early test with the USPS that let users redirect their mail to us showed signs of success and operational simplicity, an interview by CNBC triggered a request from the Postmaster General himself to meet in Washington, DC. In one of the most surreal moments of our lives, we had our very own *Mr. Smith Goes to Washington* encounter where the senior leadership of USPS made it clear that they would never participate in any project that would limit junk mail and that they were immediately shutting down our partnership. This 30-minute meeting was the end of our initial business model.

The Reimagining of Outbox

We came to view our failed partnership with USPS as a David and Goliath moment: we believed our seeming disadvantage would become our greatest strength. Turning our original vision on its head, we reimagined our service as not merely playing in someone else's value channel, but as a new type of last-mile delivery channel all together: one subsidized by our users in return for collecting and electronically delivering their postal mail. If we could simply break even on the mail business, we would have built a valuable last mile network able to be monetized in many ways.

To pull this off, we built a world-class team of engineers, designers, marketers, and operations specialists in Austin and San Francisco. Funding our efforts were some of the most celebrated investors of our generation. Together, we made a product that was as beautiful as it was complex, and overcame nearly every obstacle in our path.

We created our own dynamic logistics software, developed a legal framework to open users' mail, built industrial-grade scanning machines for 1/100th of the market price, developed specialized OCR to allow customers to unsubscribe from postal mail, built and attached to our cars 5-foot mailbox flags that withstand 70 mph highway speeds, laser cut wood blocks to build mail slot solutions, and created a novel system of key decoding via photograph that inspired the creation of one startup all on its own. All this was simply the backend of our service, and our iPhone and other apps won awards for their design and elegance.

In the end, we serviced a little over 2,000 individual customers, had 25,000 people waiting around the country on our waiting list, unsubscribed our customers from over 1 million mail pieces, scanned over 1.5 million pages, and delivered over 250,000 requested mail packages. We also recycled approximately 30 tons of paper, enough to cover 86 football fields.

Outbox was buzzing. It seemed as though everyone knew something about our little company, had seen one of our red-flagged mailbox cars, or had stumbled upon a news story about us. CNN praised us, Jay Leno mocked us, and Pee Wee Herman called us "the future." We tested our anecdotal suspicions with a nationwide survey, and found that Outbox had an unaided brand awareness of 10.1 percent - even though we serviced a mere 2,000 customers in two relatively small markets.

Numbers Don't Lie

After raising $5m in June of last year, we set out to onboard the 4,000 individuals we had amassed on our central-San Francisco waitlist. We projected converting a large percentage of these individuals, and planned to scale our marketing efforts at a projected cost of $20 per acquisition.

However, after an extensive email marketing campaign to our waitlist, total yield from the waitlist was under 10 percent. And as we started marketing outside of this network, we had difficulty finding a repeatable and scalable acquisition channel. Across all of our efforts, our acquisition numbers were over $50 per lead.

As our marketing efforts lagged behind schedule, our density numbers remained consistently flat, causing us to spend about double our projected cost to service each customer. Even our most dense routes cost us approximately 20 percent more than our break-even target.

After several months of testing and refining, we reasonably concluded that we were executing well and collecting good data – it told us that there wasn't enough demand to support the cost model. Our monthly operating deficits were too high, and even though we continued to get better at acquisition, each small success actually saw our cash curve decline further because our density remained flat. For longer than we would be willing to tolerate, we would lose money for each additional customer we gained. Despite the massive interest in our company, we learned that the product we built did not find fit in the market we targeted.

Finding serenity in knowing when to stop

For startups, it's difficult to know when to throw in the towel. Indeed, the main strategy for most of the life of a startup is overcoming impossible odds, and we built a team that did that over and over again.

This final challenge - product market fit - is one we ran after with characteristic zeal. Amidst these struggles we were reminded of the serenity prayer written by one of our favorite authors, Reinhold Niebuhr:

> *Grant me the serenity to accept the things I cannot change,*
> *The courage to change the things I can,*
> *And wisdom to know the difference.*

Our learnings from the wild adventure of Outbox

I will leave the committee with the following learnings we gained along the way:

- Giant, complex systems appear insurmountable, but aren't - they were built by people just like you and me
- The main asset the government (and big companies) has is time - which is the resource of which startups have the least.
- You may think government organizations are completely, insanely backwards; you are wrong - they are worse.
- If you can't find a hardware solution to your needs, build it - it's not that hard.
- Doing extraordinary things for customers is time consuming and hard - but very worthwhile.
- Life is too short to pursue anything other than what you are most passionate about.