**WHAT WOULD YOU DO?**

**ON THIS FIVE-PERSON BOARD OF DIRECTORS, IT IS TWO AGAINST TWO. YOU ARE THE DECISIVE VOTE.**

By

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“Traps\* is a company that was founded by an engineer who developed and patented a system that enables the lobster industry to eliminate rope lines and buoys that are used to mark lobster traps in the fishing areas. Such methods have been used since lobsters began to be trapped.

There are problems associated with the traditional method. One issue is that the lines might harm marine mammals in the area. One species are Right Whales.

When whales migrate throughout the east coast, following their various food sources (one of which is lobster), they tend to get entangled in the ropes and either injure themselves or end up in a slow and gruesome demise. Various activist groups have been successful in bringing attention the problem, going so far as to declare lobster fishing an unsustainable method.

Another problem with using lines in buoys in the trapping of lobster is what’s referred to as “ghost gear”.

During storms or strong tides, ropes can end up loosening from the trawl traps used and currents can end up moving the trawls altogether. A result is an unretrievable number of traps of a trawl being stuck at the bottom of the ocean. Lobsters will end up getting caught in these traps that cannot be retrieved, thereby becoming bait for even more lobsters. The losses are huge to the industry, and lobsters are lost senselessly.

Ropes can also become entangled on various watercraft. There have been small watercraft that have been severely damaged, as well as larger ships moving through the fishing lanes. This causes financial loss and has caused accidents and death to people on the boats.

The Lobster Industry

Between just Canada and the United States, the lobster fishing industry is approximately a $4b industry. It is no wonder that when the government announced closing various fishing areas throughout the year (matching the migration of the right whales), lobstermen were up in arms. Closures mean no fishing and no fishing means no income.

To address the market, various companies have raced to come up with a solution that eliminates the rope and the buoy. All solutions but one, however, still require some sort of use of either a rope or a buoy, or both. It’s just that these solutions hide the rope and buoy and only engage it when called upon by the lobsterman.

But lobster fishermen like their traditions. Some lobstermen claim they’d rather lose money not fishing than pay thousands of dollars to install the new equipment.

**The Arrival of Traps.**

Traps technology addressed concerns including the fact that there is no rope line or buoy. The system works with an airbag that is deployed. In addition to the fact that there are no ropes (making the system safer for the lobsterman on deck), the system is re-deployable into the water in a matter of seconds, rather than minutes, is easy to use off a chart plotter and, unlike the competition, does not require the use of satellites for positioning – the system is self-contained.

Although a new company, Traps has created a Board, and you are an outside Director on its Board.

**Orders are starting to flow toward Traps.**

Given the size of the market, the advantages of the technology, the ease of use and the fact that lobstermen are beginning to realize that closures are for real, and their financial loss is for real (as well as the fact that Traps system is easier and safer to use than cumbersome buoys), Traps is forecasting sales of close to $25m in 2024 and doubling from that point onward.

In addition to sales, the company has developed a recurring revenue source given the technology requiring upgrades over time. Forecasts are that the company has the potential of being worth $250m within five years.

But competition is fierce as competitors race to replicate the technology. And the market has yet to be proven – these are all forecasts.

**The Board of Directors at Traps.**

There are five Board members at Traps. The Founder who is CEO/Chair and three other investors. You were added to the Board as an external Director with expertise in growing businesses for eventual sale.

Should the company build its own manufacturing facility and continue its present path? This will entail more investments from a resource such as private investors or private equity. And the founders are reluctant to give up control.

Should the company consider selling to a marine giant who can take over, but at what price today? The founders are reluctant to go down this route.

Two of the shareholders on the Board believe that raising money from private investors will be more advantageous, allowing for flexibility to grow the company and build a manufacturing plant.

The other two board members do not want to get into the business of building a manufacturing plant. They would rather sell licenses and have others build equipment and sell the equipment.

Should the company consider approaching a marine giant and sell itself?

**Your Dilemma**

You are the independent board member of this five-person Board of Directors. How do you plan to respond to this challenge?

\*This case is designed around an actual board problem, but the company name and the industry has been altered for purposes of confidentiality.