



This week

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Undergrad Web wiz

IU senior runs million-dollar business from frat house

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IBJ Photo/Robin Jerstad

Twenty-year-old Ryan Pfenninger runs Debtforsale.com, an online auction service for bad debts.

Although he's built a million-dollar Internet business in only a few months, Ryan Pfenninger still can't purchase a celebratory drink.

Customers probably aren't aware of the simple problem, and Pfenninger isn't about to tell them.

"This is an industry based on relationships," he said. "A lot of [customers] probably don't realize I'm a college student."

A senior in Indiana University's Kelley School of Business, Pfenninger, 20, is also co-founder and technical director of Debtforsale.com, an online auction service for bad debts. While only 3 months old, Debtforsale has already generated

\$128 million in transactions and is merging with a competitor.

And it isn't even Pfenninger's first business.

The walls of Pfenninger's narrow bedroom in a Bloomington fraternity house are bare except for a Bob Marley poster. The room has two dominant features, a single bed and a computer.

Between classes, Pfenninger manages his company each day, often speaking with clients via cell phone.

"I never thought it would get this big," Pfenninger said. "It's been growing exponentially. The first few things listed were difficult to get, but after that, it's about reputation. If other people trust me, it's easier to get new people."

The problem of turning bad debt into good money has vexed business minds since the invention of credit. When people default on home mortgages, auto loans, credit card bills or uncollected lawsuit settlements, lenders are left with few options.

A lender's best choice often is to sell the account to a reputable collections agent at a fraction of its value. The collection agent, in turn, then attempts to secure more than it paid for the account.

Pfenninger serves as a middleman between the lenders and the collections agencies. And Debtforsale's rates substantially undercut traditional bad debt brokers'. The company charges customers nothing to list debt portfolios on its secure site, charging 1 percent of the total transaction only if the debt sells. And the Internet-based speed of his company is especially attractive for subscribers.

"In this industry, time is crucial, because every day that goes by makes debt less collectable," Pfenninger said.

With only a handful of online competitors, Pfenninger has identified an industry niche that few would consider for business ventures. But many companies have lined up to join his service, including Heritage Financial, J.D. Byrider, GE Capital and Citibank. Debtforsale serves only large lenders and debt buyers, not individual consumers.

"When we started it, I honestly didn't know there were any competitors," Pfenninger said. "Using the Internet in this industry is much more efficient and timely, and you're not paying 8 percent to a broker. You would have thought somebody would have done this before, but the banking industry is slow to adapt."

Bad debt seems an unlikely foundation for any profitable business, but Pfenninger is adamantly opposed to Internet companies that plan for returns only at some vague future date.

"I don't understand why you'd make a business that can't make a profit," he said.

Debtforsale is Pfenninger's brainchild, but he didn't make it a reality all alone. One key source of inspiration was his father, commercial collections attorney Fred Pfenninger. The elder Pfenninger serves as Debtforsale's president and CEO, although his role is mainly advisory. Formerly of Barnes & Thornburg, Fred Pfenninger now has his own Indianapolis law firm, Pfenninger & Associates.

Like any loving parent, Fred Pfenninger beams with pride at his son's accomplishments. But most parents don't have bragging rights to a son who founded a successful company before he could buy a drink at a bar.

"He came up with the idea on his own," Fred Pfenninger said. "He's always been extremely interested in computers, and I've always provided them to him. If he said he wanted it, I bought it."

By the time he was 14, Pfenninger was designing Web pages for friends of his family. Before he founded Debtforsale, he started other online ventures. One was a discussion area for investors called Heavy Trader. Another, intended to help entrepreneurs build companies from the ground up, was called IncShop. Pfenninger licensed, for an undisclosed sum,

IncShop's concept to a Korean company before he started Debtforsale.

"Unlike some people who want to get on [the Internet] and play, he was always the type that wanted to learn how it works," Fred Pfenninger said. "It's like everything he touches turns to gold."

Technical savvy is one of Pfenninger's strengths. But Carl Briggs, an assistant professor in the Kelley School of Business, said it is his strong understanding of business, combined with his computer skills, that sets Pfenninger apart from other students.

"He's the kind of student the placement office loves to see," Briggs said. "I don't know of too many students who have a strong technical background and an understanding of business. You take those two things and throw in gumption, and you have a very successful formula."

Managing a company is an enormous undertaking, and Debtforsale is encroaching on something Pfenninger values more—his education. To remove some of the management burden from his young shoulders, Debtforsale is merging with a competitor, Akron, Ohio-based E-Debt.com, for undisclosed terms.

Founded in August 1999, E-Debt has more than 500 qualified buyers and 200 sellers subscribing and promises to complete transactions in two or three weeks that traditionally took two to three months. Debtforsale lists 40 portfolios for sale on its Web site.

After the merger, Pfenninger will become an executive with E-Debt, and all Debtforsale's members will become E-Debt subscribers.

"From the moment I met Ryan, my impression was that his years don't relate in any way to his understanding of this industry or technology," said E-Debt President and CEO Michael Zoldan. "He's a remarkable individual I have nothing but respect for, and I look forward to working with him for many years."

Debtforsale and E-Debt first crossed paths at Disney World's Pleasure Island. Earlier this year, Greg Baugues, Debtforsale vice president for marketing and Pfenninger's friend since they attended North Central High School together, was working at the theme park. One evening he noticed several people wearing E-Debt shirts, so he introduced himself and his company.

While many students would close their books and drop out of school if faced with a similar situation, Baugues said he wants to finish his degree at the University of Illinois.

"It's been really exciting to see this start from scratch, and I'd really like to stick with it," Baugues said. "It's like winning the lottery. If it works out, that's great, but I'm not going to stake my whole future on it. If I finish school, I know I have a future."

The future is wide open for both Baugues and Pfenninger. And although he's already achieved business success many only dream about, Pfenninger has much bigger ambitions after he graduates from IU.

"My goal since I was a little kid was I want to be CEO of a big public company," Pfenninger said.

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