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Drinking the Koolaid

Later it would be reported that as he finished his inspirational speech, the sun broke through the clouds, a rainbow appeared in the sky, a white dove fluttered in from nowhere and landed upon his shoulder like a blessed omen from on high, and we all said, “Wow.”

It didn’t happen at all like that, except maybe for the part where we all said, “Wow.” It was remarkable enough, frankly, that most everybody in the company had gotten out of their warm beds on this chilly Saturday morning to come down to the office to hear Craig tell us what was going on.

The rumor mill worked fine, of course. What it lacked in accuracy, it made up for in speed—and none of us knew quite what to believe about the amazing things we’d heard.

We were somewhat compartmentalized—by design. People in one department didn’t really need to know much about the challenges being faced by folks in other areas. That meant that the issues that affected all of us were harder to explore. We could have published a company newsletter, I suppose, but there were only fifty of us. Why not get together for breakfast and get the word straight from the horse’s mouth? Q&A and all that.

So here we were at eight thirty on a Saturday morning, woofing down scrambled eggs and sausages, bagels and bacon, fruit and flapjacks. We had no room big enough to hold all of us, but the weatherman smiled, so we all met in the parking lot behind 2340 (a building we had spilled over into, a few doors down from the Yellow House, aka 2300. Everything was on Commonwealth Drive, so we just referred to our locations by their numbers).

I milled around with my paper plate, catching up with old friends I seldom got to see anymore and introducing myself to some of the new kids on the block, who were proliferating like rabbits. I ran into Bill Hunt, who re-introduced me to our friend from Weber Barbeques. Sporting a big grin, he complained that Weber had had to put on another shift to support my ads. It felt good to know my stuff was valuable for something other than lining the bottoms of bird cages.

Rex Scatena stood on a retaining wall and welcomed the group, giving a short rundown on our recent successes and introducing several new folks who would be filling key positions. Everyone was politely enthusiastic, but we hadn’t really come to hear Rex talk about the recent past. We had come to hear Craig talk about the near future.

We wanted to know more about ISOs—incentive stock options. All of us had them in one amount or another, and they were having their intended effect: we didn’t think of ourselves as employees of Value America, but as its owners. Most of us had taken pay cuts to come here. The incentive part was the key for everyone. If we all worked hard and made the company a success, the value of our shares would increase, and we could all make a lot of money. But very few of the newer employees/owners really understood what stock options were or how they worked. Craig was going to explain it all this morning.

He was careful with his words, explaining what could happen, what might happen, what he thought should happen, and what it would take to screw it all up. He shared insights into his meetings with Paul Allen. He explained what an IPO was and what we were doing to try to bring ours about. He took the time to present how investment bankers and analysts worked together. He told us who the managers of our IPO would be and what they were saying about how companies in the dot-com world were being valued—which had everything to do with how much our shares would be worth.

Winn made the complex world of stock options approachable, telling us how vesting periods worked, what it meant to exercise an option, and how strike prices affected the outcome. He blanketed his explanations with caveats. "There are two enormous conditions," he said, "that color everything I've said here this morning. The first is that market conditions must remain relatively constant. They can improve, of course, but there's no guarantee that will happen. If the market for dot-coms erodes, it will negatively affect us all—no matter what we do."

None of us said it, but we all thought it: that won't happen.

"Second, we must, as a company, under-promise and over-deliver. We must build a store that performs well and serves our customers. We must form partnerships with more great brands and keep creating ads that generate revenue. We must do all of these things better than we have promised we would do them."

And every one of us vowed, "Yes, we can do that. We will do that."

Then he at long last answered the question on everyone's mind: what are my options worth? "First," he said, "a company must have 'comps'—companies comparable to ours that are already public, so investors have something to compare us to. Our closest comp is Amazon. They currently trade at three times next year's projected revenue. We're expecting to sell forty million this year and a hundred seventy-five million next year, in 1999. If you multiply a hundred seventy-five million dollars by three, you get five hundred twenty-five million. That would be our market capitalization, or value. We have ten million shares outstanding. Divide five hundred twenty-five million by ten million shares, and you get a price of fifty-two dollars a share.

"IPOs are usually priced at twelve to fifteen bucks a share, so we'll need to split our shares three to one. That means if you have ten thousand option shares at a strike price of three bucks a share, after the split you'll own thirty thousand shares at a dollar a share. A strike price, by the way, is the price each of your shares was worth on the day they were issued to you.

"If we continue to do better than Wall Street expects, sell more than forty million this year and start off strong against next year's forecast, a year from now we'll be valued on our projected year-2000 revenue. At current multiples, that could mean as much as fifty dollars a share after the split—a billion-five market cap.

"Now, all of this is very hypothetical. The market and our company both need to perform well for any of this to happen. But if it does, and you own ten thousand shares today at three dollars a share, you would multiply the potential fifty dollars a share future stock price less your one dollar a share net strike price by the thirty thousand post split shares you'll own. Using this example, the number comes to just under one-point-five million dollars."

Even though he reiterated his caveats, the warnings went in one ear and out the other. We were naïve, but we weren't stupid. We all could do the math, and we all did the math. We all figured that we were going to be millionaires. Craig Winn said so.

But he had said no such thing.

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It's easy enough to see in hindsight, but we didn't know it then: this was the golden age of Value America. We could do no wrong—everything clicked. We had gotten over the hump of anonymity. Investors were starting to see the possibilities; vendors were lining up in droves and customers were responding to our ads and buying things at a dizzying rate. Value America was working just like we'd planned.

We knew that people were the key. In order to make our dream a reality, we had to understand the dream. So Craig preached the gospel, and we soaked it in. His mission became our mission. Many of us had read the entire business plan; those who hadn't were told about it, about all the things in it that set us apart. We held informal meetings every month in the parking lot or on the front lawn of the Yellow House just to make sure. Food? Oh, yeah. Burgers and dogs on the grill, pizza, sandwiches, ice cream, maybe a spread from Big Jim's Barbecue.

On one such occasion, Craig said something that struck us all a little differently. After sharing the status of our investment rounds, reinforcing the four things we did to serve brands, and reminding us of the seven things we did for our customers, he added, "I know I speak for all of us when I say Value America is far more than just a job. For many it is a noble crusade. Together, God willing, we'll make our world a little better. There is nothing virtual about our calling, nothing 'pretend' about what we've accomplished. But I want you all to know," he said, looking at each of us individually, "we are called to serve more than ourselves. We must serve two masters." He didn't elaborate.

Some thought he meant that by serving our company, we served ourselves. Others recognized that we now had investors—shareholders—and that it was our job to serve them. Some, weaned on Craig's business plan, heard something different: our two masters were our brand partners and our customers. He was speaking of all of this and more. It was all about service.

For a few magical months, Value America was the greatest company in the world. The plan was coming together; we could see it happening before our eyes. We were all together in one place, crowded and noisy and alive with a buzz so palpable you could scoop it with a spoon. The moment began to feed on itself like a nuclear reaction, and we were all swept up in it. We had followed our pied piper and had given our all to make the dream live. We were on a mission, devoted and passionate. Value America was our company—we were going to change the world. We had all "drunk the koolaid."

During this wonderful time, we had an unofficial company policy that people could rise to whatever level they were capable of handling. And this sometimes led folks in odd directions. Dawn Robinson, our office manager, was an energetic and vivacious ex-army intelligence officer, a single mom who had been with the company since our days in the Attic.

After we moved to the Yellow House, it became clear that we would need to hire a janitorial service, and she researched it. When Dawn found out how much they wanted for the job, she said, “For that much, I’ll do it myself!” So for months, she could be found after hours pushing a vacuum cleaner or a toilet brush, often with her cheerful pre-schooler in tow. She later became the head of our customer care department, and later still she developed our training program for new recruits. We all figured you could run a multinational conglomerate with ten people like Dawn.

My own number-two son, Chris (known around here simply as CL) hired on in the Attic as a data-entry person, a $15,000 entry-level job any reasonably bright person could handle. But as time went on, he emerged as our resident expert in the care and feeding of Joe Page’s Authoring Tool. CL became its official drill instructor, training all the new data-entry personnel, artists, and writers in its proper use. As its features advanced, so did CL’s relationship with it; he developed an uncanny ability to root out the bugs in the code. He was eventually asked to start and run our QC department to test the company’s voluminous output of proprietary software, learning his craft in the saddle. The department was by all accounts an unqualified success. Makes a papa proud.

Isaac Saltzberg moved into my old job as head of Presentation Marketing and promptly changed the job description. I had functioned as a mentor of sorts, a guide, showing my team by example how best to communicate the features of the products they were presenting—without resorting to “snappy ad patter.” We had a style, a voice (which sounded a lot like mine), and we were all singing in the same choir.

Isaac was more like a general on a battlefield. He split the department into platoons, each team led by a senior writer supervising three or four less-experienced wordsmiths and one graphics guy. The ever-increasing workload was assigned and attacked in methodical fashion. Quotas were set. Deadlines were pronounced. Meetings were held. Quality suffered. But Isaac got a lot of meals out of the kitchen.

Bill Hunt and Rex Scatena had shifted roles too, but in more subtle ways. It had always been their job to bring new vendors into the fold, to convince them that Value America was a better mousetrap, so to speak. In the beginning, this had been an uphill struggle, sort of like a century before when Ransom Olds had tried to sell automobiles in a country where there were few good roads and no gas stations.

Even though Internet use was doubling every quarter, Value America was growing even faster. We were tripling our revenues one quarter to the next. During the last year and a half, the typical reaction to the our proposition had gone from “Huh?” to “Not me—pioneering is too risky,” to “I’m impressed with what you’ve done, but it won’t work in my industry,” to “Where do I sign?”

Bill and Rex had a new problem: how to deal with the stampede. By mid-summer Value America had twenty computer brands and fifty-five peripherals brands. We had two hundred and fifty brands of office products. In consumer electronics, we carried thirty-four of the biggest and best brands in the world. There were a dozen toy brands and no less than eighty-seven separate brands in our health and beauty department.

We made a distinction between brands and manufacturers, because our customers made those same distinctions. For example, Procter & Gamble was a big, well-known company, but no one ever bought “Procter & Gamble” shampoo. They bought Head & Shoulders. No one bought Procter & Gamble baby diapers. They bought Pampers. No one bought P&G fragrance, but they bought Giorgio, Hugo Boss, Wings, Red, and (right here in the same sentence) Old Spice—by the bucketful.

With household products, foods, apparel, home furnishings, giftware, housewares, jewelry, home improvement, software, and sporting goods, we carried 500 brands. Some of them were merely well known in their own industries. But many of them were household names: Panasonic, Compaq, Tide, Toshiba, GE, Mattel, Epson, Brother, IBM, Kodak, Microsoft, Pepto-Bismol, Rubbermaid, Waterman, Comet, Sony, Hewlett-Packard, Vidal Sassoon, Canon, Pulsar, Tampax, Casio, Elgin, Norelco, Calvin Klein, Sanyo, RCA, Olympus, Max Factor, Avery, Zenith, Polaroid, West Bend, Sharp, Amana, 3M, Weber, Delta Faucet, Kitchenaid, Ram Golf, Hoover, Seiko, Rolodex…see any names you recognize? 500 brands and counting, but we were a mere shadow of our future self.

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These days Craig was spending less time bringing brands into the store and more time developing alliances with influential people and innovative companies. These included investment bankers, of course, and individual investors like Paul Allen. But often he found himself just taking advantage of opportunities he hoped would lead to other opportunities. You never knew where a good introduction might take you.

To Craig, the business world was comprised of gazelles and elephants. Some companies were small, fast, and nimble. Others were big and strong, but slow and hogtied in bureaucracy. We needed each other—we were good for each other. Big firms needed access to our ideas, spirit, and swift execution; we needed their clout, and access to their customers.

John Ledeky wanted to meet Craig Winn. The founder of United States Office Products had heard the buzz about Value America, as had the heads of virtually every Fortune 500 company by this time. So he asked John Motley to arrange an introduction.

USOP was a huge office products firm, now doing about $4 billion a year in sales. It was a "roll-up," formed by buying up many smaller, independent businesses and "rolling" them into one large conglomerate—the antithesis of the way we had built our business. Not that it mattered.

John Motley, of course, was happy to comply. Bringing people together is what he did best. A round of golf was arranged with Ledeky and his recently hired Chief Operating Officer, a guy named Tom Morgan. He had come from S.P. Richards (an office products distributor along the lines of United Stationers but now much smaller). So Winn, Scatena, Ledeky, Morgan, and Motley met at the Congressional Country Club.

First impressions can often tell you a lot about a person. But Craig's radar was attuned to John Ledeky, not Tom Morgan. Although he had noticed that the dapper COO's outfit was as beautifully coordinated as anything he had seen on a golf course, Craig didn't jump to any conclusions about Tom, even when the first thing out of Morgan's mouth was a slam at his boss.

"You've got to be careful with Ledeky," Tom said quietly when he and Rex were a discreet distance from the others. "He means well, but you need to watch yourself around him. He can go off at any time."

Normally, that kind of thing would have screamed this guy's insecure, political, and power hungry—stay away! But unfortunately, as they proceeded through their eighteen holes, Ledeky kept saying things that made Morgan's observations seem plausible.

Gregarious and charming one minute, he could instantly change demeanor, chewing out someone for making a noise during his practice swing. He told great stories, but some of them were whoppers, like the one about trying to outbid Rupert Murdoch for ownership of the Los Angeles Dodgers. Unbelievable, even if true.

With every hole they played, Tom's sad pronouncements, "He's a loose cannon," and "I've got things under control now because he's moving off to the sidelines," seemed less like political maneuvering than a realistic assessment of the actual situation. But, as Craig reminded himself constantly, there was more to a company than one person's impression of its founder.

Winn tried to turn the fledgling USOP connection into something good for everyone. They owned Mailboxes Etc., the nationwide chain of mailing convenience centers. It occurred to him that people living in cities would often have a real problem ordering online because there is usually no one home at their apartment to receive deliveries. Have UPS just leave the parcel in the hall outside the door? No, the thieves should have to work for it.

But Mailboxes Etc. could receive these packages, he thought, and provide a safe place for the shopper to pick them up. The shipping rates would be lower because the destination was a business, and MBE could keep the difference as their profit. For that matter, we could work out deals with big computer makers like IBM and Compaq where folks without computers could even shop online at MBE locations. They could also facilitate returns. This could open up a whole new world for people who were residence-challenged.

Value America was assigned to a fellow named Tom Starnes whom Tom Morgan had hired to manage business development for USOP. Starnes was tall, good looking, pleasant, and professional, but incapable of getting anything done. The deal never materialized.

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To say we were out of space was putting it mildly. It was bad enough upstairs in Presentation Marketing where we now had two writers to a cubicle in a room through which you could have safely fired a cannon a few months before. But the basement of the Yellow House was where we had reached critical mass.

The basement was home to both Technology and Merchandising. The little offices down there had been intended to house the merchants since they needed little but a quiet place to work, a telephone, and a pizza now and then.

Did I say quiet place? Fat chance. This was also home to Tech, who had consumed every square inch with bodies and hardware. Programmers were stationed two to a desk, four or five to an office. Several rooms were now filled wall to wall with big IBM Netfinity servers in gleaming black cabinets, putting out so much heat the air conditioners couldn't keep up.

The congestion got to be almost proverbial. When all of the offices had been occupied to their maximum capacity (which is to say, about triple what the fire marshal wanted to see) we started to notice things, like a storage closet on the main hallway being turned into an office for some poor, presumably thin, soul. There was a telephone equipment room beneath the stairs that people had been storing stuff in. One day a sign appeared on the door, saying, “This is not a closet.” The first thing that went through my mind was, “Oh, no. They’ve turned it into an office.” When someone stored an unused desk in the men’s room, well, you know what we thought.

We had, of course, bought a new phone system when we’d moved into the Yellow House, but our volume had increased so rapidly the switch melted down. So we replaced it with one that would last “forever.” Three months later, that one was hopelessly overwhelmed. Finally, we bit the bullet and installed a big AT&T/Lucent G3 system with a switch the size of a refrigerator—and prayed it would hold up under the strain.

Joe Page finally got some high-powered help too. The company policy offering a $1,000 bounty for any employee bringing in a Web technologist was starting to pay off (merchants were only worth $500; writers like me would get you a handshake and our hearty congratulations). We needed brains in the place. We got DBAs, EDI specialists, developers, project managers, testers, and encryption gurus. Joe, who still wore the title “Head Geek” with pride, now had a dream team—and an office he shared with three other guys.

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It wasn’t that he was nervous—excited, maybe. It was an unusual feeling for Craig Winn, but the men he was going to meet on this trip were his heroes in a way, like sports figures or rock stars might be to us as kids. Craig was no kid, though. These guys were heroes of the business world.

The old guard in American business was represented by the likes of Fred Smith, founder of Federal Express, Price Club’s Sol Price, and Intel’s leader, Andy Grove. As innovative as their companies were, they had been built on solid, old-fashioned business principles into some of the most respected firms in the world. The transition from old- to new-economy companies was represented in Craig’s mind by Microsoft, one of whose founders, Paul Allen, he had already met. And then there were the new-economy innovators, led by Yahoo!’s Jerry Yang. These were the stars in Craig’s sky, and on this one trip, he was going to meet two of them, Jerry Yang and Andy Grove.

Both meetings took place in California’s Silicon Valley. The meeting with Andy Grove was arranged by Chief Executive magazine’s CEO, Arnold Pollard. Craig arrived early. He didn’t know if he would be allowed the time to present Value America to Grove or even if he would be able to discuss his vision for an Intel-Value America partnership. As his driver approached the enormous Intel complex, the vista had its desired effect. Intel’s corporate headquarters is overwhelming—a monument to the success of the computer and to Andy Grove’s role in transforming our modern world.

Craig walked to the reception area. “Hello, my name is Craig Winn. I’m here to….”

“Yes, Mr. Winn. Mr. Grove is expecting you. I’ll call his assistant to let her know you’re here.”

Shy of being told, “The President is waiting for you in the lobby,” these words were about as good as it gets. He was excited as Mr. Grove entered his conference room. Andy Grove is an unassuming man, about five feet nine inches tall, lean, with thinning hair. He wore a ready and ample smile and reminded Craig a lot of his old mentor, Sol Price. He had the same caring demeanor, the same compassion, the same intellect, and the same way of driving right to the heart of an issue. Andy seemed interested in exploring what made Value America special, so Craig opened his laptop and attempted to deliver a presentation that was worthy of his audience. As they discussed Value America's mission, its performance and prospects, Andy seemed intrigued.

"This is powerful," he said. "You're really going to shake up the industry with this. Your competitors will either have to copy what you've built or face obsolescence."

"Thank you, Andy," Craig said, feeling pleased. It's not every day you get to impress a legend. "We've worked hard to build this. We're still small, but I believe we have something to offer great brands like Intel."

Andy smiled as Craig proposed, "We'd like to partner with you, exclusively, just as Dell has chosen to sell only Intel-based PCs."

"Craig, while I appreciate your kind words, neither Intel nor I can ask you to partner with us exclusively."

"You didn't ask. I volunteered. There's nothing improper about our company coming to the conclusion that your firm makes the best processors. Partnering with the best is central to our mission."

"Tell me, Craig," Andy questioned, "why are you partnering with the big computer makers at all? From what I've seen, they need you—what you're doing—a lot more than you need them. Why don't you just make your own machines, under your own name?"

"Andy, I think we can do more, better and faster, if we partner with IBM, HP, and Compaq than we can if we compete against them." He wondered whether Grove was testing his loyalty to Intel's biggest customers or if he was looking at Value America as the Internet's incarnation of Dell, his biggest customer. Craig sensed it was the latter, but he refused to take the bait. More to the point, he knew he was not ready to take the bait.

"If we don't serve these brands, Dell and Gateway could end up being your only customers. That's not good for you, or anybody. If nothing is done to help IBM, Compaq, and HP compete, especially in the consumer and small business arenas, they're gonna die. As it is, IBM's consumer line is hanging by a thread. Value America was designed to give these brands the ability to compete directly against the likes of Dell and Gateway. Our systems and product presentations are better, and we can provide a customer-direct interface for less money than they can build and manage themselves."

"I agree," Andy said, analyzing every word, "but there's nothing stopping you from competing against them, especially after you become frustrated by their inability to react at the pace your world requires."

"I think elephants know they need to partner with gazelles if they're going to survive," Craig challenged. "We'll all be better off if we focus on building our solution. The distraction of designing and assembling our own PC is more than I think we can manage, Andy."

To have our business model complimented was nothing new. To be praised by the likes of Andy Grove, however, was not your everyday occurrence. "You've demonstrated a very powerful solution here. From where I sit, your two biggest challenges are going to be infrastructure and customer care."

Craig outlined our infrastructure advances, explained our systems architecture, and reviewed our network design. He was having fun.

Andy smiled and shook his head in amazement. "What about customer service? At the rate you're growing, keeping the customer satisfied is going to be your biggest challenge."

Winn explained that our customer-care team was still small but that it was growing exponentially. Two heavy hitters were now managing it. One had built call centers for Federated Department Stores and Bloomingdales. He was an authority on fraud prevention. The other had won the Malcolm Baldridge Award for Excellence for his work with the credit card division of AT&T. "Your concerns are valid, Andy. I believe our people are strong, but we've still got a long way to go."

As he spoke, Craig's thoughts drifted to the soldiers in the trenches. His heart was with the troops. We had hired as many people as we could from Charlottesville's "inner city," such as it was. For many, this had been their first decent job. Having been trained and given a position of responsibility, they'd responded with enthusiasm, appreciation, and fierce dedication. They had a talent for empathizing with the people on the other end of the line. Seeing all that happen was one of the most rewarding parts of the job for all of us. Heartwarming success stories abounded here.

Winn left the meeting at Intel with a sense of destiny. One of the most powerful and innovative men on the planet had recognized that Value America was indeed something special.

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President Clinton's technology-guru-turned-investment-banker, Miles Julian, was good friends with Yahoo!'s Jerry Yang, the first of the new economy's Internet billionaires. Miles arranged an introduction.

Yahoo.com was the ultimate portal, a doorway to the wonders of the World Wide Web, designed to be a user's first stop in the day's cyber-journey. At its heart was a powerful search engine where users could find virtually anything they desired. It offered intelligently organized links to multitudes of different subjects, as well as a plethora of services like email, news, and discussion boards. With all its depth, Yahoo! was free to the people who used it. The company made its money by selling advertising to other dot-coms, complete with links taking you directly to the advertiser's website. The concept appeared brilliant. It quickly became the model all Web portals would emulate.

As Miles introduced his friend Jerry, Craig found him, like Paul Allen, to be a very unlikely billionaire. Jerry Yang was unassuming and down to earth. It was obvious he was not only well educated but also intelligent (concepts that are by no means coterminous). His business card bore the title "Chief Yahoo!" He certainly had a sense of humor.

Yahoo!'s offices shouted that this was a different kind of company than Intel. The computer-chip maker's headquarters were grand and clinical; Yahoo!'s were scattered throughout a series of leased buildings, and were decorated in yellow and purple, the company's colors. They looked more like a college dorm. Instead of a water cooler, you'd find an espresso bar or juice dispenser. This was designed to be a fun, creative place to work. Conformity didn't count for much here.

Craig Winn and Jerry Yang were at opposite ends of the Web. Jerry had been on the front cover of Time, shown surfing into celebrity status following his wildly successful IPO. Value America was still small, just beginning to make a name for itself. Still, they had much to discuss.

They began in the world of finance. Jerry talked about venture capitalist John Doerr and his firm, Kleiner Perkins. He spoke of his rich friends at Softbank. He explained how the VCs had used a heavy hand in the name of keiretsu, the Japanese version of symbiotic partnerships between businesses. “Amazon and Yahoo” he said, “initially benefited from this arrangement. Amazon used money the venture companies invested in them to buy anchor positions here at Yahoo. That helped us establish the value of these things and garnered Amazon a lot of attention.”

Craig didn’t know if Jerry Yang was implying that Value America needed to do the same thing to be successful or if he was just complaining. He soon found out that it was a little of both.

“It helped us initially, especially with Wall Street. But now I think it’s time they left us alone,” Jerry said candidly before switching gears. “It’s interesting that with all of the advertising you folks are doing, you don’t have any portal agreements. The idea of advertising offline to drive online sales is pretty radical, especially if you’re planning to go public.”

Our goal was to build our brand and the product’s brand simultaneously—a devilishly hard thing to do in a tiny online banner ad. “We want to bring new customers to e-commerce, not merely lure people away from other sites.”

“Doesn’t do a thing for me,” Jerry quipped.

“No, I don’t suppose it does,” Craig smiled. “But this bubble’s only going to stay inflated so long. It’s like balloons—as long as the VCs keep providing fuel to keep ’em all hot, they’ll keep rising. Dot-coms will spend the money they’ve raised here at Yahoo! to increase their sales and increase their valuations. Then they’ll raise even more money, at even higher valuations, to pay you even more, to increase their sales. But what happens when they figure out this is all hot air? Their balloons, and yours, will all come crashing down. There’s no such thing as perpetual motion.”

That was not what he wanted to hear, but he was smart enough to know where Craig was going. Jerry was conflicted. Part of him wanted to go along, but he, more than anyone, was enjoying the ride the present reality was providing. No matter how misguided the euphoria, no matter how absurd, Jerry was flying the biggest, most spectacular balloon of all. “Before you bring us all back down to earth,” he said, “you might want to check out the view for yourself.”

Winn laughed. “Well, maybe, Jerry. But before I abandon reason, I’d like to propose something a bit more, ah, grounded. Retail! Have you ever considered a co-branded e-commerce solution for Yahoo!? We could help make that happen.”

“I’m afraid that just as you surmised, we’re victims of our own success. The Amazons are paying our way with advertising that directs our users to their stores. If I open up a competing e-tail operation, they’d drop me, and who could blame them? But I realize that e-commerce is ultimately the engine that’ll keep us flying. We’ll eventually need to be a portal for commerce as well as for information.”

“It is possible, Jerry, to test e-tail and not compete with any of your current advertisers. Take jewelry, for example. With the exception of watches, there aren’t any brands. It’s a painless way of getting started. What do you think of ‘Jewelry for Yahoos’?”

“I like the sound of that. Yeah, ‘Jewelry for Yahoos!’ Can you build a prototype?” Jerry asked brightly.

They talked about future possibilities. They discussed Yahoo!'s dream of partnering in an online office products superstore, about the PC configurator that was in the works, about a search engine that would land you in the information-rich pages of Value America's consumer electronics department. Some plans were implemented; others were not. Good ideas are like eggs. They won't hatch unless you keep 'em warm.

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"Hi, Craig," I said. "What brings you up here?"

"Got a project for you, Ken. The store's stable now, so I think it's time we offer an online tutorial. Explain the benefits of shopping at Value America, how to get the most out of the experience. We need to answer their questions about security and privacy. Give it the Power touch, folksy and funny. Use our picture, headline, copy format. I'd like to expand on the 'everybody's shopping now, everybody's learning how' idea."

"Cool, dude." I flashed the "hang loose" sign. "When do you want it?"

"This afternoon?"

"Piece of cake," I lied. "I'm on it."

A week and a half and 13,000 words later, I had covered the subject and had run it past Joe for accuracy and anachronisms. The exercise had given me a new appreciation of just how big Value America had grown, how much we had to offer, and how far ahead of the rest of the online world we were.

I took a draft of the whole thing downstairs to get Craig's blessing, only to find he had gone to Washington to speak at Price Waterhouse's "Technology Conference." Amazing, I thought, what a little online success could do for your popularity as a public speaker. My boss had been the one chosen to lecture some of the country's foremost tech-savvy executives on the future of e-commerce. He had come a long way from a plan and a prayer in my little graphics studio in Huntington Beach. His speech, E-Commerce 101, spoke of partnerships, symbiotic relationships where every company could focus on what it did best and rely on others to expand their horizons. It was way ahead of its time.

Of course, what I called "a little online success" was a bald-faced understatement. We had opened the store for business right before the end of the year and had taken our first baby steps into advertising in February. It was one thing to plan on growth, but this was ridiculous. In the second half of the first quarter of '98, we did $1.2 million sales—an annualized pace of $5 million. Respectable. In Q2, that jumped to $5.2 million, or $21 million annualized. Then we started attracting attention. Q3 was spectacular. We soared to $15 million, a $60 million annualized pace.

Winn had done the studies. He knew that less than one company in a thousand ever grew to be "mid-sized," that is, achieving over $20 million in sales and employing over a hundred people. Those that did usually took decades to get there. We had become a mid-sized company in a single fiscal quarter. Businesses, even those that are run well, can be expected to grow about as fast as people do. But our "toddler" was now six foot one, 190 pounds, studying differential calculus, and playing varsity football. What would this thing look like when it hit puberty?

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Roth Latour was back in Charlottesville, just as he'd promised. The Goldman Sachs investment banker felt vindicated as he shook Craig's hand. He had taken a risk when he had defended Winn's crazy scheme, especially when the analysts at his prestigious firm had been confrontational. He knew Value America's unique model had merit, and he had been proven right.

We had once again under-promised and over-delivered. The Q3 numbers showed clearly that his $40 million 1998 revenue projection was well within our grasp. As Roth caught up on the latest advances coming out of the Yellow House, he shook his head and smiled. "Some said you could drag this horse to water, but you'd never get him to drink. Well, from what I can tell, the horse has jumped in the water, has drunk his fill, and now he's doing the backstroke. Congratulations, my friend! If I have anything to say about it, I'd like to see Goldman Sachs lead your IPO."

Craig appreciated that, but the fact remained that Rusty Kincade still had his reputation to defend. If he backed Value America, he would be admitting that he had made a horrendous miscalculation with his Amazon-based media metrics. You couldn't have it both ways. What's more, Rusty had signed on with a baby version of Amazon, e-Toys. They were ideal: cute name, niche player, portal-dependent, warehouse-bound, and media metrics friendly. They were perfect.

At the end of a great day, Craig personally flew Roth back to Washington to catch his connecting flight. He quickly discovered that he had never flown in a small plane. Latour may be African American, but he turned white in the copilot's seat of Winn's Cessna 206. As they said their goodbyes at Reagan National, he somehow knew it would be the last time he would see Roth Latour. It wasn't the flight; it was his analyst.

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According to Advertising Age, IBM's ad budget was expected to exceed $100 million. And that was just for the PC division in North America, a mere ten percent of their global ad allowance. Chickenfeed.

Ogilvy & Mather was running the campaign. Advertising Age called it, "…the most unified effort to tie product ads into corporate brand building. The goal of aligning product ads with corporate branding is the Holy Grail of tech advertising," they said. Oh yeah, Craig thought. That means they've taken the radical step of actually putting a picture of a computer in their ads, a couple of bullet points, but still no price. And why should anyone buy this thing? Because it's an IBM! It was arrogance personified, but what the heck, it was only a hundred mil. This year.

Craig had a better idea, and he told them so. The General Manager for Marketing and Integrated Offerings (advertising, to you and me) for IBM's PC division, and his lieutenant, were in Charlottesville. They were trying to figure out how an upstart Internet store had sold so many PCs.

He said, "Give us ten percent of your ad budget, and we'll match it, dollar for dollar. With your ten mil and ours, we'd be investing a total of twenty million. Now, my guess is, being poor, we buy advertising cheaper than you do through your agency. We know that our print ads in The Wall Street Journal cost us half of what they cost you. Therefore, your ten million, in our hands, will buy advertising you'd pay forty million for."

“How can this be?” the GM exclaimed. He looked more concerned than pleased. His lieutenant, Glenda Dorchak, knew that the numbers Craig referenced were true although she chose not to react.

“If we’re doing the advertising, there is a purchase mechanism attached to the ads, just like with Dell and Gateway. Short of selling direct—which you’ve tried three times unsuccessfully—Value America is the closest you’ll get to a direct link between you and the customers you’re ultimately trying to reach.”

All the red-hot agency guys thought IBM’s ads were great, very stylish. But beauty is in the eye of the beholder. “Sure, they’re artsy, but they don’t do much of a job communicating the value of your products. There are no prices or commerce links.”

That hit home. IBM had suffered at the hands of its more progressive competitors. True, they had made a bit of a comeback from the billion- dollar operating loss they had recently endured, but their sales were still lagging behind. Compaq’s growth was double theirs, and Dell had experienced a massive sixty percent surge. Catching them wouldn’t be easy.

“Do you want to turn ten million in advertising into forty million and then into hundreds of millions in incremental direct response sales? We’ve proven that our ads work. If you’ll co-op our advertising and make certain we have a steady supply of machines, we’ll deliver the sales to turn your division around,” Craig proclaimed. No point in being shy.

The GM was struggling with the idea of sharing his ad budget. Yet he understood the concept of outsourcing. The modest inroads IBM had made in reducing manufacturing costs had been achieved that way. He understood targeting Dell too. IBM openly envied Dell’s success.

Dorchak, quiet up to now, told her boss to think of Value America as an effective “Eighth Channel”—a customer-direct channel. IBM would be outsourcing its direct sales objectives. She explained in detail how this model would allow them to sell direct but without competing against their existing customers. She called it “direct in drag.” Value America’s systems were so efficient, she explained, that we could do more for IBM than IBM could do for itself—without the risk of alienating current resellers.

She had done a fine job of explaining our vision. “That was good,” Craig said. “You’ve captured the essence of this opportunity.”

“The ‘Eighth Channel’ white paper you presented made quite an impact,” Dorchak explained.

As they left the meeting and stepped through our conference room door, the GM said under his breath, “Glenda, don’t you go to work for them.” There was no humor in his voice.

Glenda brushed it off. “Don’t worry. Nobody’s offered me a job.”

“They will,” he said. “They will.”

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A week later, Craig was still thinking about Glenda’s performance. She had done such a masterful job of making our message clear to someone who clearly wasn’t getting it. There was leadership ability there, and we needed someone to manage Sales and

Marketing. Dorchak had been at IBM over twenty years. She had been involved in two of their direct-sales initiatives. She understood advertising and call-center sales.

Winn had studied growing businesses. He knew that pioneers with the ability and passion to build value from ideas were often the wrong people to manage mid-sized firms. And mid-level managers—so essential to the success of mid-sized firms—were all too often overwhelmed by the demands placed upon them by large corporate entities. In other words, one needed three different, successive teams, with three different attitudes and skill sets, in order to grow from small to large.

Still, Craig thought, his character radar was notoriously weak. What did he really know about Dorchak? No less than he knew about Dean Johnson, Ken Erickson, or Doug Schatz, and they had worked out fine. But IBM had a distinctly different corporate culture than we had. Would she be able to make the transition? Would she drag IBMers along with her? He relied on Rex to steer him around conundrums like this, but Rex hadn't met her. On the other hand, it was only a Vice President position. It wasn't like we were considering her for President or CEO or something like that.

Craig picked up the phone.

Glenda said she was interested. She said she had turned down similar offers from both Dell and Micron, much to the relief of her supervisors. But Dorchak was beginning to feel like she'd hit the glass ceiling at IBM, never having risen above lowly Director positions. Who knew how far she could go in a less established company? Weren't these the people who had just hired Kim Dejong, also from IBM—as a division president, no less? What did Kim have that Glenda didn't? Nothing she could see. This could be her chance to show the world what she was made of.

But risk was a problem for Glenda. She was making about $100,000 at Big Blue, including bonus. Since she had assumed the role of primary breadwinner in her family, she didn't want to leave the security of the big firm if Value America wasn't solid.

Glenda's references checked out, so Craig continued to court her off and on over the summer. He knew our risks were diminishing, especially the risk of testing the company's revolutionary business model and proprietary e-commerce engine. It was all working even better than we had planned. Value America had gained traction. Our revenues were tripling every ninety days. He told Glenda that we were expecting to go public in the very near future. This, he said, would be her last chance to get stock options at pre-IPO strike prices. That was all it took. She signed our standard employment contract and bid IBM adieu.

Glenda's job description read:

"As the Senior Vice President of Sales and Marketing you are to manage direct response advertising, the call center, and the marketing department. Hire, manage, train, and motivate a team of telephone sales associates to serve consumers, GSA, state and local government agencies, higher education, trade unions, charities, and corporations. Evaluate performance and tune the direct response model. Improve the value proposition and diversity of ads to maximize sales, margins, and service. Work with our merchandisers to negotiate more co-operative advertising. Expand the Intel relationship. Manage the direct response initiative on technology and office products. Expand the sales effort to include catalogs, direct mail, co-branded stores, and telephone sales. Develop promotional partnerships with leading vendors to increase their involvement and support of our sales while increasing soft dollars and market-development funds. Coordinate advertising and marketing presentations in the store. Manage the Product Presentation team. Enhance the quality and appropriateness of product presentations and increase the quantity of presentations per writer. Develop, manage, and evaluate traditional and direct response advertising campaigns."

"Sure, I can do that," she said. If only she had.

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Rococo's was an Italian restaurant just down the street from the Yellow House. Three days after Glenda Dorchak began as SVP of Sales and Marketing, Craig, Rex, Joe, and almost every member of the management team met there for an informal welcoming dinner.

Joe Page picked up on it: Glenda was all business, dressed impeccably in an expensive designer suit and wearing a triumphant smile. She exuded success as she rose to jocular shouts of "Speech! Speech!" Joe listened to her corporate patter for a while and thought, She's been here all of three days, and she's already decided she can dispense with our business plan. She may have jumped onto the band wagon, but she has no earthly idea what it took to build it or what we went through to get it this far.

Perhaps it was because Joe had an allergy to corporate bureaucracy, but as he sat there, he wondered if he were the only one in the room who somehow knew that this was the beginning of the end.