

Corporate Poverty

“Listen Craig,” Dean said, “I’m not suggesting we’re going to get a loan from somebody that’s got ‘Bank of...’ in their name. The guys that provide loans like these go by a different name...”

“Yeah,” Rex reminded him, “they’re called loan sharks.”

“Okay, guys, have your fun. But I want you to apologize when ol’ Dean comes through with the dough-re-me.”

“Rex, Dean’s right. There’re four or five outfits that can provide a two-million-dollar, ninety-day swing loan for us. ’Course, they’ll take their pound of flesh, high rates plus warrants.”

“Are you sure this is our only option?” Rex asked. “I don’t think much of borrowing money, and I know you don’t either.”

“While I don’t like debt,” Craig said, “the idea of telling Paul Allen and our union buddies that we’re toes up...well, I like that a whole lot less.”

“Actually, raising capital could be just a matter of semantics, guys.” Johnson loved words; they were his hobby. “We could raise some dough by borrowing it from investors. Our ‘lenders’ could have the option of being paid back in stock after the SEC restrictions are lifted.”

“Gordon Conover pledged to raise \$10 million when Robbie Stephens pulled the plug, did he not?” Rex thought out loud.

“But now,” Dean concluded, “he can jolly well follow through on his promise with private loans, convertible into equity.”

“That would certainly be a good place to start.”

“Actually,” Rex said softly, “we need to start closer to home.” He looked at Craig and swallowed. “Count me in for a quarter million.”

Craig was suddenly overcome with half a dozen emotions—gratitude, thankfulness, pride that he had chosen a friend and partner who would stay the course. “Rex,” he said, “I don’t know what to say.”

“Say you’ll top it, stupid.”

“Yes,” Craig laughed. “Count me in for three hundred thousand.”

“I’m in for another hundred grand,” Dean shot back.

“Now, if we can just get people to follow our lead,” Craig mused, “and if we cut expenses to the bone, we might just survive our own funeral.”

Rex smiled. “We’ll get that Roadrunner yet, Wile E.”

Fair’s fair. These company-wide parking lot meetings had always been used to deliver good news, rally the troops, and bring the team up to speed on our progress. Now that there was bad news to deliver, Craig chose the same forum. Mass email was just too cold, too impersonal, too chicken hearted. So here we were, not twenty-four hours after

our intrepid trio had been cut off at the knees, standing in the parking lot behind 2340, listening to Craig explain what had happened.

He didn't sugarcoat it. He made it clear we were in deep trouble. Not one company in a bazillion recovered from a failed IPO, but we were going to do it or die trying. He explained the impossible market conditions and the fact that there had been no new IPOs for a record-setting twenty-seven straight days. He told us we'd have to tighten our belts, and that we would all have to accomplish more with less than ever before if we wished to survive. Craig went on to share that our lead investment banker, Robertson Stephens, had unilaterally made the call to pull the offering but had also been sufficiently encouraged by our performance on the aborted road show to state their willingness, publicly, to take us back out when the market recovered.

The SEC precluded companies in our pickle from accepting conventional investments, he explained. We were looking to borrow money from whomever would be willing to loan it to us. It was risky business, he said. He wanted to make that very clear. On the other hand, we had the business plan, the people, and the motivation to make it, if anybody did. Then Craig announced that he and Rex Scatena had loaned the company money. Their loans were unsecured and repayable as cash or stock at the lender's option, just as others would be. If any of us, he concluded, would like to follow their example, his door would be open.

It wasn't that Craig was omniscient. But he had had a bad feeling about the NEC deal from the beginning, and now he wished he had stopped it when he'd had the chance. The NEC notebook computers we had committed to sell were by anyone's standards expensive, and Craig had smelled trouble. But Glenda had brushed off his trepidations, assuring him that we hadn't made any guarantees, and if the NECs didn't sell, the distributor, Tech Data, would sell them elsewhere. "Get it in writing," Craig had warned. Glenda hadn't. Tech Data wouldn't.

The NEC deal had brought another top tech distributor into the fold, which was a good thing. But the letter of credit we'd had to issue guarantying the transaction was tying up \$1.5 million, money that was now a life-or-death matter to us. It didn't help when Glenda tried to shift the blame to Kim DeJong. Craig was finding Ms. Dorchak's excuses increasingly hard to swallow.

Not everything was Glenda's fault, of course. Much of the collateral we'd had to post as a private company was scheduled to be released the moment we were public. It couldn't come a moment too soon. Our neighborhood bank, Jefferson National, with whom we had negotiated a merchant account, had been gobbled up by a larger institution, Wachovia Bank. Johnson pointed out to Craig that our historic product return rate had been far below the originally estimated level, minimizing the bank's exposure. To free up badly needed capital, Craig tried to renegotiate a reduction of the nearly \$3 million we'd been forced to put up in collateral, but without success. His requests were met with intransigence at every level, all the way up to the bank's president.

Since they obviously didn't care if our company sank, Craig thought, why should they continue to enjoy our business in the unlikely event we managed to stay afloat. He heatedly told the bank's top executive, "I can assure you that if we save this company—

and we will save it—we will do everything we can to part company with you.” Revenge: one more motivation for staying alive.

Justin Caise jumped into the fray as well. He begged the SEC for mercy. Amazingly enough, his pleas fell on sympathetic ears. Since it had been market conditions that had derailed our IPO at the last minute, the SEC gave us a break. They said we need wait only sixty days before raising private equity capital—they knocked four months off the normal requirement. Pretty nice, we thought.

We didn’t have enough unrestricted cash to last sixty days, of course, but certain death had been transformed into mere probable death. Familiar territory.

“Perfect time to fire her,” Rex told Craig. “The IPO is history. Let’s dump her before she can do any more damage.”

Craig sighed deeply. He wanted desperately to see Dorchak gone, but...

“We can’t do it, Rex. Not now, anyway. It’s going to take everything we’ve got to pull this off. Dean with the lenders, you with the friends of the company, and me with the union and Paul Allen. I can’t even imagine a worse situation. If you think it was hard managing the last two rounds, fasten your seat belt. This ride’s really gonna get rough.”

“Guess you’re right.”

“Look, right now, we have one job to do: find money. If we don’t do that, it’s all over, no matter what. If we fire Glenda now, we’ll have to beat the bushes trying to find someone to replace her—and who’d take the job now that we’re running on fumes? We don’t have time for it. Besides, I’m not entirely convinced that what she wanted—centralized control—is a bad thing, although I hate what she did to get it.”

Rex reflected on the ramifications, shaking his head. “We aren’t in the Attic anymore, are we?”

“No, friend, we’re not.” Craig was thinking of the two hundred families who now depended on Value America for their livelihood, for their mortgages and bills. And then there were many hundreds of brands that had believed in the mission we shared, paying to partner with us. We owed it to them to stay the course, to focus on the task at hand. “It’s not that I don’t want to axe her, Rex, but if we fail, she’s gone anyway, just like the rest of us.”

One by one they came, poked their heads through Craig’s office door, and said silly things like, “Are you busy?”

Phil Ramsey plunked himself down in a chair opposite Craig’s desk and launched into a folksy, long-winded explanation of why he had come to work for Value America. It wasn’t that he needed the paycheck, he said. He craved the action, to be doing something worth doing, something he was really good at. But he wasn’t there to tell a story. He was the first stone in an avalanche.

Phil wanted to loan the company \$80,000. Karen Wiles and Erik Taylor from finance came in and offered substantial amounts. Joe Page and Bill Poletti from tech, Andy Rod in business development, Kim DeJong and Steve Sabatini from the business to business

division, Derick Roberts, who did the heavy lifting for Glenda in the ad purchasing world. They stepped forward like an army to show their support and, more to the point, loan the company the funds we'd need to survive.

Craig had mixed feelings. He had invested more of his own money, as had Rex, over a half a million between them; that would not have surprised anyone. But we were standing about three inches from the edge of the abyss. He knew that panic was contagious, and that having to share your office with the grim reaper tended to be bad for morale. It was hard for people to do their jobs when all they could think about was polishing their resumes. Yet he was amazed at how quickly and unhesitatingly the good people of Value America rose to the occasion. And as they did, we moved back from the precipice, step by step, until our survival seemed more likely than not.

Only when they had reached that "confidential divide," that mental Rubicon of confidence that separated desperation from determination, did Craig, Rex, and Dean feel they could approach the friends of the company. These friends, who in the past had been supportive of Value America, were now in a position to save her. They began making the calls.

Raising money was part of the solution; conserving it was even more critical. Rex suggested a hiring freeze.

"Yes," Craig agreed. "But there are two areas where a freeze doesn't make any sense."

"Technology, of course," Rex offered.

"Right. Every technologist we hire replaces a far more expensive consultant. That's simple math. We should continue hiring merchandisers too. They pay their own way with presentation revenues. The more good merchandisers we get, the more money we bring in, the better store we build and the more brand partners we have in our corner."

"Nobody's going to give us money if we're not squeezing every dollar 'til the Presidents wince," Rex recognized.

"True. Value Land is about to become fat free."

Craig caught up with Rafe Durn in his Washington, D.C. office. He took the news remarkably well. Maybe he didn't realize just how poor the odds were against getting a second chance at an IPO.

"Craig," he said, "if you couldn't get it done, nobody could have. The papers are calling this the worst IPO market in three decades. Just rotten timing, that's all."

"I appreciate your support, Rafe."

"I have faith in you," the unions' pension fund manager assured him. "I have no doubt that you'll get Value America public as soon as conditions allow, hopefully as early as November."

"I hope so. The trick's staying afloat until we do. We were counting on the IPO, so without it we're running on fumes. If we want to go public we're going to have to drive revenues, and that means advertising. With the holiday season upon us and precious little money available, we're going to have to make every penny count."

"I assume you've put together a new budget?"

"Of course. First thing we did."

“Good.”

“No, not really, the picture’s pretty bleak. We need dough, Rafe.”

“I’m not surprised.” Rafe responded in a way that indicated he might help.

“As I’m sure you’ve heard, SEC rules say we can’t raise any private equity for two months—actually, the rules say six, but they’ve given us a special dispensation. Dean is trying to arrange a loan. Our covenants with you on Series A require your approval. I assume we have it. In fact, I was hoping you’d want to participate.”

“Maybe.”

Craig told him of the heroic actions of the employees and friends of the company. He explained some of the new fiscal restraints he had imposed. He shared his plan for a selective hiring freeze. He wanted to assure Rafe he wouldn’t be throwing good money after bad.

“Tell you what, Craig. I’m in. I’ll raise another five million.”

Durn was as good as his word. Before the day was out, he had called Craig back with a proposition. As usual, it was good news, bad news. ULIC would come up with some; the rest would come from Rafe’s friends. But all of it would come with some serious strings attached.

“Okay, Craig,” Rafe said. “We’ll commit to raising five million to get Value America over the hump: two million will come from our own coffers, and we’ll also raise another three from other sources. This’ll have to be a convertible deal. It needs to be done at a level above the last round’s valuation, which was three hundred million. There’s no going backwards. So we’re going to need some warrants to sweeten the pot.”

Craig found himself back in Wonderland, having a pleasant chat with the March Hare. The average company, upon failing an IPO, would be expected to dissolve, close the doors, and fade into oblivion. We, on the other hand, had to find a way to plausibly say we were worth even more than before.

“I think we can get that done, Rafe,” Craig said. “We’re going to need more stock if the loans convert to equity. If we use the same ten-dollar-a-share price we used in the Series B Paul Allen round, then we’re there. Say we go from thirty-five to forty million shares; even at the same price per share, the elevated number of shares creates a four hundred million dollar valuation.”

“Perfect,” said Rafe. “We can’t look like we’re losing ground.”

“No, of course not.”

“Now,” Rafe cautioned, “I have to impose a few conditions. I’m sure you’ll understand.”

“I’d expect nothing less.” Craig was willing to endure the inevitable.

Durn proceeded to codify the efforts we had already made, building them into his proposal as conditions to be met. He turned good-faith commitments into contractual obligations. It saddened Craig to witness the process, but he reminded himself that as difficult as Rafe Durn could be, he’d always kept his word, always come through when the chips were down. All things considered, he was an ally worth having.

“We have no intention of going down this road by ourselves,” Rafe said. “So we’re going to stipulate that Rex’s and your five hundred fifty grand stays in until we’re over the hump—having ‘skin in the game,’ I think you call it.”

“That was our intent, Rafe.”

“We’ll expect you to raise another half a million from Value America’s employees.”

“That’s not our commitment, it’s their commitment, and it’s an incredibly noble endorsement from the very people who’ve built the company. But they’ve already made it, as in past tense.”

“Good. And you’ll raise another million from friends of the company.”

“Rex is handling that, but I think he’s already received commitments for more than that.”

“We just want to make sure that there are a lot of people besides ourselves committed to your success.”

“Of course, Rafe. We may be about out of money, but we’re not out of friends. What else?”

“The hiring freeze. You’ve been hiring people like there’s no tomorrow, and if you continue, there won’t be.”

A total hiring freeze would compromise our ability to diminish development costs. “If we can exempt the Tech department and Merchandising from the freeze, it would make better financial sense.”

“Forget it. The hiring freeze is total, or there’s no deal.”

Craig sighed. If only the man would listen.

Craig agonized over the severity of our belt-tightening. He would have to make it painfully clear to everyone that we were going to have to choose our battles. He went over his budget with a fine-toothed comb, cutting here, snipping there, holding the line in this other place. We had reverted to survival mode. He went back to simple cost-based accounting, using a pad of paper, pencil, and a calculator. He agonized over his new, lean budget, for it was to be our map out of corporate purgatory.

Our biggest single budget item, not surprisingly, was advertising. Most was spent on newspaper ads, in over twenty major metropolitan areas. Phil Ramsey was also doing award-winning ads for radio and television.

Craig called Glenda into his office. Rex and Dean were already there, poring over the details of the skinny new plan. As she sat with the others at the old maple table, Craig slipped her a hand-written rundown of her new spending parameters.

“Read it and weep,” he said. “Poverty sucks. Until we can raise some serious capital and take this company public, we have to cut expenditures. All of ’em.”

Glenda peered at the sheet. Her jaw dropped.

“I know this represents a serious reduction to your ad budget,” Craig proclaimed, “but it can’t be helped. With our new reality, we can only spend a million dollars a month.” If all went well and we succeeded in raising capital, Craig projected investing another \$4 million in December to boost Christmas sales, for a total of \$6 million for the quarter. Corporate poverty was no more fun than any other kind.

The newly anointed “President” was incredulous. “There’s no way I can stretch it this thin,” she said. “If we expect to come anywhere near our revenue projections....”

Craig cut her short. “The revenue projections are out the window. We just finished a fifteen-million-dollar quarter; I’d be ecstatic with ten in Q4. That’s what I’ve told the analysts to expect. But even that is going to take a miracle. Point is, that’s all we’ve got

to spend. Invest it wisely. Drive as much revenue as you can. But whatever you do, don't go over budget!"

Glenda frowned at the pitiful numbers. "I understand," was all she said. I understand I'm getting the shaft from this two-bit dreamer with his hand-written joke of a budget. He can't treat me like this.

Phil Ramsey knew the business side of advertising better than anyone in the company, having run his own agency, and this didn't look right to him. Glenda had personally scheduled a series of two-page ads in Business Week, and Phil had half a dozen serious issues with that decision.

First, our experience with magazine ads had been disastrous. Their production lead times were so far out, any price-driven product offerings were likely to have disappeared by the time the magazine hit the stands, causing confusion, bad feelings, and accusations of bait-and-switch tactics. Our magazine ads were a colossal waste of money.

Second, Business Week was all wrong. Not only did its demographics mesh poorly with ours, it was far from the best choice among its genre. Fortune, perhaps, thought Phil, maybe even Forbes. Not Business Week. They had all the credibility of a supermarket tabloid.

Another thing that rankled Phil was that Glenda had gone outside approved channels to buy the space. She had a friend at Business Week from her days at IBM and had done the deal directly with her. Phil had developed a unique and profitable relationship with Stevens, Reid, Curcio, through whom all our ads, according to our contract, were supposed to be placed. SRC was furious. They had concluded we were cheating on our agreements. Fact is, we were.

Phil asked SRC to determine how much the space would cost if they were running the ads in accordance with our contract. When they ran the numbers, it turned out that Glenda was paying double what our agency could have bought them for. We had a problem.

Since his own money was now on the line, Phil was incensed. (Actually, he would have been anyway.) He stormed into Glenda's office, without an appointment (horrors!), and demanded to know what the hell she was up to, or words to that effect.

Glenda merely smiled condescendingly and told Phil not to worry about her Business Week indulgence. It was none of his business, she said. She had her own reasons, and he needn't bother himself trying to understand.

For some reason, Phil Ramsey never really trusted Ms. D after that.

Troubles or no troubles, Craig couldn't say no to this one. It was a black-tie dinner on the floor of the New York Stock Exchange. The event's host, Chief Executive magazine, had invited him. Intel's Andy Grove would be there. So would the CEOs of many of America's most powerful and innovative companies.

Craig found himself chatting with Jack Welch, the CEO of GE, about our collaborative efforts to e-commerce-enable GE Information Systems' EDI software. Jack

was well versed on our progress. He told Craig that the Value America model had made quite an impression on his team. The door was open for a future alliance, assuming, of course, there would be a future.

Craig greeted his new friend Andy Grove as if they'd known each other for years. Andy spoke first, "I read about your IPO in The Journal. Sorry, rough timing."

"Yeah. They're calling it the worst IPO market since, well..." Craig looked around, "since this place crashed back in '29."

"Right," Andy agreed. "How are you doing, my friend? Are you okay?"

"I'm doing fine, Andy. We'll figure something out." His stiff upper lip didn't fool anybody. Craig was hurting, and it showed, but he realized that depression is seldom endearing, especially to successful men. Besides, Craig wasn't interested in pity.

"Well, hang in there. Keep your chin up. You'll come through this."

As they sat down to dinner, Craig was dying inside. Not only had he lied to Andy, he had lied to himself. He wasn't fine, not even remotely. A great man had made himself accessible. He'd reached out expecting, deserving, a straight answer, and Craig had come back with a flippant platitude. He felt awful.

Eventually, Andy got up to stretch his legs, and Craig caught up with him. "I lied to you, Andy," he blurted out. "You asked me how I was doing, and I didn't tell you the truth."

"I know," Grove answered softly. "I knew it at the time. You wear your emotions openly. But I admire you for being able to say it now."

"Truth is, I'm worried and scared. I don't know if we're going to make it."

"Let's take a little walk, shall we?" As they slowly strolled, Andy related a little of his personal history. "I met Michael Dell when he had less going for him than you do now. His idea wasn't as strong as yours, and yet look how far he's come. I also met the guys at Compaq way back when they were smaller than Value America is today. Good company, but their potential wasn't half of what yours is. I believe in you and in your company, Craig. You're going to survive and be stronger for it. I'm convinced of that. If you need anything, anything at all, you call me. I'll be there for you." When a man of Grove's character and substance talks to you like that, it's hard to know what to say.

Skip didn't want to cater this particular lunch. He'd do it, because Craig and Rex had befriended him, supporting his restaurant, but he hated the idea. After all, Skip was openly gay, something that didn't seem to bother Craig, but Craig's guest today was going to be Jerry Falwell.

Our introduction to the famous television evangelist had been arranged through InService, a Lynchburg-based company that had been instrumental in helping us build Demand Alliances—mutually beneficial arrangements with organizations like charities, educational institutions, and faith groups like Falwell's. Supporters of Falwell's Liberty University, for example, could make an automatic donation to the school simply by shopping at a special Value America custom store we'd create for them.

Craig had offered to meet Jerry on his turf in Lynchburg, an hour or so south of Charlottesville, but Falwell insisted on making the trek himself. He arrived in his Chevy Suburban, just like Craig's, and found his way to the CEO's office. As the two

visionaries sat and talked around Winn's little hundred-year-old table, Crystal, Craig's yellow Labrador, who still came to work with her master every day, got up from her customary spot by his desk, ambled to the table, and plunked herself down on Jerry's feet. He smiled, reached down, and gave her a pat.

"She likes you," Craig said. "She's a good judge of character."

"I like her too," Jerry laughed, "and you, your company, everything you've built here, your whole demand-alliance concept. Remarkable, especially your ability to create custom marketplaces. Your corporate heart really impresses me. The fact that you've made it a priority to help charities, universities, and faith groups like ours is amazing...especially for a businessman."

Craig explained that the idea of giving something back with every sale wasn't an "add-on" to the plan. It had been part of Value America's fabric from the very beginning. As they talked, Falwell became convinced that his ministries and university should be working with us. But Craig cautioned him to move slowly. He wanted Falwell to understand the ins and outs of how it all worked before he committed.

"You couldn't cheat me if your life depended on it, Craig," Falwell said. "I'm a pretty good judge of character myself. I believe you've been called to achieve something remarkable. I believe God has something very special planned for your life."

Jerry Falwell, this larger-than-life man of God, had achieved so much, Craig reflected. Yet the media had unfairly tarred him with the same brush as his failed televangelist colleagues. Through it all, Jerry had remained faithful to his God and his mission. To hear such prognostications from this man's lips was humbling. Craig did not feel worthy.

As mid-day approached, Craig said, "I realize that it's probably hard for you to eat out at restaurants without being bothered all the time, the curse of celebrity and all, so if it's alright, I've arranged to have lunch catered at my home."

"Wonderful," Jerry said.

Everyone "knows" that Jerry Falwell is anti-gay. It's all the media seems to be able to say about him. But he's not, really. He's not particularly anti-anything. He isn't any more preoccupied with homosexuality than he is with anything else the Bible describes as sin (like envy, pride, greed, adultery, or gossip, for instance), but truth doesn't sell newspapers, scandals do. "Homo-phobia," is juicy stuff. No wonder the poor caterer was uncomfortable.

As Craig learned that morning, Falwell seems to love everybody, making it his goal to hate sin while loving sinners, judging no one because we all fall short. As Skip served the small party an excellent lunch in the Winns' elegant dining room, Jerry engaged him in conversation, listened to what he had to say, learned all about his life, his beliefs, his attitudes. As they ended the meal, Jerry went to the kitchen, shook Skip's hand, and congratulated him on a fine meal. He gave him a hug and said he'd like to visit Skip's restaurant the next time he came to town.

By the time they were getting ready to return to the office, Skip was almost in tears. "I can't believe it. I completely misjudged him," he said.

Craig smiled. There's a lesson worth learning, he thought. You can't necessarily believe what you read about a guy.

“Welcome back. How was Atlanta?”

“Hot,” Craig answered.

“I’ll bet it wasn’t as hot as the steam under your collar when you read The Post article,” Rex guessed, gesturing at the paper in Craig’s hand.

“Well, at least we’re getting some ink,” Craig said bitterly as he tossed his Washington Post on the desk. “The article trashes us, gets the facts wrong, and generally misses the whole point. But at least they spelled our name right.”

“Nobody in the media seems to get it, do they?” Rex commiserated. “They love trashing companies, even if they have to make up the facts. Like the Journal article that came out announcing we’d postponed the IPO. The first part was accurate, but that one paragraph....”

Craig remembered it well. Lifted right out of the risk factors, it had said “Value America, in its filing, acknowledged that it faces development hurdles. The company cited constraints in its customer service capacity and...said that its electronic order systems aren’t yet fully in place.”

“Can you believe it?” Rex questioned. “They report that our electronic order systems, that would be EDI of course, ‘aren’t yet in place.’ Yet they don’t mention that the same document said, ‘Value America’s systems were 97% EDI enabled.’ That’s better than most retailers that have been in business for decades. It’s so misleading. Why do they do that?”

“Fun with statistics,” Craig said. “They regurgitated our red herring’s risk factors like there was something unique about them, ‘cause they fit the story they wanted to write. The facts were readily apparent, but they didn’t fit their story, so they ignored them. Investigative journalism died a long time ago.”

“Sure did,” Rex agreed. “The one thing in the risk factors that’s worth reporting—the Paul Allen ‘warning’—they missed. And the reportable condition was fixed six months ago, but they didn’t report that either. Doesn’t do us any good to bellyache, though. How did your visit go with the IBM team in Atlanta?”

“Great, but nothing like I’d planned. The guy I was supposed to meet called in sick just as we landed. Boy, that’s a long flight in a 206. I like flying, but sitting in a tin can for four hours gets old.”

“You were supposed to meet with their top education guy, right?” Rex asked. “To help us with our custom store for American School Supply....”

“Right, but we hit the jackpot instead. I met a guy named Dave Boucher. We talked about IBM shipping our customers directly, you know, using Value America to help IBM compete against Dell. The Dynasty lessons really paid off, Rex.”

“Told ya.”

“We talked about distribution, inventory management, bills of material, component constraints, build-to-order versus build-to-ship. I earned his confidence because I was able to speak the same language. It’s amazing how a common appreciation of the details can help people frame an issue, form bonds of trust, even help resolve nagging problems. It was great. The guy’s a ‘ten.’ You’d love him, Rex. We finally found an IBMer we can work with.”

Some time later, Dave Boucher, one of IBM’s most lauded senior executives, would tell the press: “I recall Winn flew down to our Atlanta offices to meet with someone that

had, unfortunately, called in sick. I went in to say hello as a courtesy. But he was armed with a laptop presentation and a hell of a sales pitch. What I thought would be a five-minute in-and-out turned into four hours. We sat in one of our conference rooms talking about all manner of things. Based upon Winn's presentation, we signed an agreement with him to ship IBM PCs directly to Value America's customers, the only such agreement in IBM history. I see the partnership as a wedge for IBM to gain market share against online competitors like Dell. [The Value America team] were pioneers. I think they've helped us blaze a new trail."

Dean sat back in his chair, his feet propped up on the only unoccupied corner of his paper-strewn desk. Craig knocked on his door and entered, not waiting for a response. Johnson appeared to be talking to himself, but closer examination revealed that he was having a phone conversation using a lightweight headset, ostensibly so he could shuffle through the stuff on his desk and take notes while he talked. Craig figured he used it so he could talk with his hands when he got excited.

As he hung up, Dean grinned at Craig and shook his head. "I wouldn't have believed this a week ago. So many people have come forward saying they want to invest, it's just amazing. You've got to give the Vice Chairman credit. Ol' Remy-boy really came through for us. If Robertson Stephens is true to their word and the IPO gets back on track in a month or two, we're going to make it. I've got that two-million-dollar swing loan nailed, by the way. And you guys were laughing at me."

"Dean, you're the best," Craig replied. "You and Rex have given us some breathing room."

"My pleasure."

"Tell me about the loan."

"Short fuse. We have to pay them back in December, and the interest rate's high, but less than I thought. Like you said, it's like going to Guido. Not a lot of fun."

"The things we do when our backs are up against the wall. Thankfully, we're not without friends, though."

"No, we're not. Ray Kennedy from Masco is coming in with three hundred grand, and his three sons are putting in ten thousand apiece. John Motley is helping out to the tune of a hundred and fifty thousand, Justin Caise says he's in for two hundred and, if you can believe it, even Seth Rossi has said he's going to invest three hundred thousand."

Craig picked up on the theme. "There are a ton of suppliers who want to be part of this too—not the companies, their founders and senior managers, the guys we've been working with. HP, Fellows, Avery, IBM, Targus.... Ram Golf's CEO is in for a quarter of a million. Even Mike Jefferies, the founder of Office Products International, the magazine, is in for a quarter mil."

"The response from the company's management has been almost universal," Dean said. "It's got to make you feel good when your employees invest over a million dollars in your company. Especially after a failed IPO. Their support speaks louder than words."

"It's humbling, Dean. Heck, even my dentist wants to be included." Craig paused and took a deep breath. "Of all our senior executives, there's only one who didn't step up."

"Glenda Dorchak," guessed Dean.

“Right you are,” Craig said. “Big surprise.”

A bit later, the real surprise would be announced: “Fifty million dollars this time.” Frank Flowers’ news took Craig’s breath away. Another investment from Paul Allen’s Vulcan Ventures, especially one of this magnitude, would save the company—again—and make it possible to operate for whatever time was needed to resurrect the IPO. Craig immersed himself in the irony of the thing: fifty million was more money than we’d hoped to raise in the failed IPO.

“You’ll need to come up to Seattle again and give Paul an update, show him the progress you’ve made. I don’t anticipate any problems though. You’ve done what you said you were going to do. Paul and I respect that,” Flowers concluded.

Glenda, still fuming over being told to cut the advertising budget, decided to solidify her position by writing a letter to each Value America board member outlining her early “achievements.” They were, in her eyes, quite remarkable, considering the short time she’d been with the company.

So Caise, Motley, and Durn, along with Craig, Rex, and Dean, were regaled with a rundown of Dorchak’s accomplishments. She had shortened shipping lead times significantly, she reported. She had molded the company into a cohesive whole by introducing horizontal process into its operation. She had introduced a new advertising style, designed to increase revenue by presenting more products per ad, a far more efficient plan than the brand-centered foolishness in which we had indulged to this point. Now, because of her brilliant leadership, the company was moving forward into a bright future, free of the chaotic atmosphere that had held us back. The company was at last in good hands. Hers.

Craig thought he was going to puke. Much of what she said she’d done was fabricated; the rest was worthless. Her “process” concept was being achieved at the expense of progress—tying up scores of people in useless three-hour meetings each and every day. Her “brilliant new ad concept” came at the expense of a format and philosophy that had endeared us to hundreds of major brands, had sold millions of dollars of merchandise, and had been acclaimed in the top echelons of the ad world. In two short months, we had “progressed” from raising the bar, from being the envy and inspiration of other retailers, to being a laughingstock.

Winn was livid as he stormed into her office past her wide-eyed secretary, shutting the door behind him. He told her in no uncertain terms to can the political positioning games, to stop undermining everything that had been achieved by others, and to just do her damn job. “...And don’t you ever go to the board again,” he seethed. “If you do—you’re toast!”

What Glenda hadn’t said in the letter was that she had decided to completely disregard the new ad budget. Now that she was in charge, she was determined to top that \$15 million Q3 revenue number the entrepreneurs had achieved. The easiest way to do that was to place ads, lots of them. Her first quarter managing the company would show progress. She was going to show the world what she could do, whatever the cost.

The original idea was simple enough. Merge an Internet portal with an e-commerce company, so people could shop online in the obvious place—the site they first visited when going online. This one, though, had a fascinating wrinkle. The portal was owned by the one of the biggest computer companies on earth.

Nate Gould was an investment banker and a friend of Mr. Eckhart Pfeiffer, CEO of Compaq. Gould called Craig, introduced himself, and related the story of how Pfeiffer was trying to merge his Web portal, AltaVista, with Shopping.com, an e-commerce solution that, in theory, competed with Value America. They were having a bit of trouble, however, with the due diligence. Craig was not surprised: Shopping.com was a hastily thrown together “picture-bullets-price” sort of website with no brand relationships, no product information, and no sales to speak of. Shopping.com was to Value America as paper plates were to fine china—same basic function, but worlds apart in execution, style, and scale.

Would Craig be interested in talking, Nate wanted to know. Sure. Craig is always interested in talking, even if he has no idea where the discussion will lead. But as Gould would soon discover, Winn is not what most people would call a “good listener.” He’ll keep hammering away until he either knows exactly what the speaker is trying to say or becomes convinced they don’t know what they’re talking about. A conversation with Craig Winn can be quite an experience.

Glenda correctly assumed that if Compaq acquired Value America and merged it with AltaVista, she’d be out of a job. Day after day she came into Craig’s office in tears over the prospect. She had done so much, in her mind, to better herself—I mean the company—during her three-month career. “It just wasn’t fair,” she cried. Craig counseled Glenda. They spoke often and openly about her insecurities. He shared his experiences with other insecure people, trying to help Glenda better understand her problem. It did no good. She did everything she could to thwart the deal, surreptitiously casting aspersions on our firm.

Yet Compaq must have been more impressed with the opportunity than they were unimpressed with Dorchak. They dispatched Gould and some Compaq executives to Charlottesville to see our operation, meet Craig and Rex, and explain what it was they were trying to achieve.

After letting them fumble around for a while, Craig suggested, “What you want to create is a comprehensive closed-loop Internet solution, a union of all the disciplines that could benefit from an online alliance. You start by making a computer that has a special button taking you directly to AltaVista, your portal. The portal has a built-in shopping engine—Value America—and you make a percentage of every sale because you own the shopping vehicle. You highlight presentations that show the business and consumer solutions made by Compaq, so you’ve got a head start there too. At the same time, you have your own ISP, and you get a percentage of that. So it’s a closed-loop environment with all the basic Internet services provided—simple, comprehensive, profitable.”

“Well,” they said, “we hadn’t really thought about it in those terms, but yes, that’s exactly what we want! Would you mind repeating what you just said, a little slower this time so we can write it down?”

Somehow it had happened again. Compaq’s simple merger idea had become, in Winn’s fertile mind, the basis of a whole new paradigm. Craig took the floor and

proceeded to improvise. “Gentlemen, you’re all familiar with the Internet’s hot programming language, JAVA. I would like to propose “CAVA,” Compaq, AltaVista, and Value America, the world’s first comprehensive Internet solution. In it, the best companies are brought together to serve their customers. It would start with the computer hardware, from Compaq. Dedicated buttons on the keyboard would take people directly to AltaVista and Value America. But it doesn’t stop there.”

Craig now had them on the edges of their chairs. “Convergence technologies from the likes of AT&T should be built in. I recently spent some time with Michael Armstrong, the CEO of AT&T, at ‘Camelot,’ the Kennedy compound in Palm Beach. His plan to converge telephone, cable, cellular, and Internet technologies is perfect for this.

“An alliance with a top freight company would help too; UPS perhaps, or better yet, Federal Express. The company that delivers the product you buy, from the store we own, operating on the machines you build are all part of the same team—a giant electronic keiretsu.

“Each company spends hundreds of millions attracting new customers and even more retaining the ones they’ve got. Working together we’d reduce each company’s advertising expense, diminish churn, and pass some of the savings on to the customer. Everybody wins. Best of all, nobody has to do anything differently than they’re doing now. We just work together. Serving customers and improving their lives—that’s CAVA.”

Wow. You could see it on their faces. “A financial partner would also be valuable. CAVA should provide its own credit card and financing options. We could capitalize on our relationship with MBNA. Serving their customers would be a virtual gold mine. We’d know where to find them, know what they like, and know they have money—electronic money.”

As Craig wove the CAVA tapestry, a pattern began to emerge. His audience began to grasp the beauty of it all: a symbiotic alliance of companies, all doing what they did best, all working together to provide the ultimate Internet solution. The Compaq execs moved from interest to excitement, unable to scribble their notes fast enough to keep up. They asked Craig to write a proposal for CAVA.

Nate Gould, as enthusiastic as the others, spoke of Pfeiffer’s desire to take the newly merged company public at the end of the first quarter of ’99. AltaVista would be, according to Wall Street metrics, worth \$1.2 billion by that time. Craig, knowing there was little substance backing the valuation of this or any other Internet portal, told Nate that Value America would be worth the same amount. “I won’t quibble with you whether or not AltaVista is overpriced at \$1.2 billion, and you won’t quibble with me over a similar valuation for Value America. We’re worth the same,” Craig asserted. “Makes life easy. If Compaq wants to own us, the price is \$1.2 billion. I’ll write the business plan, manage the IPO, and do the road show, but that’s the price.”

“Sounds good,” Gould and the Compaq team responded. “We’ll set up a meeting between you and Pfeiffer early next week. But we’ve got to get the due diligence done now, over the weekend.” So for forty-eight blistering hours, they investigated everything one could imagine. Unlike Shopping.com, however, Value America was given a clean bill of health. So far, so good.

Gould arranged to pick up Craig and company at Charlottesville’s little airport in his own Citation 10 corporate jet—the only such machine capable of traveling near the speed

of sound. With Nate at the controls and Craig in the co-pilot's seat, the group flew to White Plains, New York, where they changed planes. This time it was an amphibious Cessna 208 Caravan on floats, which Nate landed flawlessly in the Hudson River. A limo picked them up at the dock and took them to Gould's office for a planning session.

Gould and team Value America soon found themselves headed for Texas, again in the Citation 10. The response to CAVA had been universally positive, but in the end, only Eckhart Pfeiffer's opinions carried any weight.

Craig found the Compaq CEO to be cold and overly structured, the worst sort of Germanic stereotype. He came to the conclusion that there was no way Pfeiffer's ego would allow a partnership. Pfeiffer was a dictator. Craig knew that as a dot-com company, CAVA could prevail only if it were free to move at the speed of the Internet. We would fail if we were tied to the directives of a huge, bureaucratic manufacturing entity like Compaq. Pfeiffer didn't buy it. CAVA was stillborn.

This wasn't Pfeiffer's first failed merger. Compaq exec's believed that the proposed Gateway-Compaq merger had been stymied for the same reason—Pfeiffer's suffocating style. The irony, however, was just beginning. Pfeiffer ended up spending \$200 million for Shopping.com, which was promptly disgraced for all sorts of SEC irregularities. Pfeiffer was fired as Compaq's CEO—the same week he was featured on the cover of a national business magazine as one of the best CEOs in America.

The eBay IPO succeeded, though its "failure" had been the primary justification for pulling our public offering off the playing field. But like the little engine that could, eBay persevered. The offering had been so grossly undervalued by its investment bankers, the price of their stock had skyrocketed in the first few days to four or five times the IPO price. This didn't do a thing for eBay's corporate finances, but it did wonders for the market. Dot-com frenzy was back.

"Let's go out now, Gordon," Craig pleaded. "The market's hot. We had a great third quarter, triple Q2. Let's do it on the strength of Q3!" He stopped short of whining besides, you promised.

Gordon said, "I'll see what I can arrange. Let's get Dale's input."

The phone grew heavy against Craig's ear. He must have been on hold for five minutes. This did not bode well. Finally a sheepish Gordon returned, this time with Dale. "No, I don't think we should go out now," chided a reluctant Dandridge. "You need to have another strong quarter or two. Then we'll see about taking you back out."

And how are we going to do that without money and with the stigma of a failed IPO hanging around our necks? Craig wanted to scream, but he somehow found a polite way to ask the question instead.

"I can't help you with that," Dale answered. "I need for you to get a couple more quarters under your belt. Then you'll have a proven track record. Nobody will be able to say it's too early. End of March, Craig." So much for his earlier promises. How did we get hooked up with this guy anyway?

"There's a problem with your theory, Dale," Craig countered. "Since the IPO cratered, we're on a shoestring budget. Sure, we've got promises of big money from Paul

Allen, but it's almost certain that our fourth quarter numbers are going to decrease, rather than increase—we just don't have the ad dollars to invest. I'm not an alchemist.”

As before, nothing he said mattered. We were on our own. Our allies had become our adversaries. It occurred to Craig for the fiftieth time that trying to get an IPO done with Robertson Stephens was like trying to get a hyperactive four-year-old to go to bed. It was more work than it should have been.

If we were going to survive without a timely IPO, the second Paul Allen round would have to be consummated. There was no way around it. And between Frank Flowers, Rafe Durn, Seth Rossi, and an army of lawyers, Vulcan Ventures couldn't exactly be counted on to operate like an automatic teller machine. Nor could Robbie Stevens be counted on to keep their word and raise private equity for us. Not in this millennium. Once again it looked like “do or die,” or at least “do or get severely pummeled.”

Fortunately, Paul Allen still wanted to follow through with his huge investment proposal—\$50 million, which would bring his total stake to \$65 million, not exactly pocket change, even for him. Frank Flowers passed Paul's sentiments along, stating their intention to fund the round quickly this time. We gathered a team to visit the Wizard again and bring him up to speed on our progress.

So it was that Joe Page and several of our top technologists accompanied Craig to Vulcan's headquarters. Allen appeared, as usual, slightly disheveled, the very picture of the stereotypical computer genius. As Joe reported on the current capabilities of the store, Allen found himself in the surrealistic position of not recognizing his own child. He had, after all, invented the Windows NT operating system we used. But Joe Page and friends had stretched it so far beyond its normal capacity, Paul found himself shaking his head and thinking NT can't do that.

The same was true for Microsoft's SQL Server, which Joe had also trained to perform unheard-of feats of daring-do. Value America, just six months after our first meeting with Paul, was processing over fifteen times more revenue through its proprietary commerce engine than we'd achieved during the first visit.

As incredulous as he was that our technologists had accomplished so much with so little, Paul came to the inescapable conclusion that we wouldn't be able to expand much further using the Windows-based system. We would have to make the expensive jump from NT to Unix, from Intel to RISC, from SQL to the dreaded Oracle. And Paul Allen's money would enable us to do that. Stranger things have happened, but not many.

As he had during the first investment round with Allen, Craig asked him to visit us in Charlottesville, advise us on our systems, and provide symbiotic access to some of his other holdings. Paul wanted to do all of these things but never got around to doing any of them.

But it was appropriate to ask Frank Flowers to serve on our board at this point, taking an active role in the guidance of the company. He agreed, but the “active role” part failed to materialize. Some things never change.

And the \$50 million investment? Patience!