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A Failure to Communicate

Being “made up,” is unnatural, yet that’s what was happening to Craig the day after the IPO. Makeup artists were brushing, powdering, and generally fussing all over him. Nikki Norton, the company’s new VP of Communications, had done her job. She had Craig booked on a series of newsmaker programs. Life had become a swirl, as unreal as the makeup itself.

The television appearances were produced remotely from studios in the nation’s capitol. The moment Craig and Nikki arrived at FOX’s, ABC’s, or CNN’s studio, they were immediately escorted into prep rooms. Studio executives briefed the pair on what to expect. All the while, Nikki grilled Craig with questions she thought the program’s host might ask. She praised the answers she liked and coached Craig on the ones she didn’t.

Without wasting a moment, Craig was led into a darkened studio. Someone switched on the lights, revealing a small stool strategically placed before a dramatic backdrop like a picture of Capitol Hill. A technician motioned for him to sit on the stool facing a robotic camera. An earpiece was placed in his right ear with its cable drawn down his back out of the camera’s view. Then the lights were switched off, except the ones above the camera, which were so bright all else disappeared. Each studio had all the warmth of a hospital operating room.

Craig sat there for what seemed like an eternity, not knowing if the camera was on or off. The shows’ hosts were already on the air, but he could neither see nor hear them. They were in another city, most often New York. As sounds began to enter his right ear, a voice would say, “Today, we have Mr. Craig Winn with us. His company, Value America, went public yesterday. It was one of the most successful IPOs ever. The price jumped to nearly five times the initial filing range. Mr. Winn, how does it feel to be a billionaire?”

“No different, really. My values haven’t changed—only the value of my company has. But as a result, we are able to fulfill our mission of bringing people and products together.”

“That’s great,” a faceless voice made itself heard through the earpiece. It was all so unnatural. “So what is Value America all about?”

Great, Craig thought, I’ve got twenty seconds to explain what it took three hundred people three years to build. “We use the power of the Internet to form an electronic conveyer-belt between factories and consumers, so we can sell the best for less. We produce informative multimedia product presentations so our customers can make better buying decisions. We’re comprehensive, selling everything from toasters to televisions.” Twenty seconds, Craig thought, keeping track of time in the recesses of his mind. I wonder if my answer is going to pass muster with Nikki? No time for that now. Remember to smile, he thought, as his right ear buzzed again.

“Paul Allen, Microsoft’s cofounder, is a backer, is he not?”

“Yes. Paul and I believe in using convergence to serve more people and to make technology less complicated. Convergence is the combination of the Internet with the telephone, television, and PCs. We use it to improve our customer service.”

“So consumers can call you up as well as shop online? Isn’t that a bit dated for an online store?”

“No. More people have phones than computers. Using the phone simply allows us to serve everybody. When people buy their Internet-enabled PCs from us, a whole new world awaits them.”

“How many hits does your online store get a day?” the voice asked.

“We don’t measure hits any more than Nordstrom counts how many people enter their stores. We believe e-tail is retail. We’re just down the hall—not down the street.”

“Well, that’s nice, Mr. Winn, but tell me. Are you disappointed that the stock fell from its high yesterday and opened lower again today?”

“No. The IPO was filed at fifteen dollars a share. We were delighted when the range was raised to twenty-one dollars, and even more pleased when it was priced at twenty-three. The fact that it’s well above that now is a good thing for our shareholders.”

“That was Craig Winn, chairman of Value America. Now….”

With that, the lights were switched back on, the earpiece was removed, and Craig and Nikki raced off to do it all again. All the while, Nikki told Craig where he had performed well, and constructively criticized his weaker answers. All in all, she was pleased, and told Craig so. “I was Press Secretary for the House Judiciary Committee during the Clinton impeachment hearings,” she said. “I served in the White House, too. But I’ve gotta tell you, you’re better in front of a camera than any of ’em. Although,” she added, “with practice, you can be better.”

Nikki was smart, connected, and charming. But it was her faith that got Craig’s attention. He was no stranger to religion. He’d been the youngest ordained ruling elder in the Presbyterian Church. He’d taught evangelism, led youth groups. But his faith had been all but crushed by the hypocrites who had ravaged Dynasty when she was down. Nikki’s honest, open faith reminded him that Christianity was a relationship, not a religion. Like Craig’s new friend Jerry Falwell, Nikki loved the world one person at a time.

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Reverend Falwell invited Craig and Nikki to accompany him to Austin to meet with then-Governor George W. Bush. On the trip down, Norton coaxed Falwell into sharing some insights into his remarkable life. He told stories about his childhood as a bootlegger’s son. Jerry had been a bad boy, wrecking his first car before he was old enough to drive. He, like Craig and the man they were going to visit, had been young and foolish when they were young enough to be foolish. They were all living examples of how God can transform lives, if only we are willing.

As they flew on, Falwell laughed about the Teletubby debacle. The media had broken a story claiming the conservative television evangelist was boycotting Teletubbies because he thought Tinky Winky was gay. There was little basis for the story; it was made up by some misguided jokester with the Associated Press. Falwell said, “When the story broke, the media had a field day with it. Reporters called me and asked, ‘How could you be against a children’s toy, against Teletubbies? Have you finally lost it?’” Jerry laughed, “I thought they were making fun of my weight. You know, I thought a

Teletubby was an overweight television evangelist. I didn't even know what Teletubbies were when the media was accusing me of being against them."

"You mean the media manufactured the story?" Craig asked. "It was just one reporter parroting what another had said until they'd said it so often the whole country thought you were off your rocker?"

"Pretty much," Jerry answered, as if it shouldn't have been a surprise. The only thing actually connecting Falwell to this silliness was a story someone else wrote in the Liberty Journal. And even it only quoted other mainstream media accounts. "You can't believe much of what you hear or read these days."

"How do you handle bogus attacks like that?" Craig queried. "I mean, they made up the story just to embarrass you!"

Jerry smiled, "Much of what the Bible says is counter to the direction my critics are trying to take America. I'm a thorn in their side. Any time I stub my toe, make a mistake, and I make my share, they're on me like ugly on a monkey. I learned long ago that my friends know that most of these attacks are rubbish, and my enemies won't believe anything I say in my defense anyway. It's the price I pay for being willing to stand up for what I believe. Truth is seldom reported."

The Governor's mansion in Austin is grand, befitting a state replete with cattle and oil barons. As the four approached its iron gates, a guard recognized Falwell and, knowing he was on the list, motioned the driver through. Moments later, they were greeted by Karl Rove, George W.'s campaign strategist. Rove's hair was thin, long, and stringy at the time; he somehow looked unkempt even in a suit. Fortunately, he displayed none of the bark of Clinton's Carville. He seemed content to stand behind his man, support him, out of the media's glare. He was a servant in the most noble sense of the word.

But there was still something that made Craig uneasy. Perhaps it was just Rove's role in the game of perceptions, the political game of positioning. Like "professional" corporate types, political strategists usually pursue two agendas for their candidates. The first is public, rich with buzzwords, reasoned and compassionate, confident and competent. The private agenda, however, for both career politicians and corporate managers, is often about fame and fortune, self promotion. Winn, by contrast, is a builder, a pragmatic idealist, motivated by ideas, and excited by their execution. He has little regard for the gamesmanship far too many professionals display, whether corporate or political. Yet with the media more interested in good stories than in good journalism, with caricatures more important than character, the Carvilles and the Roves are necessary. Their mastery of positioning is the essence of the game.

The press, Craig reflected, has made the messenger more important than the message. As a result, enlightened debate gets swallowed up in self-serving agendas. "If you can't debate the message, malign the messenger" has become the standard, albeit lethal, operating procedure in far too many boardrooms, caucus rooms, and pressrooms.

With those thoughts in Craig's mind, the Virginians were escorted into a cozy, traditionally decorated reception room just off the main hall. George W. Bush's nomination was still more than a year away. It was a year in which Craig would be approached by three of W.'s rivals for the Republican nomination. First, the Forbes family invited him to cruise with them aboard their magnificent yacht, the Highlander. Next he met with Senator McCain, in John's Washington office, and later for dinner in Craig's Charlottesville home. He got to know Congressman John Kasich as well.

Few politicians possess Bush's charm, Craig would quickly learn. One-on-one, W. is warm, focused, and charming—a superb conversationalist. He's a tall, lean, strong man, yet unafraid to show his soft side. His family and his faith are his first loves. When Craig asked him, "Why run for President?" W. answered, "Because I'm good with people. Presidents are defined by the crises that arise during their time in office. This is where I'm best. Give me a problem, and America can count on me to work out a solution." The answer was reminiscent of his father's presidency. The senior Bush was also good with people and great in times of crisis. Falwell loved him, too.

Craig asked, "What issue stirs your passions, Governor."

"Underprivileged children," he said. "Craig, I want to see the kind of technology you're working with benefit every child."

"I believe it can, but it's a struggle. Why is it, Governor, that politicians fight things that will really serve underprivileged children: business-sponsored programs designed to make technology more available, vouchers for school choice, performance-based pay for teachers, and school accountability?"

"It's because they count on unions for votes and financial support," Bush said. "Maybe my compassionate conservatism will change that. But tell me, Craig, how's this e-commerce thing you're doing going to impact our ability to pay for schools?"

"It's a problem," Craig answered. "Right now, online sales aren't usually taxed. But sales tax helps fund our schools. Our Governor, Jim Gilmore, is heading the President's Commission on Internet Taxation. I've been asked to testify before it. I'm also serving on the Governor's Technology Taskforce. Paying for schools and getting PCs into the hands of disenfranchised children is essential if we hope to prosper and grow together as a nation."

They talked for the better part of two hours about a host of things, including W.'s fraternity brother at Yale, Fred Smith. On the way out, Nikki shared that her good friend, David Kuo, had just turned down the job of press liaison for Governor Bush. She proposed a meeting. Craig agreed, little suspecting how the connection would later impact his life.

On the return trip, the weary travelers coaxed Reverend Falwell into sharing how the Moral Majority had been formed, and why it had faded into the recesses of history. Jerry said, "A few of my preacher friends and I went to California to see Ronald Reagan. We wanted him to run for President. He was reluctant," Jerry added, "until we shared our plan to quietly mobilize the American faithful, good and decent people, hard-working family folks, through their churches and temples. We told him that the majority of Americans were moral and that they deserved a moral leader. He said yes. So we went back to our churches and started to mobilize other pastors. Before we knew it, we'd helped elect a President. Ronald Reagan and I were very close."

"Why did the Moral Majority die?"

"It was supposed to be low profile, kept under the radar screen. When the media discovered us, they mischaracterized everything we were doing. What started off as a good thing turned sour."

They had hardly returned home when the good reverend called again. This time he invited Craig to have dinner with former Secretary of State Henry Kissinger. It would be an intimate affair, only four or five people, in a private dining room near Falwell's Listen America broadcasting studio. Kissinger had wanted to speak out against something

President Clinton was doing, but as a former Secretary of State, he had to be careful. He told Craig that he chose Jerry's show because he trusted Falwell, calling him the nation's best interviewer.

To spend an evening with Henry Kissinger is to brush up against greatness. When Craig asked, "Who would you like to see in the White House?" Kissinger answered without hesitation.

"John McCain. He is a hero." He paused and said, "Let me tell you a story. As a good-will gesture, the North Vietnamese were willing to release John from prison. They knew his father was Pacific Fleet Commander. I told them, 'No. First in, first out. It's the military way.' When the fighting was over, both John and his father came to my office and thanked me.

"He is a good man," Kissinger continued in his slow, deep, resonant voice. "He knows everything he needs to know to be a great President. More than ever, America needs to elect a man of good character."

"What do you think," Craig posed, "of the Texas Governor?"

"He, like his father, is a fine man. I think he'd make a good President. I'm only afraid he may be a little too sure of himself. He's assumed he's already won the nomination. I believe he needs to study the issues more thoroughly to be effective in the debates," said the voice of legend.

"What was Richard Nixon really like?"

"A genius. Tireless. We would discuss things until he was sure he knew all there was to know. Then he would instinctively see his opponent's weakness. He'd go right for the jugular. We made a good team."

"Besides Reagan, who contributed the most to freeing Eastern Europeans from the shackles of communism?" Falwell asked.

"Pope John Paul," the Jewish Kissinger answered.

"Do you believe in God, Dr. Kissinger? Do you pray?" Craig felt compelled to ask.

"Yes, and often, ever since I was a little boy." Smart men know who's in charge.

Following the Kissinger dinner, Falwell invited Craig to join him for another meal, this time in the Senate Caucus Room on Capitol Hill. Their host was the The Washington Times, owned in part by the controversial Reverend Sun Myung Moon. The newspaper had decided to honor Reverend Falwell and other statesmen by bestowing on them their lifetime achievement award. Reverend Moon considers himself a special emissary of God, which makes fundamentalist preachers like Jerry Falwell a little nervous. "As divergent as some of our views are," Dr. Falwell told Craig, "it's important that we avoid the media picturing Reverend Moon and me together. It could be used to imply an endorsement of his religious views."

The photo op never occurred, but it wasn't thirty seconds after Falwell's admonition that Craig and the pastor headed to the men's room. Three stalls, three people. Guess where Craig first met the Reverend Sun Myung Moon. Quite a picture.

Of course, the most popular newspaper in the nation's capital is The Washington Post, not The Times. Craig had occasion to meet its CEO too, under no less unusual circumstances. We had become frustrated with Charlottesville's local paper. Their coverage at the time was consistently negative, despite the fact we had created hundreds of jobs, had donated hundreds of thousands of dollars to local charities, and were now the community's largest source of tax revenues. Craig considered encouraging The Post to buy and manage the paper. So he wrote to Don Graham, Chairman and CEO of The Washington Post. Graham promptly called and scheduled a meeting.

It was interesting for a host of reasons. The first was Graham's self-deprecating stories about his service in Vietnam, a conflict of which the Post vehemently disapproved. Then the warm and charming Graham candidly admitted that many of his writers might go out of their way to condemn something that was owned by The Post just to appear impartial. It sounded to Craig like he was implying they'd mislead their readers if it served their interests.

Then there was the paper's most treasured trophy. With all of their Pulitzer Prizes, only one trophy graces the Post's executive conference room. It's the press plate for the day Nixon resigned. They are inordinately proud of their role in bringing down a President. Journalists often tell us more about themselves than they do about whomever they're condemning.

Overall, The Washington Post's coverage of Value America was decidedly slanted. The only positive story was one in which there was no story. The senior editors of The Post invited Craig in for lunch and collectively conducted a recorded interview. Rather than write a story based upon their discussion, they simply decided to print the interview, Q&A style. It began with a review of Craig's recent George W. Bush meeting. It specifically addressed the importance sales tax plays in funding our public schools. Craig was opposed to letting our children's education suffer as a result of sales tax not being collected online. To him, it was a question of placing the collective good over his own self-interest. Not the kind of thing you'd expect from a dot-com founder.

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Two things happened the following week that changed Craig's view of himself and his role in the world. First, Justin Caise called asking for two hours of Craig's time, without explanation. Around the old drop-leaf table, Justin talked about racism in America. He said, "Craig, I want you to run for Governor of Virginia, with the intention of ending racial inequality. I am politically connected. I can help make this happen. Only a conservative politician has a chance of ending racism. I believe you can do it."

Later that same week, he was asked by Virginia's Governor Gilmore to give the keynote address to his Technology Taskforce. Craig had given a thousand speeches and thought nothing of it. The venue was a giant tent. He began his talk by telling the crowd that the tent reminded him of old-time revival meetings. He said, "Because you all know how expensive building an Internet store can be, we'll be passing a collection plate. Please dig deep." Craig's talk was extemporaneous. It was scheduled to last thirty minutes; an hour later the audience was in a frenzy. They had laughed and cried. They had applauded so long, their hands hurt.

Nikki Norton jumped to her feet when it was over. "You were on fire! I've never seen anyone mesmerize a crowd the way you did today."

Word spread like wildfire. If there was a speech to be given, Winn was asked to give it. He soon found himself dining with Congressmen and Senators. He met the nation's top religious leaders, both black and white. The crowds grew larger, and the speeches became more frequent. But it wouldn't last. Nikki moved back to Washington to be closer to her fiancé. She introduced Craig to David Kuo, as promised, and David replaced her as VP of Communications for Value America.

It may not have been completely David's fault, but something got lost in the translation. David seemed bright enough. He had the contacts, too. He'd been around the horn, working over the past five years for the CIA, Ralph Reed of Christian Coalition fame, Bill Bennett's Empower America, Senator John Ashcroft, and even for his own charity, The American Compass. But both Craig's and Value America's public presence diminished precipitously immediately after David came on board.

David was connected to a group of religious power brokers in Washington called the United Brethren. Tom Morgan's spiritual advisor, Goose Godfrey, was also an active member. He was a former officer in the Reagan White House. Morgan told Craig on many occasions that Goose was his mentor, his "conscience." He said Goose was one of the most connected people in America, which wasn't suprising. They made a point of "ministering" to the rich and powerful.

In order to demonstrate his value to his next meal ticket, Goose invited Craig to Washington to meet with celebrities like news commentator Fred Barnes, and patriots like three-star General Mick Kicklighter and National Security Advisor Bud McFarlane. Goose told Craig that they had been invited to offer their input on the viability of him entering the public arena. But Godfrey had told his guests something entirely different, making Craig look like a fool when he talked of such things.

Setting a trap, purposely embarrassing folks, was something the Bretheren had mastered. The reasons they were interested in discrediting Winn would soon become as obvious as they were devious.

Godfrey was a glad-hander. He, like Kuo, loved to hug everyone in sight. He always had a series of syrupy platitudes ready to slather all over those with whom he was seeking favor. It was how he earned his living. "I love ya, bro, you know I'm praying for ya," he said with irritating repetition. Made Craig want to take a shower after each encounter.

None of this "positive reinforcement" came cheap. Morgan had "employed" Godfrey at US Office Products. And he did so again at Value America—to the tune of twenty grand a month. Morgan needed the constant reinforcement and praise that Godfrey was all too willing to lavish upon those who paid for his services. The Brethren—Godfrey, Morgan, and Kuo—soon began to cast a dark shadow across our company.

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These were heady days for Value America. The company was at the forefront of an economic revolution. Dot-com euphoria was permeating the national consciousness. The best and the brightest started making treks to Charlottesville. On one such occasion, Chief Executive magazine hosted a CEO Roundtable at Keswick Hall. Craig invited Fred Smith and Jerry Falwell. Morgan's Goose Godfrey invited his contacts, including General Kicklighter and Gerry Roche, CEO of one of the nation's leading executive recruitment firms. Whether Goose invited Newell/Rubbermaid's Vice Chairman, Wolf Schmitt, or just got to know him on this occasion, isn't certain, but it is certain that their relationship would later serve as a catalyst in a great corporate calamity.

As a result of the Chief Executive Conference, General Kicklighter resigned his leadership position in the Pentagon and started to work with Craig. The two bonded instantly, becoming a great team.

Favorable relationships were also formed between Fred Smith, the General, and Reverend Falwell this day. On Godfrey's recommendation, Gerry Roche and Sam White, another Godfrey ally, were asked to join Value America's prestigious board. White, an African-American businessman, had triumphed over racial prejudice in the deep south. A fine and descent man, he always remained loyal to his pal Godfrey.

With one exception, the board was now set. It included our co-founders, Craig Winn as Chairman and Rex Scatena as Vice Chairman. Justin Caise had become a board member as a result of the pass-the-hat "Angel" financing round he had helped make possible. Rafe Durn and Don Tarpin had come aboard because of covenants carved out in the Series A investment round. Frank Flowers had joined by virtue of Series B, and Fred Smith by way of Series C. Gerry Roche and Sam White "earned" their places by virtue of their friendship with the company's new highly paid spiritual advisor, Goose Godfrey. Not to be outdone, David Kuo encouraged his former employer, Bill Bennett, to join the "most illustrious board in dot-com history."

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Not long after Value America's picture-perfect IPO, the leader of the dot-com pack stumbled. Amazon announced its quarterly earnings, or lack thereof. Their poor performance sent shivers though the tech world. Amazon delayed their expectations of profitability two years beyond their already distant aspirations. Worse, Amazon's retail metrics looked dismal. Operational costs as a percentage of revenue were climbing, not falling. They started calling their portal deals "unproductive."

Jeff Bezos unveiled his new game plan, saying that Amazon will triple its marketing spending, showering the customer with gift certificates. This sounded suspiciously like our ValueDollars. We didn't mind; imitation is the sincerest form of flattery. They had already adopted our comprehensive strategy and announced they were emulating our offline advertising formula too.

Trying to put a positive spin on bad news, Bezos said, "Our new marketing push is designed to stay one step ahead of other Internet-commerce companies that are launching ad campaigns—everything is now a dot-com commercial." Then stealing another move from the Value America playbook he said, "Much of Amazon's ad blitz is to be focused on print, radio, and television rather than other Internet sites. Amazon might not renew its marketing tie-ins with heavily trafficked portals. The rates they are charging now are so high," he said, "we don't think these deals are effective." Bezos made the words Craig had spoken at the Goldman Sachs meeting, nearly two years before, sound downright prophetic. But there was more.

Following Amazon's conference call, The Wall Street Journal reported, "The company and its analysts came under some pressure from investors who have repeatedly seen their forecasts stretched out for when the company will reach profitability." But the press, analysts, and media continued to tout Amazon, as evidenced by The Journal's commentary: "Ever since Amazon went public in May 1997, investors have been highly tolerant of the company's growth-before-profits strategy, and the company's latest results did little to shake that." The fallout from Amazon's failures only impacted their less-popular online brethren—like Value America.

Amazon's conference call was flattering because they had come full circle and were now preaching what Craig had predicted. Yet it was also debilitating, by virtue of its depressing effect on the price of our stock, not theirs. But all of this was child's play compared to what came next. Bezos was reported in The Wall Street Journal to have said, "The company's gross margins will shrink by two to three percentage points, because Amazon has been spending heavily to expand our warehouses and we don't have full efficiencies there. Fulfilling customer orders may cost fourteen to fifteen percent of total revenue."

The fact that gross margins are totally unrelated to warehouse costs or efficiencies apparently bothered no one. What really made the Amazon release problematic was that neither The Journal, the business media at large, nor any of Wall Street's illustrious analysts even noticed the absurdity of these statements. It was at this very moment that Craig came to realize he was in terrible, terrible trouble. We had a failure to communicate.

The way accountants calculate gross margins is simple. One subtracts the cost of the things that have been sold from the sales price. Thus, the cost of expanding warehouses has nothing to do with gross margins, only with operating profits.

Craig asked his new CEO, Tom Morgan, to read the article. He didn't get it either. If there was anything Morgan should have known, having managed distribution companies, it was that operating costs do not affect gross margins. Now Craig recognized that his life's work, his dream, was embroiled in a game in which neither the manager of his team nor the game's umpires—Wall Street's analysts—even understood the rules.

This was troubling because the centerpiece of our strategy to bring consumers and brands together was the replacing of distribution centers with technology, and inventory with systems. If Wall Street was clueless in this regard, our merits were beyond their comprehension.

The satisfaction of knowing he'd been right did little to make Craig feel better. Even when the media, Wall Street, and investors were told by Amazon, the most sacred of their cows, "fulfilling customer orders may cost fourteen to fifteen percent of total revenue," they still didn't get it. Craig knew, and had said, that Amazon's commitment to warehouses and inventory would be their undoing, but those shaping the public discourse remained oblivious.

There was another problem brewing, and it was related to the first. Announcing good news in the face of a bad market is futile. Craig had known for five long weeks that our Q1 sales were off the chart. All our retail metrics were better than expected, and all were headed in the right direction. During the road show, Robertson Stephens had presented VUSA's financial model to each investor, predicting $21.4 million in revenue in Q1.

Beating a projection by five percent is considered good; ten percent is great. Value America beat its first quarter numbers by thirty percent. With news this spectacular, the stock should have soared. But instead, it fell.

The explanations the analysts gave were truly lame. They said Amazon's postponement of profitability had caused the sector to be viewed less favorably. The reasoning was that if they, Amazon, with their superlative model, gargantuan scale, and tremendous popularity, couldn't figure it out, no one could. It must have been mad cow disease.

One early message posted on VUSA's Yahoo Message Board said it all, "5/3/99 at 7:38 pm—Message Number 40: How come VUSA is plummeting with an upgrade?" He was referring to Dale Dandridge's report:

> Revenues reflected an increase in customers, repeat buyers, and demand for increased product offerings. Value America ended Q1 with approximately 300,000 customers, up from just under 200,000 at the end of Q4:98. Based upon these results, we are raising our F1999 revenue estimate to $165 million. We are encouraged by the acceleration of revenue growth, which demonstrates the effectiveness of brand advertising and the attractiveness of the merchandising formula.
>
> We believe Value America has built the right balance of price and fulfillment and is defining the value segment of the Web. Value America continues to ship over 90% of its orders within 24 hours. We believe the firm can scale to be one of the few big Web commerce destinations. We look to news of new branded products, affiliate partners, and growth to continue to move the stock higher.

But it didn't. The fact that the stock went down in the face of great news was inconceivable. Charlottesville, we have a problem.

Craig Winn and Value America were now on a collision course with destiny. Corporately, Craig had to choose between probable death and certain death. Personally, he had to choose between self-enrichment and the collective good of our team, company, and cause. If he did nothing, our company would fall victim to Wall Street's misguided illusions. Craig, however, would soon be free to sell his shares. At the time, they were worth over $650 million. If Craig spoke out, he would be the bearer of bad news. He knew all too well what those in power do when they're threatened, especially in the pocketbook. They nail the messenger.

Two thousand years ago, on a considerably more important issue—the fate of our tarnished souls—they crucified a Messenger when He was perceived to have threatened the wealth and power of the establishment. Today the powerful are more civil. They just ridicule them, demean their intentions, and malign their character. Craig knew Morgan wasn't up to the challenge—he didn't even understand the game. So Craig volunteered to face the critics alone. The choice was good but bad, right but wrong, all at the same time.

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As early as their first interview sessions in February, Rex Scatena, Craig Winn, and Tom Morgan had discussed the obvious. Under the best circumstances, it takes a new CEO four to six months to come up to speed on a new company and become productive. That assumes the company is not inventing their industry as they go, building proprietary tools to sustain their business, and growing faster in one quarter than most companies do in five years. It also assumes the new CEO is bright and focused upon learning everything there is to know about the business.

Sadly, Morgan was not. But for better or worse, he was their guy, so Rex and Craig were committed to helping him. They tried to compensate for Tom's weaknesses by creating a scenario in which he could succeed. As a result, a division-of-labor strategy was formulated, recognizing Tom's need to focus his energies on the operations and management of the company. Craig would be the lightning rod, shouldering the burden of presenting the merits of our firm to investors and the media. Craig, it was agreed, would be Mr. Outside. He would form relationships with brands, and with Rex, build Demand Alliances with great institutions.

Tom would be Mr. Inside. The founders agreed to counsel him privately in their spare time about the nature of retail, explaining how Value America's model was designed to serve consumers by empowering brands. They would teach Tom the ins and outs of advertising, the Internet, technology, sales, and the implications of convergence. They would explain the business plan and share how it had been used to attract bright people, inspire them, and cause those who read it to manage their area of responsibility in harmony with the company's mission.

The founders recognized early on that the strength of their personalities would suffocate Tom's in any meeting they attended together. So they told him that they would not attend any of his management meetings, nor would they hold any of their own. Inside, Tom would sink or swim on his own merits.

The teach-ins never occurred. No matter how many times Craig and Rex offered to share their expertise, Tom, once empowered, rebuffed them. So much for the best-laid plans of mice and men. For reasons unknown to anyone, Tom chose not to avail himself of the opportunity to learn anything about retail, advertising, brand objectives, technology, or the value of Demand Alliances. On the contrary, during his very first weeks, Morgan began telling folks like John Motley, Byron Peters, Andy Rod, and Goose Godfrey that Winn and Scatena had to go. "It's my company now," he said behind their backs. The era of political maneuvering had begun.

Corporations, like nature, abhor a vacuum. The founders' departure from management left a black hole. To fill the void, the "come latelies" began to assemble their teams. While hiring Dorchak had obviously been wrong, hiring Morgan to replace her was a fatally flawed strategy. Individually, they would have been impotent. Corporate impotence is less than desirable, of course, but it's far better than paying people to be destructive. That, sadly, is precisely what happened.

In the eight months following the IPO, Morgan and Dorchak more than tripled the size of Value America, inflating our overhead eight fold! They hired 350 new employees, brought in 100 consultants, and employed 225 full-time contract workers—at a combined annualized cost of over $80 million. Too many of these individuals, especially the officers, mirrored the corporate morality of those who had hired them. After three years of extreme poverty and enforced frugality, the tide had turned. Those who hadn't struggled to raise capital evidently had no appreciation of its worth.

Glenda's Gang was in place first. She just needed to mobilize her vast army and make certain they were properly incentivized—linking their actions to her ambitions. This group was replete with former IBMers and assorted retreads from the PC world. They had their own language, culture, and way of doing things. They were experts at the game of positioning, politics, perceptions, and process. Pursuing the four "Ps" consumed their time. They were good at shirking responsibility and passing blame. And thanks in good measure to Dorchak's willingness to part with the company's money, their ineptitude was richly rewarded, making them dependent on her. Such favors, of course, came at a price. The devil would eventually collect her due.

Professional managers, like professional politicians, fall into one of five categories. Some are just plain evil. Adolf Hitler and Glenda Dorchak are examples in the political and corporate worlds. While the end results of their behavior were wholly dissimilar, some of their methods were comparable. Both, it turns out, were able to manipulate a small loyal following, deceive the establishment, and connive their way into power. They talked a good game and told people what they wanted to hear, but down deep they were bad apples, rotten to the core.

Some professional managers are hypocrites; they're sanctimonious, making them considerably harder to spot. Unlike the bad guys in classic westerns, they don't wear black hats. Hypocrites are masters at self-serving deceptions, prospering at the expense of others. They often prevail by projecting their weaknesses onto their opponents. They routinely mischaracterize their adversaries' achievements and personally take credit for whatever they cannot condemn. Bill Clinton, for example, demeaned the character of those who conceived the Contract with America. He fought against its implementation, yet when running for re-election he took full credit for all of the positive things the Contract had accomplished. Sanctimonious and self-righteous, our own Tom Morgan would prove to be the poster child for the hypocritical corporate manager.

The third type of corporate or political professional provides the power base necessary for their more evil and hypocritical comrades. They're mercenaries. Politically they're represented by the likes of Hitler's Joseph Goebbels. Corporately they are personified by our Goose Godfrey. They'll fight anybody's battle as long as the reward is high enough. Mercenaries lie, cheat, steal, and slander, without conscience, all in the name of the almighty dollar. Often failing at their jobs, they have the four "Ps" down pat. But, they, like killer bees, are impotent acting alone.

The fourth type of professional manager is the garden-variety incompetent buffoon. They're often likeable, but they provide little actual value for their wages. Unfortunately, they all too quickly align themselves with their more evil, hypocritical, and mercenary brethren. They go with the flow. Rather than stand up and fight evil, they become evil's unwitting accomplices. Sprinkle a little money and position their way, and those willing to misbehave can count on these folks to say and do pretty much anything they desire.

Fortunately, the base of the "professional" pyramid—politically and corporately—is composed of honest, hard-working, competent people. Were they not more numerous than the rest, America would have imploded long ago. They are builders, willing to do whatever it takes to make their company or country better. Builders routinely make personal sacrifices to promote the greater good. They don't much care who gets the credit; they just want to get the job done. They're motivated to do the right things for the right reasons. Most of the first fifty or so people who joined Value America's retail revolution were builders. Joe Page and Bill Hunt are names that come readily to mind.

When good people fail to unite and fight against the machinations of the evil, hypocritical, mercenary, and incompetent elements around them, all is lost. The good works and noble ambitions of the many are all too often recklessly destroyed and unjustly tarnished by the few. Progress is thwarted by process. Perceptions taint reality. Politics and positioning promote a cult of self-promotion and self-preservation. Simply stated, bad things happen when good people fail to stand up.

But enough preaching. Back to our story.

With Glenda's Gang formed, Tom was not about to be outdone. Thanks to the hard work of others, there was now plenty of money to spread around. So Morgan brought in his own group of loyalists. First was Tom Starnes, late of USOP, Morgan's old firm. He was asked to manage Business Development, the formation of outside relationships. This meant that Craig and Rex would now have to work through Tom's most loyal, dense, and unproductive minion as they endeavored to form productive alliances. It was like asking Dale Carnegie to work through Forrest Gump.

With Winn and Scatena handcuffed outside, Morgan focused inside, on operations. He recruited his friend Cliff Chambers, formerly a VP of Operations for NAPA. The fact that there were already two people doing the job Cliff had been hired to do didn't seem to bother Mr. Morgan. Maybe it was the reason Tom needed Cliff. After all, Byron Peters from Price Costco, Craig's friend, had been hired as Chief Operating Officer, and Ralph Murphy, Glenda's friend from IBM, was SVP of Operations. Their loyalties were at aligned elsewhere.

Morgan relished the thought that two of Value America's board members, thanks to his mentor, Goose Godfrey, were in his pocket. But that wasn't enough. Through Godfrey's United Brethren in Washington, he bonded with David Kuo, and then recruited Kuo's wife, Kim, to be his SVP of Investor Relations. He also hired Kim's sister as his personal assistant, and then hired her husband for Business Development.

We who had been around since the beginning merely kept our heads down and continued to work. That was how we had built the firm to the point that we could attract and pay the "professionals" in the first place. We didn't care about titles. Productivity, not popularity, meant everything to us. We didn't take sides; we thought we were all on the same side.

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Craig was too focused on correcting Wall Street's misconceptions to get involved in these political games. He was, in fact, to our detriment, oblivious. Mr. See-the-best-in-everybody was blind to the dark corporate drama that was beginning to unfold. He had a plethora of outside issues to distract him. The problems we faced were now far worse than those he had encountered at Goldman Sachs. Companies were valued on ever more absurd criteria, like a cute name.

Wall Street's obsession with popularity prompted Winn to battle another illusion. Companies like Buy.com began selling goods below cost. While that might sound fine, especially if you're a consumer, it was the worst thing that could possibly happen. The media and investors alike touted the idea, suggesting that the e-tailer with the lowest price was the best managed, as if it took brains to give stuff away. Not only was Buy.com's practice unsustainable, which meant it was in no one's interest long term, it gave our whole industry a black eye. Although Buy.com's damage was inflicted only on brands they could buy through distributors, their bad example caused many great brands to back away from partnering with anyone online, for we were all tarred with the same brush.

Selling quarters for dimes made the registers ring, but it devalued our complex and synergistic strategy, our retail revolution, the power of Value America's brand-centric, presentation-rich model. The Street's willingness to reward ill-gotten revenue gains with an abundance of cheap capital was devastating; it made our metrics and value proposition seem less worthy. In a world enamored with illusions, it was one more dragon begging to be slain.

A lucid Fortune magazine editor reported the anomaly this way: "In a world where Wall Street seems to value revenues and growth more than profits, the ultimate business would be to create a website that sells dollars for 85 cents. As the argument went, you could always make up the difference through ad revenues. Today, Buy.com is doing just that, selling consumer products below cost with the hope of making up the deficit through advertising."

The story went on to say, "Of course, revenues may not be the proper metric for measuring the success of a company with negative gross margins. If all you were interested in was revenue growth, you could sell a commodity like oil below cost and probably hit $1 billion in your first year. It's easy to be skeptical of the seemingly crazy new model…. Capital is the natural limit to a business in which you lose money on every sale. However, the company has raised $60 million from Softbank, the Japanese conglomerate that backed Yahoo!"

With all of this weighing heavily on Craig's mind, he was called to New York for a series of meetings. The first was with Tim Forbes, COO of Fortune's competitor, Forbes Magazine. Mick Kicklighter was now part of the team and traveled with Craig. The two discovered that the reason behind his invitation was curiosity. Tim Forbes had seen his world, the world of traditional business, turn green with envy over the upstarts, the dot-coms. Yet neither he nor his magazine were fans of those who were winning the popularity contest. In 1999 Forbes wrote, "Amazon fancies itself the future WalMart, the king of retailing. Don't bet on it. At the rate it burns through money, it will be out in less than three years. Amazon needs Wall Street as a source of cheap capital. If the company hiccups, the trance will be broken. Bezos needs to use his stock like currency to retain his hold on fickle Internet-generation managers and analysts…."

Tim Forbes told Craig and Mick, "You have the first online model that makes any sense. You're obviously playing by a different set of rules. I just wanted my team to meet you." Uncomfortable with the flattery, Craig diverted the conversation to forming partnerships like building a custom Forbes Business Marketplace appropriately called "Capitalist Tools."

With a couple of hours free between meetings, the retired General and our charismatic founder took a walk through New York's Central Park. As they strolled, Craig found a deserted bench at the edge of a large pond. It was a magnificent day. The azaleas and dogwoods were still in bloom. Inspired, Craig said, "We're faced with a difficult task. We need to teach the unteachable, and what we have to tell them is counter to the very illusions that are sustaining them."

Mick, after forty years of serving our nation in and out of uniform, knew little about business and nothing about retail. Yet he was great at sizing up the battlefield and formulating plans to correctly address reality. That made him the perfect sounding board. If Craig could explain to Mick, a retail novice, what was wrong with the way dot-coms were being managed and evaluated, he could explain it to Internet investors, analysts, and the media. They, as a group, knew just as little. Yet differences of experience and character would make teaching the latter more difficult than the former. Investment portfolio managers and tech analysts were mostly young hotshots in their twenties, lacking experience and the character experience brings.

"Mick, if you were trying to predict what a company, or any organization for that matter, might achieve, what tool would you use?"

"History," Mick responded. "As Solomon said, 'There's nothing new under the sun. That which is, has been.'"

"The best predictor of future performance is past performance. So since e-tail has no past, what should we use as our yardstick to measure the past and predict the future?"

"Retail." Mick stated the obvious: "It's the closest thing to e-tail."

"Right. We must convince analysts and the media that e-tail's retail."

"Sounds simple enough," Mick added casually as he watched a pair of ducks gracefully glide into the pond in front of them.

"But since retail isn't simple, how do we go about teaching it to the young know-it-alls and correlating it to e-tail?"

"You can't go wrong with a story. Do you have an example of something they're likely to know, relate to, that can bridge the gap?"

"I do." Craig nodded.

Mick, displaying the leadership skills that made him an outstanding General said, "Okay. Before you tell me your story, tell me specifically what you want your audience to understand."

"A couple of things," Craig answered. "First, that e-tail is retail. The best predictor of retail success is distribution efficiency. If they understand the importance of minimizing inventory cost, there's hope. But Mick," Craig said, "there's a lot more at stake here than Value America. The manufacture and sale of consumer products and services represents sixty-five percent of our GNP. It's the engine that fuels our economy. The engine's future is e-tail. If it crashes, we all lose."

"You're right. What's your second point?"

"I want them to appreciate the importance of forming partnerships—demand and supply alliances. It's the promised land of e-commerce. In a nutshell, Mick, I want analysts, investors, and the media to realize that most of their perceptions regarding our world are errant. Just because it's prevailing wisdom, that doesn't mean it's wise."

"And you think you can do all that in twenty minutes with some stories?" Mick asked, breaking into a good-natured chuckle.

"I'll share my stories, and you be the judge."

"Shoot," Mick said, enjoying the moment. Shoot was probably his favorite word. He was trained as an Army artillery specialist.

"Okay, Mick, pretend you're an analyst or investor in the audience at the upcoming Robertson Stephens Internet Conference. With that, Craig stood up, right there in Central Park, with his back to the pond. He began pulling words out of the fresh spring air…. "It is an honor to be here. If, as some have said, the collection of minds building technology companies is rivaled only by those in rural Virginia during the late eighteenth century, this conference is an amazing assemblage."

The words flowed with a natural rhythm. Craig's eyes twinkled; his smile was confident and disarming. "The last time I spoke here was just prior to our IPO. My talk was backed by a multimedia show and was perhaps more presentation than communication. Today's discussion will be different. In the teeth of this turbulent market, it's time to return to basics and focus upon what we know to be true—that e-tail is retail!" Craig stopped momentarily and asked, "Okay so far?"

"Sure," Mick said, "but cut out the part about your presentation not communicating. It did a fine job."

"Okay," Craig answered. "Today I shall endeavor to challenge your perceptions and perhaps inspire a new appreciation for the ultimate potential of the Internet and e-commerce. But before we begin, we must clear away some debris—the misperceptions that all too often accompany the formation of new opportunities." He paused. "Still with me, Mick?"

"Side by side."

In Craig's mind's eye, he visualized himself speaking in front of a skeptical audience. "I would like to share a couple of examples so I might earn the credibility needed to challenge today's misconceptions. Not too long ago, the perception was that WalMart would never successfully emerge from small-town America. In cities, it was thought, Sears and others would teach the Bentonville boys new lessons. But Walton's model was not about retail; it was about distribution. Unlike his larger competitors, it was about pull, not push. Sam improved upon Sol Price's FedMart, employing MacArthur's strategy of attacking where the enemy was weak. He was poorly understood, and his company remained under-valued. Then one day, America awoke, and WalMart was everywhere." Craig held up a finger indicating that that had been story number one.

"Not too long ago, the prevailing wisdom was that an upstart computer company named after its founder would falter in corporate America, especially when fighting Goliath. Big Blue was the darling of Wall Street, the undisputed technology leader. But Michael Dell recognized it wasn't about technology, it was about distribution. He eliminated the channel and constrained the supply chain. His model did not find favor with Wall Street until one morning, America awoke and Dell was everywhere, from Main Street to Wall Street. Prevailing wisdom was wrong." With a second finger held aloft, Craig asked Mick if he understood the comparisons.

"Your idea to start on common ground is solid. They should understand these examples."

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A week or so passed, and Craig, along with other Value Americans, found themselves on the other side of the country. He was scheduled to speak at Robertson Stephens' Internet Conference in San Francisco. Unfortunately, this time the crowd was not particularly large. Amazon's first-quarter announcement had taken its toll on all things dot-com. To make matters worse, the prior speaker had run long, so Craig's prepared twenty-minute presentation would have to be shortened on the fly. Worse still, Dale Dandridge, Robertson's famed dot-com analyst, was too busy to either introduce Craig or listen to what he had to say.

A frustrated Winn began his speech with an abbreviated version of the words he had rehearsed with Mick in Central Park. Then he continued, saying, "Today, I believe much of the prevailing wisdom concerning the online retail world is errant. Some examples are: brick and mortar retailers with their buying clout, distribution, and brand names will dominate online. Second, inventory is an asset and is required to satisfy customers. And third, brands will simply go direct and bypass e-tailers like Value America.

"We salute WalMart. They are the undisputed masters of brick and mortar. But their three-year-old online store, designed by Microsoft, has been a self-proclaimed failure. Now they've hired different consultants to construct a new and improved version, so many consultants the list looks like the legal section of the New York Yellow Pages. And wouldn't you know it, once again the prevailing wisdom has it that they will dominate online. Yet every asset that drives their success in one realm is a liability in the other."

The media covered the reemergence of WalMart's Internet store like it was the second coming. Following Amazon's dismal Q1 announcement, they jumped to the conclusion that only traditional retailers, "bricks and clicks," would prevail online. For giggles, one even ranked the "Most Popular Web Retailers" by "Unique Audience" and "Average Duration of Visit."

Craig pressed on, trying to slay this dragon. "In their realm, WalMart's stores create a nexus requiring the collection of sales tax in every state, often an eight-percent disadvantage. Inventory is held at the retail price, devaluing their principal asset when goods are sold competitively online. Their product-mix and brand-image appeal to a customer demographic significantly below today's online shopper. Even WalMart's superior distribution is a liability online, which is why they don't use it. Meanwhile, Value America's inventory-less model does for the online world what WalMart's distribution once did for their world.

"WalMart recognizes that they must sell online, for it is the future. Yet, one world devalues the other. For one to grow, the other must be diminished." As predicted, this new incarnation of WalMart was disbanded, as was the next. But being right was now unimportant. Delusions were far more seductive.

Alternating glances between his notes and the audience, Craig attacked the inventory heresy. "Our largest online competitor recently postponed profitability another two years—seven years from inception—while they build warehouses and fill them with inventory. Yet our operational costs continue to decrease as a percentage of sales. Not only are we growing faster, we actually manage to satisfy customers without inventory. We have empowered ninety-five percent of our brand partners to ship our customers' orders within one day using our proprietary electronic fulfillment solutions." Incredibly, Amazon's admission that managing inventory actually cost fifteen percent, in a realm that averaged just twenty percent gross margin, didn't matter.

"Sure, brands envy Dell's direct model, especially as retailers become more abusive. But less than one percent will risk it all to compete against their existing customers.… And why should a brand build and promote its own costly e-tail solution when Value America is willing to give them one that's in complete harmony with its objectives. If this were not true, it begs the question: Why did the senior executives of over 2,000 brands decide to partner with us?" Hello! Please wake up, Craig thought as he mortally wounded another dragon. You'd think that in a world enamored with popularity, relationships would be meaningful, but the correlation escaped the judges.

The media was convinced that every brand ought to be able to sidestep retail and sell to consumers directly. The fact that only one in a thousand had the scale, resources, or will to do it escaped them.

“Last month, one of our board members, one of the most respected businessmen in America, Fred Smith, founder of Federal Express, said he was convinced Value America would, not just could, ‘become the WalMart of e-commerce.’” The idea for Craig’s attack on “prevailing wisdom” had actually come from Fred Smith. Some of the examples he stated, the comparisons he drew, as well as his conclusions, had been borrowed from the speech Fred had given at the Chief Executive Conference.

“Let’s discuss brands, for they are the bright center of the retail universe. No one comes to a retail store to buy the store. They come to buy branded products. Value America has the most brands. That’s one of our competitive advantages. We have forged strategic alliances with over two thousand of the world’s top brands, enabling factory-direct, authorized, and supported sales. We have linked production and consumption, supply and demand. We use technology to eliminate inventory costs, and expedite delivery. It is that simple, and it is that profound.

“We have earned unparalleled brand support by giving brands what they want: broader distribution, customer intimacy, greater efficiency, and compelling product presentations. Wolf Schmitt, the vice chairman of Newell/Rubbermaid, said, ‘Value America’s brand-centric solution is exactly what every brand knows they need, but cannot achieve alone.’”

In any time other than one besieged by grand delusions, every point Craig made would have resonated with his audience. The value of our company would have risen, giving us—giving our whole industry—the time we needed to grow and prosper. We had the right solution at the wrong time. No one listened. No one thought. No one seemed to care.

“Value America’s solution is friction-free commerce. We have built the first automated, electronic, paperless commerce link between consumer and supplier. Without inventory, stores, or warehouses, we operate with astounding efficiency. We believe our total overhead at scale will eventually be one-fifth that of the best regular retailer, and one-third the overhead needed to support a warehousing online model.”

At this point, Craig explained the seven ways Value America served our customers, including setting the right example by donating one percent of every sale to charity. In the minutes he had remaining, he said, “We have created a means to efficiently mass-replicate ourselves in any image. That means we can build custom marketplaces for the way Americans congregate. Custom marketplaces are specially designed to raise money for, and communicate the mission of, charities, schools, religious groups, associations, and unions. These organizations encourage their supporters, patrons, customers, and members to support their custom marketplace through direct mail campaigns using their contact lists.

“Studies reveal we are eighty percent more likely to purchase from an organization that supports something we support. By direct marketing to these highly motivated shoppers, we can radically decrease advertising and increase sales. Value America’s proprietary, customizable, convergence-based solution makes it possible. And our brand-centric inventory-less model makes it profitable. Good for you, good for brands, good for us, and good for America. The sponsoring organization earns a percentage of each sale, consumers get the satisfaction of knowing they’re supporting a cause they care about, and we get to reduce our advertising costs as a percentage of revenue. It’s a win-win-win value proposition. Our Demand Alliances enable us to do well by doing good.”

Craig had just announced that we had found the Promised Land of e-business, and that it was flowing with milk and honey. We were the first to electronically link supply and demand. Nobody got it. The news went in one ear and out the other. You say you found a cure for cancer? That's nice.

"In this regard, Value America will unveil a revolutionary capability later this month," Craig continued, sensing the audience's apathy and feeling the energy drain out of him. "We will begin selling computers with Internet access to those who have neither credit nor credit cards. This initiative will empower our Demand Alliances and make their custom stores more effective. Those who have been disenfranchised will get the technology they need to close the widening gap that separates the haves from the have-nots—together we'll be closing the digital divide!"

Craig demonstrated the store and then took direct aim at the silliness of Wall Street's popularity-based metrics. He attempted to slay the myth that no e-tailer would ever profit, and reinforced his theme that e-tail was retail. "Today, we're encouraging a more enlightened debate. Let me share a couple of examples of why this is important. Take customer acquisition cost as a matrix. This is not a retail concept. In retail, which is what B-to-C is, the right metric is advertising-to-revenue. Acquisition cost is incomplete; it has little value unless you know how much customers buy. Is a ten dollar customer acquisition better than a hundred? Not if the ten dollars generated a twenty dollar sale and the hundred dollars produced a five hundred dollar purchase.

"We must also look at retail life cycles. New stores are introduced, they are built, they develop, and mature. Younger stores use price to change peoples' buying behavior and then use service to retain their patronage. Retailers, on and offline, launch with low margins to gain traction and gradually elevate their margins over time.… Thus most retail chains lose money in their first five years only to profit, as we will profit, when scale is achieved, when the shift is made from changing buying behavior to serving an established customer base." By connecting retail to e-tail, Winn was proclaiming reality to those intoxicated by the mass hallucination that had propelled the online world. But his words only angered this audience. Reality was uncomfortable. One investor compared Craig to "a TV evangelist" in a message he anonymously posted on VUSA's boards.

"Along these same lines, a recent and puzzling incomplete thought is gross margin without context." Although Craig didn't say it, the audience knew he was alluding to Goldman Sachs' recent attempt to justify Amazon's superiority. "Is a twenty percent margin better than ten percent? If gross margin without regard for the operational costs needed to consummate the sale were the principal matrix for valuation, catalogers, at sixty percent initial markup, should be the most highly valued of all retailers. If we follow this reckless logic, devoid of context, we would encourage Amazon not to stop at the expense of warehousing and inventory. Why not write and print the books as well? That would make their gross margins even greater. The added costs to write, publish, and promote would be unimportant, we are told.

"Well, they are important, and it is important to recognize that e-tailing is retailing, not rocket science. Results are predictable, especially if we use retail metrics like brand relationships, EDI implementation, turn, margins linked to operating costs, overhead as a declining percentage of revenue, and promotional costs net of coop, tied to sales.

“Folks, let’s be serious. Do you think you’re going to read in the next Nordstrom’s annual report that they were ‘popular?’ Are they going to let us know how many people entered their stores (hits), how long they stayed (stickiness), how many shelves they looked at (page views)? No! Virtual or not, we live and work in the real world.”

Finally, Craig drew from his past in trying to shape the future. “When you study the history of retail revolutions capable of changing the way America buys and sells, you come to recognize that superior distribution drives consumer value and corporate success. This is where Value America is most different, and we think, best. We have built the only brand-centric, automated, electronic link between people and products, linking production and consumption. It is a magnificent achievement.”

The red lights flashed. Craig’s allotted slot, one already shortened to fifteen minutes, ended with these words, “I like our model, believe in our people, and trust our brands. I believe that one day, America will awake and Value America will be everywhere. Until that day, we are dedicated to building a better company—to serving our customers by supporting our brand partners. By doing these things well, we shall grow, profit, and build shareholder value. This is a marathon, comprised of endless sprints. We believe we are building an extraordinary business and would be proud to have you share in our success.” There was a smattering of polite applause as the under-whelmed investors scurried out of the room to resume their frantic lives. They hadn’t gotten it. Craig had failed.

He gave the same speech to participants of Volpe Brown’s Internet conference a couple of weeks later. It would be the last time he would talk to investors on Value America’s behalf. The young portfolio managers in the audience were hostile, as was Volpe’s new Internet analyst. They loved their popularity-based metrics. They thought Winn’s view of the online world was heresy. Their view, even if it was a mirage, had made them a lot of money. And that, after all, was the whole idea.

They were incensed that someone had the gall to challenge the sanctity of their metrics. Their egos chaffed against his passion. They despised being taught. They were the top of the food chain. Nobody had the right to tell them anything. This rebel had to be dispatched, for if he were right, they were wrong—as phoney as the value of their over-inflated shares.

Some may assume that our decision to go public was a tacit endorsement of Wall Street’s ill-fated metrics, implying that we, like all other dot-coms, deserved our fate. But was there really a choice? Building an enterprise requires capital. It’s not optional. Investors don’t fund businesses out of the goodness of their hearts. They need an exit strategy, either a public offering or the sale of the company. Accepting one necessitates the other.

Public offerings, as well as corporate mergers and acquisitions, require investment bankers. One may like gardeners or mechanics better, but that doesn’t make them a viable option. Bankers work for a fee. Sending them flowers and slathering them with praise is all very nice, but it isn’t enough. When you play on their field with their ball, you play by their rules.

Winn had simply wanted to fix retail for the sake of both buyers and sellers. He wanted to leave America a little better off for the experience. He never backed away from any of the core concepts that drove our desire to bring people and products together, to do well by doing good. Craig believed the power of his ideas combined with the soundness of our execution would ultimately awaken Wall Street. He was wrong.

By speaking out, Craig had made himself persona non grata with the left-coast investment community. It didn't take long for word to reach Fred Smith. Fred counseled him, once again sharing how he believed the two were cut from the same cloth. He explained his own reluctance to address investors, even on behalf of FDX. He observed, "You and I are too much for these people to handle. They're intimidated by us and misinterpret our passion and enthusiasm. They think we're trying to mislead them. Do what I do, Craig," Fred concluded. "Let someone else talk to the Street." Someone less qualified was the implication.

Craig followed Fred's advice. Rather than fight on, he capitulated. He recognized the cause was lost. The audience was too jaded, too set in their ways, too deceived by their own collective hallucination to trouble themselves with the truth. By speaking out, he had destroyed his reputation, and he knew it. He lost his confidence, lost his will to fight, and, uncharacteristically, gave up. Wall Street would henceforth be the domain of Tom Morgan, Dean Johnson, Glenda Dorchak, and Kim Kuo. But for reasons entirely their own, they would fare far worse.