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Weaving a Wicked Web

Summer's sultry grip had descended upon the small southern town of Charlottesville. The air grew hot and heavy. Despite the weather, these should have been the best of times, but they were far from it. Everything pointed in the direction of an approaching storm.

The tranquil eye was clearly in Morgan's office. It was immaculate, as spotless as its occupant. Craig's oak and green marble desk, the one upon which he had written Value America's business plan, was set against the inside wall. It had never looked so neat. If a cluttered desk is the sign of a sane mind, we were in trouble.

Tom's wardrobe matched his office. If anyone had ever earned the title, "dressed for success," it was him. Morgan bragged that he spent more than $50,000 a year on his wardrobe. In spite of his short stature, balding head, and perpetually red and running nose, he looked the part of the successful CEO. And that was true whether he was coming or going. His Mercedes was equally immaculate. It was so perfectly detailed that we used to joke that he spent more time at the car wash than most of us did doing our jobs. In a world rife with illusions, the image he projected was yet another mirage. Tom looked great, as long as you didn't look too closely.

Some, more mischievous than I, would sneak into Tom's office when he wasn't looking and rotate two or three of the things Morgan had carefully arranged on his desk. The game was to see how little they needed to be misaligned for him to notice, and how long he could handle the imperfection before dispatching the offending accoutrement back to its proper position. It seldom took more than a few degrees off kilter, or more than a few seconds, before his soul became too tormented by the intrusion to suffer the affront. The teasing was inspired by one of Tom's most annoying pastimes. While the rest of us toiled, he wiled away the hours bending paperclips into perfect right angles. Yes, he was an office products kind of guy.

Tom's preoccupation with order may have screamed, "I'm insecure!" but we weren't listening. Perhaps Morgan's tortured psyche was quietly trying to warn us, but we misdiagnosed the symptoms. We all wanted him to succeed, especially Craig and Rex.

Tom often pontificated about how his former boss, USOP's founder, had run afoul of his shareholders, board, and management shortly after his arrival. He explained that the charismatic founder had brought it all on himself by being out there, making things happen, speaking too boldly, and being unable to manage the firm he had built. Tom would say things like, "He just lost it, went too far. People lost faith in him; they couldn't trust him anymore. The board came to me. I told them I didn't want his job, but they were insistent. They wanted Ledeky out and me in," Tom said repeatedly. "So that's how I became the CEO of a Fortune 500 company. I know I'm not particularly bright; it's a mystery to me how I always end up being the senior executive." A mystery indeed, for later, the principal investors in the ill-fated USOP would tell Joe Page how thrilled they were that we had solved their leadership problem by hiring Morgan. Swell.

There were little things, as well as big ones, that painted a dark portrait. Tom told Craig multiple times how he was trying to stop berating his wife for doing things like misplacing one of a pair of socks. He was enraged that someone could be so careless. Why he would tell such a story once, much less several times, is also a mystery.

Tom's razor-thin wife spent an evening with Katharine Winn. What she said should have sent up all sorts of red flags, but Craig dismissed the warning. Morgan's wife thanked Katharine for Tom's job, and especially for the fact that her husband now lived in Charlottesville. She said, "The reason we never moved from Washington is that his being down here has given my daughter and me our first chance at a normal life." Could it be that the the quiet, genteel, Bible-carrying executive had a dark side?

But no one worked harder at creating the illusion of integrity and competence than did Tom Morgan. The deception consumed his every waking moment. He carefully and purposefully crafted this image by manipulating his loyalists and deceiving everyone else. For the first seven months of Tom's tenure, Craig was one of those who were deceived. Tom's religiosity and soft-spoken demeanor, combined with Craig's overwhelming desire to see him succeed, caused him to buy into the illusion. After all, it was in his interest for Tom to be exactly what he was pretending to be.

Sure, Craig and Rex had recognized as early as the IPO that Morgan was a lousy leader, a poor presenter, and a marginal manager. Yet they believed their role in influencing outside relationships and shaping the company's public perception would compensate for their new CEO's deficiencies. They were wrong.

Glenda Dorchak, unlike Tom Morgan, was now a known quantity. Her prior actions had obliterated any doubt. While there is always a little good in bad people, her corporate behavior was about as evil as it ever gets. Multiple blackmail attempts, fun with numbers, personal enrichment at the expense of the team, and self-aggrandizement over all else painted a clear, horrid picture of a woman tormented by insecurity. She was a wreck, constantly coming into Craig's office in tears because something, or someone, had had the audacity to challenge her supremacy. In the letter that documented her second blackmail, she spoke of herself as the "single empowered leader at the helm of the operation," and said, "I can cannot proceed...unless I'm given the full responsibility."

Thin as a rail, hair shorter than most men's, Glenda wore expensive clothes and drove fast cars. She openly demeaned her opponents, routinely convoluting the truth for her own selfish gain. The consequences never seemed to matter. Her every move was predictable. In her view, she was the most qualified; others were simply in the way. It was her company, her opportunity, her money to spend however it served her ambitions.

Morgan, by comparison, was sanctimonious and self-righteous. He and his Washingtonian pals did so little, and were so inept, it was hard to see their more vile nature. Most missed it. Unlike Glenda, they carried Bibles, not cigars.

Corporately, they did more than their share of demeaning others, tearing down those they thought were in their way, but they did it insidiously, behind their backs, never to their faces. They were just self-serving hypocrites, nothing more, nothing less. I'm not sure which is worse.

Speaking of hypocrisy, remember Lad McCaile, the DBA who wanted to apply the Karl Marx approach to stock allocation? Even though he had participated in a blackmail scheme that nearly killed the company, his sense of fair play didn't prevent him from cashing in. He sold the stock that had vested prior to his "resignation" for $400,000—the biggest payday of his life.

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The technologists all gathered in Morgan's office. Tom walked down the hall and, uncharacteristically, asked Craig to listen to what they had to say. It was the first time he had been invited to participate in a meeting following his resignation from management.

Listening was painful. Lacking any understanding of our company's unique mission, those assembled had decided they wanted to jettison our proprietary systems. The solution Joe Page and his team had built, overcoming tremendous obstacles, the solution designed specifically to serve our business, was now being viewed as a liability. The professionals wanted to buy an expensive generic solution. They wanted SAP, the biggest Enterprise Resource Planning application in the world.

It wasn't that our proprietary systems were inadequate. Collectively, our systems did more than any e-commerce suite on the planet. They suited our business perfectly. They enabled our brands to serve our customers. But the professional managers had a different agenda. They hadn't read our business plan, so they didn't understand our mission. But that didn't matter; they knew better. They wanted the same systems the elephants used—big, established, rustbelt dinosaur systems. That was the world they knew, and they were dying to recreate our world in their image.

The discussion started innocently enough. The technologists had grown weary of Glenda blaming them every time she failed. Made sense. They said they'd decided to replace NT with UNIX, SQL Server with Oracle. So far so good, Craig thought. That transition had been anticipated from the beginning. Then they said, "We want to upgrade our commerce engine with something more scalable, reliable, tested, and mission-critical." Any time Craig heard that many corporate buzzwords strung together, he knew it was time to run. But the words were spoken in such a reasoned tone, he just listened. They concluded, "We want to use SAP's ERP solution."

"Over my dead body!" Craig shot back. So much for listening.

"The business world is littered with the rotting carcasses of companies that botched their SAP conversions. Even those that succeeded nearly died in the process. A good SAP conversion is one that only takes twice as long as you think it will and only chews up three times the amount you budgeted." You could see Craig's blood boil. "It's built to run bulky battleships, not nimble cruisers. Are you crazy?" Oh, what the heck, if you're going to be invited to a meeting, no sense in being shy. Might as well let the troops know where you stand, Craig thought. You might never get invited back. Could be a good thing.

Craig thought his somewhat less than glowing endorsement of their plan would be sufficient to scuttle the idea. But no, it only galvanized their resolve. The execs interviewed a plethora of consultants to learn how, for a "reasonable" fee, they could shape our destiny. They met, they plotted, and finally they agreed. They needed SAP. It was the professional choice. The founder was wrong, and they would tell him so.

The second meeting took place in the enemy's camp, around Craig's hundred-year-old conference table. It was a mutiny of sorts, but there was no blood let, at least not on this day. The officers had voted. They had invested countless hours rationalizing and justifying. Now they had arrived at a unanimous conclusion—it had to be SAP.

They said they had a fixed price for the implementation—guaranteed by no less than the consultants at HP. They claimed to have a guaranteed completion date of September

1. It was all in writing, they promised. There would be no cost overruns, no time delays. So let it be said, so let it be done. But it was not done, not by a long and costly shot.

"How much for the upgraded RISC machines?" Craig asked.

"Just shy of two million in servers, plus another two million in ancillary equipment," Thor Anders answered without even looking at his notes. Thor was brilliant, a tireless and trusted leader. There were at least four technologists with titles bigger than his, but he had earned everyone's respect. Thor was the de facto leader of the team. "We're buying the best: HP N- and K-class servers, fully loaded. We're going to use the EMC storage arrays we spoke about in the last meeting. They'll replace our IBM RAID arrays. Our data backup capacity will increase to nearly two terabytes. We're also planning to install Cisco's ATM switches. They'll give us an all-glass network. Our plan is to have an hour of battery backup, and install a generator to power the servers and the new cooling systems."

"And how much will the software upgrades cost, including the gap work to get everything talking nicely together?" questioned Craig.

Thor answered again, "The switch to UNIX operating systems and the upgrade to Oracle databases will be reasonably cheap. We should be able to convert by late June."

Someone else in the group chimed in. "The really cool thing is we're going to run Oracle in Parallel Version. We'll be one of very few companies in the world with that kind of sophistication."

"We got a really good deal on the SAP software," Thor continued. "They don't have a large e-commerce conversion yet, and they're eager to partner with us. It'll cost less than a million dollars."

Trying to seem important, Tom Morgan looked down at the notes Thor had prepared for him and said, "Because you said you were worried about SAP, they've agreed to a penalty of half a million dollars if the conversion takes longer than promised. And better still, when it's done on time, they're going to give us the five hundred grand to run partnership ads." It wasn't. They didn't.

"How much does HP want?" Craig asked, looking at Thor.

Anders glanced at Tom, inferring that the answer was on the paper he had prepared. Tom looked down and answered, "One million seven hundred and fifty thousand dollars."

"And for the million seven, Tom, do we have a written plan that details every requirement, making sure the new SAP application integrates with our customer service tools, our Web store, the call centers, with EDI, the databases? Is all the gap work itemized and in writing?" Craig asked.

Tom, of course, hadn't a clue. He sheepishly looked down at the paper Thor had given him, but the answer wasn't there.

Sensing the new boss was in trouble, Thor coughed to gain Craig's attention. He shuffled through some papers and said, "Yes, we understand. We're in the process of getting it done. It'll be comprehensive. SAP will work with every system and application. I guarantee it."

"Well folks, it appears you've already decided. Is there a dissenting vote?" They all shook their heads. Craig looked directly at Joe, praying he would voice an objection, but no. He just sat there, paralyzed. In reality, Joe hated SAP. He knew it was wrong for us, but the come-latelies had beaten down and maligned "JoeWare" until he'd finally capitulated. His surrender ultimately caused Craig to stifle that voice inside begging him to reject their costly and irrational plan. Limply, Craig struggled, “Am I correct in assuming, with all the offsite meetings you’ve held, every member of management has reviewed your proposal and is in accord?”

“It’s unanimous,” Thor answered.

“Tom, is this what you want to do?” Craig probed.

Tom coughed, rubbed his nose, looked around the room, down at his sheet, and then when no one came to his rescue, said faintly, “I support management’s decision.”

After a long and weighty pause, Craig succumbed. “Then gentlemen, I’ll not stand in your way. I wouldn’t go down this path, but you’ve obviously done your homework. And Thor, you’re the most credible technology presenter I’ve ever encountered.”

“Thank you,” Thor swelled with pride.

“But gentlemen,” Craig added in a tone that wiped the grins off their faces, “I want the following caveats met. Tom, are you listening?” Morgan nodded and picked up his pen. “First, there are to be no changes, no additions, no deletions. Is that clear?” Craig scanned the gathering to be certain he saw all nodding heads. “If you make a change, the guaranteed timetable and the fixed bid are out the window. You understand that, don’t you?” All nodded again. “Second, the conversion must be completed by September 1, as promised, and be run in parallel the last month of Q3. If this thing slips into Q4, the company is as good as dead. Either we wait ’til next year, or we make certain the penalty for an HP or SAP failure is severe.”

“I have met with them personally. We’ve got their commitment in writing for a Q3 conversion date,” Morgan lied.

“Third, this is your responsibility, Tom. You must get everything in writing, negotiate the final price, confirm the timing—everything. If you screw this up, you’ll destroy what it took us the better part of three years to build. Understand? Everything negotiated up front, fixed price, time certain, no additions, no changes.”

“It’s already done,” Tom replied breezily. “I’ve personally invested a lot of time on this.”

As the leaders of the technology team left, Craig sat alone. He buried his face in his hands. He could feel his body go limp. He wondered if his words, “Over my dead body,” would come back to haunt him.

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Within days, Glenda scheduled the first of a series of meetings with Tom. She was now managing him. “Our in-house CSR tool is holding me back. My sales team needs better. It’s crippling our growth.”

“So what are you saying, Glenda?” Tom asked apprehensively.

“I’ve been talking to Candy Clifford. She can’t hit our Q4 numbers without better CSR and sales tools, Tom.”

Morgan replied, almost stuttering, “We’ve got to hit our numbers! What do you need? What’s it going to take?” Tom knew that he would be publicly ridiculed if we failed to meet the quarterly analyst estimates. He might even be dismissed as a result.

“Siebel. It’s the best, and we need the best,” she proclaimed.

“Well then, let’s go with Siebel. We’ve gotta hit our numbers, Glenda!”

“Good,” Glenda smiled, and then added, “Tom, you know I measure everything that moves, don’t you?”

“Why, yes,” Tom responded.

“Gus Birch has been looking into better reporting tools for me. We think ePiphany is best of class. Every manager can use it to make up their own reports. They can slice their data any way they see fit. We need ePiphany.”

“Do we really need it, Glenda? It’s another burden on technology.”

“Only if we want to hit our numbers and be professional, Tom.”

“Alright,” Tom acquiesced. “Is that all?”

“No. We need to outsource sales to a professional outfit. We can’t keep pace in this little burg. C’Ville’s no place to run a professional call center.”

“Are you suggesting we hire Convergys again? You know Winn hates the idea. He thinks we’re better off keeping Customer Care and sales in- house as a core competency. It’s all part of his convergence spiel.”

“He’s never run a call center. I have,” she spat out. “He’s wrong. We’re in charge now. It’s the right call, Tom. I’ve already negotiated the contract with Convergys. We can get a hundred fifty dedicated sales reps over night. We’ll blow away Wall Street’s expectations. We’ll make you look great. Trust me on this one, Tom. It’s the right move. Just don’t tell him.”

“You say you’ve already negotiated the deal, and they can give us over a hundred people right away?” Morgan asked, parroting Dorchak’s words.

“Yes, Tom,” she answered condescendingly. “Remember, I’m just here to make you look good. So it’s all settled then. I’ll tell Thurston and Gus.”

As Glenda got up to leave, Tom asked, “What impact will all of this have on the systems conversion? Does Thor Anders know about this?”

“Not yet. He’s on vacation. But Bill Poletti and Gus Birch are both IBM guys. They’re up to speed on the changes. It won’t be a problem,” she insisted. “They’ll inform Thor when he gets back.” After congratulating themselves, Glenda left. Tom went back to bending paper clips.

Any one of these changes would be enough to mortally wound Value America. Collectively, death was now assured. Self-inflicted, suicide.

Suddenly, HP was no longer accountable to their timetable or fixed bid. As a result, the conversion would take twice as long as planned—concluding right in the middle of the Christmas selling season. Naturally, it would fail and cost several times the original bid. But the real cost was much higher. Ultimately, it would cost the entire company.

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Ironically, running on “JoeWare,” Value America posted a spectacular second quarter. Revenues soared six hundred percent past the same quarter a year before. When we went public, the Street was told to expect sales of $26 million. But pulsing majestically through Joe Page’s “hopelessly inadequate” proprietary code, the company’s second quarter revenues reached $36 million. Fortunately, the mercenary managers’ crippling decisions had yet to impact our performance.

Yet Tom and Glenda had been busy. Their Q2 press release pronounced that they had “filled many key management positions during the quarter.” In the months following our

IPO, Morgan and Dorchak did far more than doom the company's systems. They shaped a bureaucratic monolith of epic proportions. In twenty-nine weeks, they managed to accumulate 675 employees, consultants, and outsourced customer service and sales reps; that's twenty-four new people a week, every week. Yet ironically, the cast of characters that hired the cast of hundreds would soon cause them all to be extras in the most bizarre of corporate dramas.

The press release, incredibly, went on to compliment "JoeWare," the very system they were abandoning. It said, "The company's exclusive, automated, and electronic transactional solution was improved, making it more redundant, scalable, and effective. During the quarter, ninety-five percent of Value America's brand partners were able to ship our customers within one business day."

During the investor call that followed, Tom Morgan told the world that he was "in charge," and that under his "leadership" the company now reflected his professional demeanor. He said, "Perhaps what's most important about the quarter is that we largely completed building the framework of the company so that we are now prepared to scale as our business grows. To accomplish all this, we made necessary long-term investments in our future." If these words seem a little rich for Morgan's more simplistic vocabulary, it's because David Kuo wrote them.

The CEO sat up in his chair and pulled his notes closer. This was his proudest moment. He was telling the dot-com world what he had accomplished. "Our sales this quarter increased twenty-eight percent [Q1 to Q2 rather than Q2:98 over Q2:99, the more typical comparison.] This compares favorably to a seventeen percent increase in our media costs. Put another way," he continued to read, "our sales and marketing expenses represented sixty percent of our sales this quarter, compared to sixty-four percent last quarter. This means that our media purchasing is becoming more efficient." It's hard to believe, looking back, that a public company's CEO would brag that his cost of sales and marketing was only sixty percent!

But Tom didn't know any better. He was under Glenda's spell. Rather than replace her, he had become dependent, wholly owned and operated by Glenda M Dorchak. It wasn't that she was particularly bright. She, like Tom, had no intuitive feel for whether a number was good or bad, partly because she often just made them up. Jacob Mitchell, our tech-savvy call center manager, claimed that costs and revenues were routinely convoluted to create whatever illusion she was trying to achieve.

Joe Page would tease the Reporting Team, saying, "You guys should transfer to Marketing. They could use your creativity." Most responded to his chiding by blushing and rolling their eyes heavenward. But occasionally, Reporting Team members would get more of Dorchak's evil brew than they could swallow, angrily telling Joe, "At least we don't need your programmers anymore. We can just make the numbers up now."

While this was wrong, what made it intolerable was that Morgan didn't have a clue. Any reasonably intelligent person even vaguely familiar with the facts could have seen right through her. Tom, apparently, was not.

Unaware of the perils that lay before him, Morgan continued to proclaim his successes to investors. "We are changing our custom CSR, order pipeline, and financial tools to Siebel and SAP. In short, we are building the most scalable, redundant, fault-tolerant e-commerce engine. We are building the infrastructure it takes to efficiently run a multi-billion dollar Fortune 100 company."

These words were spoken on August 2nd. Morgan had been on the job five months. He had now publicly admitted that he had violated Craig's caveats regarding changes to the SAP conversion. When Craig confronted him with this egregious breach, he whined, "Glenda claimed she couldn't hit Q4 numbers without better tools. What was I to do? Besides, I've got a commitment from HP to install Siebel in the same time and at the same cost." The fact that he didn't never seemed to faze the sanctimonious Morgan. Tom would go on to blame this, and all other failures, on, of all people, Craig.

An interesting insight into Morgan's public admissions was his claim of building systems to serve a "multi-billion dollar Fortune 100 company." When Craig described Value America's aspirations in more humble terms to a reporter, Tom and his team of supporters quickly relayed the "exaggeration" to the board, implying that he was out of control and should be censured. Hypocrites just love a double standard.

Morgan continued his conference-call speech, turning his attention to some of the people he had added to our payrolls. "We rounded out our management team with some important new hires: Automotive President Kirk Shepard, Communications SVP David Kuo, and retired Three-Star Army General and current Habitat for Humanity Chairman Mick Kicklighter, who is overseeing our Demand Alliances."

So what was Tom Starnes doing if someone else had to be hired to manage Demand Alliances? Although Kicklighter was praised here, Morgan would soon turn on him, too, referring to him as "General Dunderhead." Value America's mercenary managers were now weaving a wicked web.

Auto king Kirk Shepard would later share his portrayal of this cast of characters: "Starnes is easily the dumbest manager I've ever encountered in business, Kuo, the most naïve, and Glenda…well, Glenda would rather tell a lie even if the truth sounded better." As for Morgan, he said, "It's clear he doesn't care who he hurts so long as he gets what he wants."

Feeling his oats, a proud Morgan concluded his prepared speech by telling investors, shareholders, and analysts, "It is hard to believe, but Q2 was the first quarter that the whole management team for Value America was in place. As such, our accomplishments are even more amazing: We announced our intention to buy InService America, a world-class call center that will help improve both customer service as well as our Demand Alliance partnerships."

The fact that "Demand Alliances" were built by Mr. Outside, without the "whole management team's" help, makes you wonder why this was listed as one of their two "amazing accomplishments." Their other great feat, similarly, had been negotiated by Craig before Tom and his mercenaries ever graced our once-friendly confines. But taking credit for the work of others is standard operating procedure for hypocrites.

Amazingly, even as Morgan was speaking these words, taking credit for Demand Alliances and the acquisition of InService, he and his pal Starnes were busy unraveling both of them. After Craig "sold" potential partners on forming a mutually beneficial relationship with us, the Toms called the organizations back, maliciously telling them, "Craig cannot be trusted," and "We're in charge now. He's not managing the company; we are. We have no intention of honoring his crazy commitments."

This is precisely what they told TBN, Trinity Broadcasting, one of the world's largest cable and satellite networks. They have a faithful audience in the tens of millions. Craig and others formed a mutually beneficial Demand Alliance with them. It included the creation of a custom TBN Marketplace, something that took maybe a day's time using the tools Joe and his team had crafted. He told TBN that if they used their mailing lists and airtime to promote their marketplace, we would donate five percent of the gross sales it generated.

Following their meetings with Craig, Morgan and Starnes undid everything that had been done. They informed TBN's representative, in the presence of InService, that there would be no such partnership. The deal was off. Value America didn't want their free advertising, endorsement, or access to their millions of loyal and faithful donors. "Five percent is way too much to pay," they said.

The Toms apparently had their reasons. The first may have been their dependence on Dorchak and her insistence on keeping the company reliant on her advertising. Second, neither Glenda nor the Toms understood the comparative math. They couldn't see the benefit of donating five percent promoting sales versus blowing sixty percent on advertising. No one ever accused them of being smart. Third, Craig was in their way. Anything he supported had to go if they were to rid themselves of his influence.

For Craig, "doing well by doing good" was part of a covenant he had made with the Almighty before any of us had engaged in building his dream. Yet he never presented these demand-generating relationships as anything other than "good business." The math was simple. Tom had just publicly announced, "Our sales and marketing expenses represented sixty percent of our sales this quarter." Craig thought five percent was better than sixty. So, if the allied organization, through their self-interest in raising money to do their good deeds, promoted their custom marketplace, why not donate five percent? If we had offered them fifty percent, we still would have been ahead of management's feeble performance.

Generating revenue cheaply, but outside of Tom's and Glenda's realm, was evidently threatening. Maybe it was only Mr. Outside they found threatening. Or perhaps it was simply beyond their scope, outside their comfort zone. Whatever the reasons, they dismantled relationships as fast as Craig and his Business Development team could build them.

The InService acquisition Tom had bragged about never materialized. The failure is a fascinating character study. Craig had negotiated the purchase during his tenure as CEO. Under the terms he'd worked out with Carl Townsend, InService America's founder, the call center and telemarketing firm would cost us $200,000 in cash and 115,000 shares of stock. Their '98 revenues were $7 million. The purchase included considerable assets, plus 275 trained sales and customer service employees tracking to earn an EBITDA of $650,000 this year alone.

While that was a pretty good buy on its own merits, there was a lot more to the deal. InService, as part of Value America, could staff and manage the company's burgeoning customer service requirements. They were good at it. They hired and trained great people, and paid them less, by virtue of being in Lynchburg, an hour's drive south of Charlottesville. Our most important relationship, the customer relationship, would remain in-house as a core competency. Moreover, InService had been a catalyst for providing high-quality introductions to many of America's premier charity and faith-based Demand Alliances. They had earned their trust by serving them well.

But even after taking credit for “acquiring the world-class call center,” Morgan, with help from Starnes, Johnson, Clifford, and Dorchak, killed the deal. Then, for good measure, they misled Craig, claiming that, “Carl got spooked and backed out.”

Carl Townsend tells a different story. “They told me,” he informed Craig a year later, “that Value America wouldn’t even be in business a year from now. So they said I’d be a fool to sign the agreement. They said I’d have to stop serving my existing clients, even though they were the same organizations for which Value America was building custom marketplaces. Then they told my board the breakup was my fault. To make matters worse,” Carl continued, “they said something really bad would happen if I ever shared any of this with you, Craig. Tom Morgan claimed, ‘Winn will fire all of us if he ever finds out what we’re doing behind his back.’”

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As Q2 rolled into Q3, Value America’s prestigious board met in person for the first time. For the most part, it was a group of strangers. And that in itself would soon be a problem.

But not on this day. The new board assembled at Keswick Hall, in Charlottesville: former Secretary of Education, Empower America’s William Bennett; Global Crossing’s Don Tarpin; Carson’s Sam White; Caise Perkins’s Justin Caise; Heidrick & Struggles’ Gerry Roche; Paul Allen’s William Flowers; the unions’ Rafe Durn; and FedEx founder Frederick Smith. Wolfgang Schmitt, Vice Chairman of Newell/ Rubbermaid, was an invited guest. And, of course, our cofounders, Craig and Rex, as well as the firm’s senior corporate executives, Glenda Dorchak and Tom Morgan, were on hand.

In advance of the occasion, David Kuo issued one of his few press releases. He said, “Adding people of this magnitude, with such diverse and distinguished backgrounds, greatly increases the caliber and strength of our board. We have brought together a world-class team that will keep Value America at the forefront of the Internet economy.” He concluded the release with a quote he wrote for Morgan, “‘There is plenty of competition for great leadership—especially in the online world. We have assembled a team of the best business, political, and technological minds. Working with Chairman and founder Craig Winn and Vice Chairman and cofounder Rex Scatena, we have the business acumen, leadership experience, and vision to convert great ideas into great business.’”

Typically, a board meeting is led by the company’s CEO and moderated by its chairman, if they are not one in the same. Unfortunately, Morgan was not very good at arranging things, so in his absence of action, Craig privately proposed a plan. “Tom, why don’t you teach the board about the company so they’ll be prepared to make good decisions? You could have each of your ten business units make a presentation. Board members can meet the people that make our company go and learn what we’re all about. Without this knowledge, an outside board is a liability, you know.”

Craig went on, suggesting, “It’ll be great for our folks too, especially if you ask each department to write down what they do and how they do it. They could list their accomplishments and highlight their challenges. We can give each board member a binder that not only explains the company from inside out but also tells them who does what.” You might even learn something, Tom.

Each department crafted their section of the textbook, Value America 101. The department heads prepared fifteen-minute overviews. Recognizing the sad reality that few, if any, of our board members had actually shopped in our store, Craig began the meeting by demonstrating the store's functionality, breadth, and content.

The Technology, Consumer, Office, and Automotive Products merchants were the first group to present. I was second, delivering the Advertising presentation, showing examples of our best work. It saddened me that the board seemed so bored by it all. My old department, Presentation Marketing, now led by Isaac Saltzberg, gave a dazzling demonstration of the powerful online multimedia tools Joe had built. The board remained comatose, already glancing at their watches.

If they didn't care to learn about the company, why were they here? How would they make informed decisions and protect shareholder interests without a basic understanding of our firm?

Communications was presented by its VP, David Kuo. He had invited his favorite PR firm to help him do his job, an outfit from Washington that had played a starring role for AOL. Then came Sales, with Candy Clifford. The only embarrassment of the day, Business Development, followed. Tom Starnes presented his one and only contribution to Value America. He proposed spending $9 million in cash plus 300,000 shares to buy a start-up technology company called eFed. Cute name, but little else. Although the price was forty times higher, eFed's sales were less than a quarter of InService's. They had no tangible assets to speak of, no technologists, and no plan for generating additional sales. The guys who had been running it since its inception were cashing out and leaving, so there was no management, either. The entire company consisted of twenty-four employees, and that was before the buyout.

eFed, the board was told, was designed to capitalize on the segment of government purchases that fell below the big boys (the bid process), the medium boys (the contract process), and the small boys (the GSA process). "Their crumbs," Tom shared, "were worth billions." He didn't know, of course, how to harvest them. He said, "Their toehold is in the procurement segment that could be converted to an off-contract, purchase-card purchasing e-commerce opportunity." I know. It doesn't make any sense to me either. It sure didn't sound like it was worth $15 million. But that was the best part of his presentation. The other seven things he spoke of on this warm summer morning, he actually dismantled. Under the Toms, Business Development had become Business Destruction.

Unbelievably, Tom Starnes would later whine to anyone that would listen, especially to the press, that he had been prohibited from doing his job because Craig had foolishly said no to eFed, even though Winn had simply asked Starnes a few questions. How was he going to complete eFed's technology without technologists? How was he going to generate sales without a compelling advantage over the companies that already focused on the government sector? How are you going to get factory authorization to sell the government, and what about GSA schedules? Tom, of course, had no answers.

Glenda had created a new department for one of her wayward sellers. It was called "Member Services." They presented next. I'm still not sure what service they provided, but as far as I could tell, our most outspoken lesbian employee managed the department professionally and with all possible political correctness. I'm told that no environments were plundered, no species were threatened (other than humans, who, as we know, have it coming), and that the only group discriminated against was wealthy, white, heterosexual males.

Leaving the world of fantasy and entering reality, the board reviewed Operations, replete with such scintillating topics as vendor compliance, EDI, freight, returns, facilities, and credit cards. And then, not a moment to soon, the Technologists, in shoes, some even wearing long pants, descended upon the board. They talked of hardware, software, custom code development, and networks. Then CFO Dean Johnson and Controller Karen Wiles introduced their staff and discussed human resources and cash management.

As the meeting concluded and the board members' departure times neared, they finally awoke, as if out of hibernation. Between stretches and yawns, they responded graciously and unanimously. Bill Bennett spoke first. He said, "I don't know much about business, but I know people. You can't fake what I saw here today. These are great people, and they care deeply about what they are doing. That kind of pathos is unstoppable."

Gerry Roche was the next to speak. He began by telling the others that it was his business to evaluate talent. After all, he was CEO of the world's most celebrated executive recruitment firm. He said, "I have never seen so much talent in one place. This team can do anything."

"I'm more convinced than ever," Fred Smith added, "that you've got the best model and the best people. One day America is going to wake up and Value America will be everywhere."

The visiting Wolf Schmitt said, "What you have built here is solid and compelling. You should be very proud." Remember those words.

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Out of the blue, Craig's favorite accounting firm, Ernst & Young, came calling. They weren't looking for business; they were looking to praise a business: ours. On behalf of USAToday, CNN, and NASDAQ, they had singled out our company and its founder. They had nominated Craig as a finalist in their annual Entrepreneur of the Year Awards. Unfortunately, he was so focused on consummating partnerships with Visa, Citibank, and FedEx, he was unable to meet with the panel of judges. In spite of this, they had nice things to say about him in a video production they played at their awards dinner. Set to music and against visual images of Value America's store, a professional voice boomed:

Craig Winn, founder and chairman of Value America, knows retailing from every perspective. Soon after graduating magna cum laude in business from the University of Southern Cal, he worked with the entrepreneurial team led by Sol Price, founder of FedMart and Price Club. Many of the core concepts that drove the success of the Price Club have been incorporated into Value America.

The Winn Company, one of the nation's leading rep firms, was formed and grew out of Winn's association with Price. His next venture, Dynasty, was a national company that went public in 1989. Winn was named Entrepreneur of the Year in California the same year he won Sears' Vendor of the Year Award, 1990. Winn's concept was derived from his work with Price Club, The Winn Company, and Dynasty—twenty years ago.

Leveraging expertise in retailing, distribution, manufacturing, sales, and marketing with advanced e-commerce technology, Winn has created the Internet's premier one-stop retail destination.

Craig missed most of the black-tie event. He was tending to business, speaking at our IPO closing dinner at Keswick Hall. In a five-minute unprepared speech, Craig told the investment bankers from Robertson Stephens and Volpe Brown, along with members of our management team and their spouses, "It takes three things to change the world, especially the business world: a great idea, great people, and a great deal of money. Thanks to the culmination of events we are celebrating here tonight, we are long on all three."

During this time, however, it was getting a little harder to tell the "great people" apart. Morgan's first duty had been to replace Dorchak. But having become dependent upon her, he simply took her "President" title away instead. When her crying became unbearable, Tom solved the problem by taking everyone's title away. We became the titleless Americans. At considerable expense, everybody's business cards were reprinted without any reference to role, title, or responsibility. Mao would have loved it.

But all was not rosy in the workers' paradise. Craig, working with Bill Hunt, encouraged Whirlpool to partner with us in a most remarkable way. We agreed to manage the communications, logistics, and order fulfillment between Whirlpool and their nearly 5,000 authorized dealers. It was a tremendous business-to-business opportunity. So excited was the senior brass at Whirlpool, they loaded up their corporate jet with execs and made the trek to C'ville.

Rather than present Value America himself, Craig asked the managers of each department to do the honors. This time it didn't work. We now employed too many come-latelies, none of whom had read the business plan. They didn't know what Value America had been designed to accomplish, nor did they understand the merits of an eServices alliance. Craig found himself in the unfamiliar territory of having to clarify the company's position throughout the meeting. But that wasn't the worst of it.

Bill introduced Whirlpool to our titleless ex-president. Knowing that Glenda knew very little about anything other than the sale of computers through call centers, Bill explained the proposed alliance. He said, "Using our existing infrastructure, we can profit by reducing Whirlpool's cost of serving its dealers." Glenda responded flatly, "Well, if that's what you want to do, we're not interested." A shaken Whirlpool exec asked Bill as they beat an abrupt retreat, "Who the hell was that?" Good question.

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The biggest doings during the long hot summer of '99 occurred outside Value America. Our undoings occurred inside. The company had arranged, approved, and all-but-funded an airplane for the Business Development team to use as it covered the country in search of less costly demand-generating partnerships. In addition to burning their share of jet fuel, they burned the midnight oil. Craig, Mick Kicklighter, Syd Kain, and Ken Erickson formed great relationships as fast as the plane could fly.

Their biggest achievement nearly crashed before it flew, however. Senior members of the Business Development team at the world's largest financial institution, Citibank, had taken notice of our early ads. They'd liked them, not just for what they sold, but also for what they said, and how they said it. Citibank wanted a way to reward their seventy million affluent cardholders. By rewarding their customers, they were more likely to remain customers. And when they used their credit cards, Citibank earned a fee. Value America's custom marketplace strategy was the perfect fit. Especially the fact that we were comprehensive—something that's essential if your goal is to serve the needs of a large and diverse audience.

Citibank wrote what's called an RFP, a request for proposal. It's what big organizations use to make certain their dealings with smaller firms like ours are fair and equitable. Value America's VP, Tom Starnes, had been the recipient of the Citibank's RFP. It wasn't because it was addressed to him or that he had done anything to prompt it. He held the position, so it came to his desk.

But Tom was apparently too busy undoing relationships and scheming against Craig to respond to a solicitation from the world's largest financial institution. Twenty-four hours before it expired, Ken Erickson got called into Starnes' office, being scolded, as usual, for some minor offense. Ken noticed the distinctive "Citi" logo sticking out from underneath a pile of papers and reached for it. As he did, Tom told him it was a waste of time, that he was about to throw it away. Ken replied, "Since my time is worth less than yours, let me handle it. If it needs to be trashed, I have a can in my office. You needn't be bothered with such rubbish."

Faster than you can say "imbecile," Ken and Syd got to work. The RFP was a dozen pages long. Although they had never seen it before, it bore an eerie resemblance to something Ken had seen before—Hewlett Packard's first online commerce partner proposal—the one they had written based upon the qualifications we had given them, the one Bill Hunt had answered by cutting and pasting sections of our business plan. This one was like that one, because Citibank had written it with us in mind.

Ken and Syd got hold of the right documents. They cut-and-pasted their fingers silly, made the FedEx pickup, and prayed they were not too late. They weren't. Citibank was so grateful to have finally received the response they were fishing for, they called the next day and said we were the lead candidate. The fact that we had been the only candidate did little to dampen their enthusiasm. That would come later. In time, we would all find out how great a chasm exists between being chosen and doing, between yes and go.

Our team would bleed "Citibank blue" before we were done, but it was worth it. Together, we built one of the most exciting alliances between supply and demand ever conceived. By Citi's own admission, the first phase of the relationship was worth over $325 million. It was the most mutually beneficial, symbiotic, and scalable partnership one could imagine. It was "win to the 100th power."

The Citibank initiative fit like a perfectly sized glove. It was the poster child for something Craig called the Path to Profitability. The Path was designed to diminish, and then eliminate, the firm's dependence on the four evils that were bleeding us dry: wasteful broad-based advertising, costly call center sales, the concentration of sales on low-margin, high-return computers, and the company's dependence upon Ms. Dorchak.

The plan was ingenious. Charities, associations, large corporations, and faith-based institutions had something Value America needed: patrons, members, customers, and believers. If our company could form mutually beneficial relationships with them, we could gain a privileged and endorsed introduction to the millions of people they served.

The cost to reach these people directly where they lived, paid, prayed, and played was cheaper than any form of broad-based advertising.

These organizations used direct mailings to reach their donors, clients, and followers. All we needed to do was emulate them. Catalogs, on- and off-line, could be used to introduce ourselves, explain the nature of the alliance, and generate the initial sale. By sharing a percentage of the revenue with the sponsoring organization, everybody won.

The Path to Profitability was an economic and strategic plan to move from advertising dependence to direct-response partnerships. Craig gave a copy to management and repeatedly shared the concept with Morgan. He also sent copies to the board.

Interestingly, the Path actually cemented our relationship with its largest intended beneficiary, Citibank. They were concerned that even after they formed their far-reaching partnership with us, we would continue our wasteful ways. Forming partnerships with companies on a collision course with bankruptcy is generally considered poor form. So Craig sent the finance team at Citi a copy of his Path to Profitability, along with a list of the assumptions that underlay the numbers.

Citibank spent $1.5 billion a year in direct mail solicitations. They understood the Path. After a series of high-level conference calls, Citi's finance team had only one concern. They loved the plan, and they knew they would play the largest role in making it happen. But they also knew how the corporate world worked. "Mr. Winn, you're Chairman, not CEO. Has your management team adopted your Path to Profitability? Are we going to see the progress it predicts in your future financial releases?" Most insightful.

As good as it was, the CitiPrivileges Program wasn't the only stellar relationship on the table. There was one nearly as good afoot with FedEx and another with Visa. Together with Value America, these companies had the most to gain from the success of e-tail. They represented the world's largest express delivery service, the largest marketer of credit cards, and the largest issuer of electronic credit. Together these were the tools of e-commerce: the electronic money that made it go, the plastic that caused that money to flow, and the logistics that enabled delivery.

The Visa deal broke first. Richard Gerhardt learned that Visa was forming relationships with online stores in order to dispel old myths about credit card security and encourage credit card use online. Richard went so far as to arrange the first meeting with Visa in Northern California. Craig was out on the left coast with HP anyway, and was speaking at a business conference. David Kuo and Mick Kicklighter were with him. Rather than head back and return home at two in the morning, they pressed on and met with Visa. They talked of things that, given time, might revolutionize credit card solicitation, rewards programs, and online commerce.

David took the lead in building the relationship. He wanted out of communications. Many of the come-latelies were no longer content with the roles they'd been hired to play. David's reasons for wanting to enter the world of doing, and for departing the world of merely talking about what others had done, were as varied as his moods. Despite his reservations, Mick awarded the management of Visa to David Kuo.

After several months of discussions, the first phase of the Visa deal was launched. It wasn't particularly innovative. It was similar to most other online programs Visa was doing. We gave Visa customers a ValueDollar coupon when they came to our store from

Visa's website. Our coupon was larger, though, because our typical checkout was larger. While the average Web-store register ring was around $20, ours was over $600 at the time. Our Visa ValueDollar coupon could only be used on the first purchase, it had to be used online, and it could only cover fifty percent of whatever the shopper was interested in buying.

It would have been impossible for the Visa promotion to perform any worse than the gluttonous Morgan-Dorchak Advertising/Call-Center Full Employment Act. As a worst-case scenario, if every Visa customer only shopped once, never returned, searched the store to find something that cost precisely $200, and only bought that one thing, Visa was still ten percent better than what management was already "proud" of accomplishing.

Since Craig was usually traveling, developing outside partnerships, it was no surprise that the Visa promotion debuted while he was on the road. The General had become the de facto manager of Business Development, so Mick was with Craig again. So was David Kuo. Struggling in his communications role, Craig wanted David to witness the development of demand alliances, hoping he would learn to communicate their benefits more frequently and effectively. The team was in Tennessee, meeting with Fred Smith, when David got the call.

Morgan, whipped into a frenzy by a hysterical Dorchak, had lost control. David, equal parts emotion and naiveté, turned white. The six-foot-three Kuo crumbled as Morgan screamed into the phone. He dropped it into Craig's lap like a hot potato.

The Visa deal, it seemed, was working. Terrible thing. It was generating $400,000 a day in sales. That made this one promotion as productive as the whole company was without it, even with all their expensive ads and call centers. Plus every Visa sale was online, so the transactions cost us nothing. Better yet, every sale was to a new customer, each with a computer and a credit card. Moreover, every sale helped cement a relationship between an upstart e-tailer and the largest credit card company on earth, with 600 million customers worldwide. You'd think that would be a good thing.

All Tom could see, though, were coupon-dollars flying out the window. He hadn't the capacity, nor desire, to reconcile the drastic savings in advertising that were now possible against Visa's more moderate and variable cost.

Craig was not pleased with Morgan's temper tantrum. "Tom," he said, "get a grip on yourself. You're acting like a child." These were the first cross words Craig ever spoke to his seven-month-old CEO. They would not be his last. Their relationship began to deteriorate rapidly. "Tom, I'm really disappointed by your reaction. I didn't broker this program, David did, but I've kept up with his progress. His Visa deal is superior in every way to your advertising and call center dependence. If you're concerned about some systems irregularities, call the tech team. When I return, we'll resolve those issues. Otherwise, stop criticizing Visa."

Perplexed, Craig looked at David, "Is Tom really that dense or has Dorchak got him bamboozled to the point he's no longer able to think for himself?"

"He's speaking for the evil one. Of that I'm sure." David hated Dorchak as much as he loved Morgan.

Like Craig, David's faith initially caused him to bond with Tom. Visa was Craig's wake-up call, shattering any illusion of Morgan being honorable. He would come to see Morgan as a charlatan, a hopeless hypocrite. Kuo, however, remained blind. David's complete lack of business acumen ultimately prevented him from seeing through Morgan. Ignorance was bliss.

That evening, Tom gathered the leaders of the tech team in his executive conference room. Craig was invited, but as a harbinger of things to come, Tom also invited one of Glenda's most trusted lieutenants, former Ms. Sales, then Ms. Member Services, and now Ms. Affiliate. She was the first to speak. "I'm here representing Sales," she barked. That was code for Glenda sent me. "I've already called Caise and put his office on notice." It would be the last thing she would ever say to Craig, for he was not pleased.

"This meeting was called to resolve technology issues, not to solve problems in sales. It is the lack of efficient sales that precipitates the kind of partnerships we formed with Visa. But before you go, I want you to understand something," Craig said, speaking in a controlled, ominous tone. "This is the last time I want any executive in this company calling a lawyer. We waste more money on lawyers than any ten companies. Good agreements are mutually beneficial partnerships, not legalistic constructs. Stop abusing our corporate wallet. The CEO, and only the CEO, has the authority to deploy a lawyer on the company's behalf. Now, as the representative of Sales, I would appreciate it if you would leave." Of the techs, only Joe had seen Craig angry. It was terrifying, but the group's open-mouthed, wide-eyed expressions hinted that they had rather enjoyed the encounter.

The technologists listed each of their problems. Most were challenges that had nothing to do with Visa, omissions that had occurred as a result of poor management. The distractions associated with the SAP conversion and outsourcing sales to Convergys had taken their toll as well.

As he had with Joe in days gone by, Craig provided the practical business guidance needed to resolve the system challenges, all save one. Somewhere along the way, the percentage of a purchase ValueDollars would buy had been hard-coded into our systems. It should have remained a variable. That was important now because David had an agreement with Visa to reduce the ratio of ValueDollars to twenty percent of the first purchase. When Craig asked Joe to change the variable, it was no longer that easy. He was able to make the necessary changes to JoeWare in less than an hour. Unfortunately, SAP was considerably less nimble.

If they'd had their priorities straight, they would have made it happen. After all, we had more than a hundred technologists, and the Visa promotion was responsible for nearly half our revenues. But they had abandoned the old JoeWare systems for their overburdened SAP-Oracle-UNIX-Siebel-GEIS-ePiphany-Convergys camel. They could no longer serve the real business, our online business, without pulling resources from the creation of their sacred camel, so the ratio of ValueDollars to purchase price never changed in SAP. The business partnership with the largest electronic credit company in the world would be scuttled instead. Brilliant.

When programs as good as Visa cause people to lose control, something is terribly wrong. And so it was. Riddled with insecurity, Glenda and Tom imagined Craig lurking around every corner. They were frightened, and their fear now caused them to say and do things, irrational and destructive things—behind his back, of course.

Glenda had only one agenda: Glenda. She lusted for power and money. They were like drugs to her. So long as the company continued its expensive advertising, the sale of computers, and sales through call centers, she was golden—she had a stranglehold on power. Her relative expertise made the less-capable Morgan helplessly subservient.

Yet Tom viewed his enemy's enemy as his ally. He wanted Craig disgraced and dismissed as much as, if not more than, Dorchak did—and for many of the same reasons. But he had no reason, he thought, to fear Dorchak. She was beneath him. Tom was convinced that he controlled the board too, thanks in no small part to the subtle maneuverings of his pal, Goose Godfrey.

But Dorchak was not without her supporters. Rafe Durn's man, esteemed "investment banker" Seth Rossi, had grown fond of her. And then there was Justin Caise. Dorchak had become his meal ticket. But Tom knew nothing of this. He was confident Glenda could be used to serve his purposes: disgrace, discredit, and ultimately distance the company from his nemesis, Craig Winn.

Morgan and Dorchak had come to an understanding. As much as Dorchak disliked and disrespected Tom, she despised Craig even more, for he had given Tom the job she thought she'd earned, the title she deserved, the position for which she was so much better qualified. So even as the animosity between Tom's Team and Glenda's Gang rose, they schemed together against our founder. The hypocrite and the evil one had formed an unholy alliance.