

THE LEADER'S CODE

HOW TO THINK LIKE THE
WORLD'S GREATEST

HIGH-TECH TITANS



Business Lessons from

**Bill Gates, Andy Grove,
William Hewlett, Steve Jobs,
Scott McNeely**

and other Titans of the High Tech World

ERIKA BROWN

How to Think Like The World's Greatest High-Tech Titans

The Leader's Edge

Erika Brown

M C G R A W - H I L L

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Preface

Reading this book will not turn you into a high-tech titan. What it will do is provide you insight into the thoughts and strategies behind some of the most successful executives of our age.

The executive tales within are those of some of today's financial giants. These executives are the titans of modern industry, sprung from the Pacific Northwest and Silicon Valley—much like the factories of Detroit, the financial towers of New York City, and the oilfields of Texas spawned titans of their own kind when those industries ruled American business. Instead of assembly lines and power drills, these high-tech titans manage their businesses in an environment of clean rooms and computer screens filled with code. Today, no one would argue that without these individuals, the economy—as well as our lives—would be very different.

So what makes a titan? Well, a titan is someone who has achieved monetary success, for sure, but what else? It should be someone who has also grown a company with remarkable speed in an ever-changing environment rife with cunning competitors. It isn't just about the company with the fastest chip, the best code, the most powerful marketing, or the best customer service. In many cases, it's about management: The person behind the logo, the executive who hired the crackerjack programmers, the president who knew the market was about to swing the other way and took a chance on a new and unproven development.

Evidencing the volatility of technology markets and the dynamic nature of an ever-changing economic system, InfoSpace and Go2Net announced a potentially \$4 billion merger agreement as we went to press in late July. Both InfoSpace's founder, Naveen Jain, and Russell Horowitz, Go2Net's chief executive, are profiled in this book. In Chapter 12, Horowitz shares his negotiating strategies. The merger proves he is not only savvy enough to cut a beneficial agreement (on the day of the announcement the deal was valued at a 100 percent premium to the market value of his company) but is also aware of the necessity of partnerships in this era of fierce competition, expanding markets, and changing landscapes. Fear of change is an ever-present danger for today's executives. To be truly successful, they need to do whatever possible to maintain value for their shareholders—even if that means giving up control.

There are only 12 chapters in this book. It would be impossible to include every high-tech titan who has influenced the course of business and history in today's world. The selections I've made are based on creating a balance of industry and strategic approach, while being careful not to overlap either too heavily so as to promote a sense of complete coverage in an introduction to the basics. So although this book may be missing Steve Case at America Online, Larry Ellison of Oracle, and Amazon's Jeff Bezos, there are some impressive marquis figures within. Some you will know well, and others you may be introduced to for the first time. Either way, each of the subjects in this book represents a lesson you can take with you in your quest for a better business or a new investment opportunity.

ERIKA BROWN

Chapter One— Partners Make the Best Successors

Bill Gates • Steve Ballmer
Microsoft Corp.

*No one should doubt that he's number two at the company.
Steve is my best friend.*
—Bill Gates

On a personal level the kind of relationship that Bill and I have must be totally unique in the business world.
—Steve Ballmer

To ensure your legacy longevity, stay close to your successor.

The Men

William H. (Bill) Gates III is easily the most influential man in modern business. The wealthiest man in the world by a landslide (\$85 billion at last count), the college dropout founded the world's largest, most powerful company in the late twentieth century: Microsoft. After running the company for 25 years, Gates passed on the title of chief executive officer to his friend and successor-apparent, Steve Ballmer. Gates remains chairman and chief software architect of Microsoft Corporation.

Bill Gates was born October 28, 1955, to an influential Seattle area attorney and a schoolteacher. He began programming personal computers at the age of 13, and while attending Seattle's Lakeside high school, his friend Paul Allen shared an article with him about the microprocessor from *Electronics* magazine. It was then that the two friends began thinking about the future possibilities of personal computers.

Gates attended Harvard University until his junior year when he dropped out to devote his energies to Micro Soft, a company he had started the prior year with Paul Allen, while both were still in school. They were going to provide the software that would support personal computers powered by microprocessors, a bold assumption considering in those days computer makers such as IBM made their own proprietary software for their machines. Gates ran the company as chief executive officer for 25 years, sharing day-to-day management with a few different presidents through the years.

Under Bill's leadership the company's goal has been to continually advance and improve software technology to make it easier, more cost-effective, and more enjoyable for people to own and use computers. "The microprocessor-powered PC has given more people more freedom, and the power to do more with their freedom," Gates says proudly. The U.S. government sees Microsoft's pervasiveness differently, depicting Gates as a ruthless monopolist who will stop at nothing to control the operating systems of all the world's computers. Gates reportedly took the investigation personally, as an affront to his ethics and character.

It came as no surprise in June that after Judge Thomas Penfield Jackson ruled that Microsoft's penance for acting as a monopoly is that it must divide itself in two, Gates and Ballmer declared war. Microsoft is fully committed to keeping the company intact and winning the case on appeal. "This is the beginning of a new chapter in this lawsuit," Bill said in a statement. "We have a very strong case on appeal, and we look forward to resolving these issues through the appeals process and putting this case behind us once and for all."

Bill's not so bad, as titans go. In 1999, Gates announced that he plans to donate the bulk of his fortune in his lifetime. Skirting the \$100 billion personal net worth milestone, he and his wife Melinda have endowed their eponymous foundation with more than \$17 billion to support philanthropic initiatives in the areas of global health and learning.

Gates has authored a number of articles as well as two books: *The Road Ahead*, a *New York Times* bestseller he wrote with Microsoft retiree Nathan Myhrvold, and *Business @ the Speed of Thought*, also a bestseller.

While Gates's first partner, Paul Allen, may be credited with helping launch the wildly successful software concern, it took another comrade and confidant to help him grow that company into a multibillion dollar corporation: Steve Ballmer.

The passing of Microsoft's leadership to Ballmer has generated widespread speculation. Was it the strain of the antitrust trial? Was it the threat of the Internet? The many delays of Windows 2000? Family pressures? Perhaps, after a quarter of a century of scratching and clawing, Bill was just tired. The word is, he was not having as much fun as he used to, and had sent a memo to directors and some key executives shortly before the switch saying that he was overwhelmed.

Gates's decision to give Ballmer control of the company shouldn't have been surprising to anyone who was paying attention. One month before the switch, Gates told Elizabeth Corcoran of *Forbes* that he could foresee a time in the coming years when Ballmer would take over the position as chief executive. "We're both pretty good about being two people with one huge job," he told Corcoran, "Who has what title isn't a phenomenal element of that."

In his new position, Bill will focus more on technology issues and plotting the company's future. At keynote speeches in his new role as software visionary and chairman, he makes sweeping, inspirational statements. "PCs gave the world a whole new way to work, play and communicate," he recently declared. "The PC-plus era will be just as revolutionary."

Gates, an avid reader, says he prefers biographies, and applies the successes and failures of historical figures to his own life and business for lessons. He and his wife Melinda were married January 1, 1994. They have two children, a daughter and a son. His hobbies are playing bridge (occasionally with pal Warren "The Omaha Oracle" Buffett) and golf.

Steven Anthony Ballmer has been Gates's alter ego and loyal sidekick for two decades. In January 2000, he added chief executive officer and director to his title of Microsoft president, which he had received in 1998.

His bombastic tendencies and legendary temper have been manifested in baseball bat swinging in company meetings. He has shouted himself hoarse to employees, even to the point of requiring surgery on his throat after a particularly trying speech. His management tactics have been compared to those of Attila the Hun and General Patton, but in his new position he's working on becoming more diplomatic.

Steve was born March 24, 1956, and received his Bachelor of Science degree in math, magna cum laude, from Harvard. There, he was advertising manager of *The Harvard Crimson*, as well as manager of the football team and the literary magazine. It was at Harvard in 1973 where Steve met fellow math whiz Bill Gates. Always on the lookout for his friend, Steve locked up Gates's dorm room when he left for Christmas vacation and forgot to close and lock his own door and window.

Bill dropped out to start Microsoft, but Steve stayed on at Harvard to finish school, and in 1977 began a two-year stint in Procter & Gamble's marketing department, where he found shelf-space solutions for brownie mix boxes. He completed just one year at Stanford University Business School before leaving to help Gates run Microsoft in 1980 and manage its unorganized business operations. He was the company's first nonengineer hired, and joined with only 30 employees. Ballmer was paid a salary of \$50,000 and a 7 percent stake in the company. Thanks to that small percentage you can count Steve in the ranks of the five wealthiest men in America, with \$23 billion.

Ballmer, historically in Gates's shadow, now commands attention. He is working to redirect the company to see the Internet as an opportunity rather than a threat, beyond the now-limited fields of the personal computer and Windows. Though he was just named chief in 2000, his presence at Microsoft has been felt for years. "Steve Ballmer has had an incredible influence on the company, second only to Bill in terms of his overall impact," says Nathan Myhrvold, exchief technology officer. "Steve likes to say he's not a technologist but he is more of a techie than he ever lets on."

The bellowing manager is considered the strong-arm behind Microsoft's monopoly but, curiously, was one of the few executives not asked to speak at the antitrust trial.

Steve is married to a former Microsoft public relations executive, and like Scott McNealy at Sun Microsystems, has three sons. He also plays basketball and jogs.

He was the best man at Bill's wedding.

The Idea

No one can lead forever. The best way to ensure that your legacy lives on and prospers is to closely ally yourself with your successor. By working closely with someone you trust, you can establish a true partnership where one manager fills in what the other can't accomplish alone. You achieve balance, and in time your successor will know instinctively how you would react to certain issues, and execute missions based on the ideals upon which you built the company.

Ballmer and Gates developed their unique friendship in college. "We got to be good friends," Gates told *Fortune*, "even though we had pretty different views of the world. I was fascinated by what Steve was doing because it was a lot more like how my parents went to college—you know, participating in clubs and activities and knowing people." Steve considered a career in government. Bill, by contrast, was extremely introverted, and even avoided attending classes. Steve coaxed Gates to join the Fox Club, an old-school men-only club at Harvard where you smoke cigars, get drunk, and tell stories up on chairs, says Gates. Ballmer boasts he was the better mathematician, scoring slightly higher on the Putnam national mathematics competition for undergraduates. Competitive but cooperative, they always respected each other's independent ways of thinking and doing things.

At Microsoft, Ballmer and Gates were markedly different in their leadership styles. Both are mathematicians, critical thinkers, and perfectionists, but while Bill is demanding, Steve rules with an iron fist. They have learned much from each other through the years, Ballmer drawing Gates out and helping him see things from a marketing and logistical perspective, Gates empowering Ballmer himself to be somewhat of a visionary. And while Bill is far from removed from the company, still remaining chairman and the company's largest individual shareholder, he is taking a step back, enabling Steve to tactically lead the company through the digital age.

Steve faces many challenges as the new executor of the Microsoft vision, for which Gates has hopefully trained him well. No doubt as years go on, Bill will continue to serve as *consigliere* to Ballmer, should the pressures of running the multibillion dollar company and trying to predict the next wave in software become too much of a strain.

"It is the relationship between Mr. Gates and Mr. Ballmer . . . that will make the organizational changes work," wrote *The New York Times*. In the same article Steve was quoted as saying, "On a personal level the kind of relationship that Bill and I have must be totally unique in the business world."

"He is my best friend," Bill told *Business Week*, "We love working together on hard problems. We trust each other and understand how the other one thinks."

Ballmer is just as sentimental about his buddy Gates, "Our friendship has grown much stronger as a result of working together. It's like a marriage," he says.

Gates knew there was only one other person in this world to whom he would entrust his life's work: his loyal and true best friend. True partnerships never die; they only evolve.

The Company

Microsoft Corporation, based in Redmond, Washington, is one of the largest, most powerful companies of the late twentieth century, with 12 current and former employees on the *Forbes 400* list of America's wealthiest individuals in 1999 (minimum net wealth \$625 million). William Gates and Paul Allen cofounded the company as Micro Soft, later to be named Microsoft Corporation, in 1975. They took the company public in 1986 at \$21 a share, raising \$61 million. After eight splits, that's the equivalent of \$0.15 cents a share. The stock reached a high of \$120 in December 1999. Its 1999 revenues were \$19.75 billion (a 29 percent increase over the year before), with a net income of \$7.79 billion. The company employs more than 32,000 people in 60 countries.

Today Microsoft develops, manufactures, licenses, sells, and supports software products. It also offers operating system software server software, business and consumer software, software development tools, and Internet and intranet software. The company develops the MSN network of Internet products and services.

Throughout its history the company has made a handful of big bets that have paid off. One such bet was the development of the graphical interface of Windows and another was Windows NT. They have each been so widely adopted that they have been considered industry standards.

Of all business computers today as many as 40 percent come with Windows NT Workstations preinstalled. Microsoft would like to make the same market impact with Windows 2000, promoting its ability to enable its user to write software for the Internet based on this program. Windows 2000 was delayed for some time but finally launched in February 2000.

The company's business model continues to evolve. It has gone from selling packaged products to selling organizational licenses and subscriptions, and is looking to possibly turn software and other applications into utilities in the near future. That could mean providing software on a monthly basis for a set fee, providing free upgrades and repairs as a cable provider does. Ballmer says his new charge for Windows is that it be ready for the Internet, reliable, manageable, and great for new devices. "In the revolution ahead of us, software will be at the center," Gates told *The New York Times*.

Partnerships:

You Can't Have Compatibility without Compromise

No partnership can exist without both compatibility and compromise. Bill and Steve have learned through the years to feed off of each other's strengths, to play off each other's compatible traits, and compromise when necessary, each knowing when to yield to the other. What they share is a deep dedication to Microsoft, a keen interest in mathematics, a love of fierce competition, and billion dollar bank accounts. But as well oiled a machine as their partnership appears, their personalities are vastly different.

Their differences stem from their varied backgrounds. Bill was born into an influential Seattle family, with his father a partner in one of the Pacific Northwest's most powerful law firms and his late mother a local philanthropist.

Steve was the son of a Swiss immigrant who worked his way up to middle management at Ford Motor Company without a college degree. While Bill could afford to take the risk of dropping out of college to found Microsoft, Steve felt he was best guaranteed a future with an Ivy League degree.

Personally, Gates is a reclusive, withdrawn individual. Ballmer is extroverted and domineering. Their respective roles throughout their professional relationship reflect those traits. If it was Gates's responsibility to ruminate on technology and identify new markets, it was Ballmer's call to seize those opportunities and rally the troops to implement them.

When Gates hired Ballmer, he was desperate for someone with good business skills. "We had so many people who wanted our stuff but we weren't really sure how to hire the right people, how to price our software, and things like that," Gates says. He had gotten so concerned with negotiating deals, taking care of the books, and managing and writing code for the software programs that he neglected to create a solid structure. "It was wonderful," he says, "but it was a bit of a mess." Ballmer's organizational and coaching abilities were a godsend.

Soon after Ballmer joined the company, he and Gates took on IBM. Because they knew how much Microsoft would depend on an allegiance with a hardware manufacturer, they offered Big Blue a 10 percent stake in Microsoft; but IBM declined. Looking back it was far from the best decision the computer maker ever made. IBM could have turned \$100 million into \$100 billion by now. Microsoft, which was supposed to use IBM's operating system, called OS2, ended up developing its own operating system, Windows 3.0. IBM thought that was foul play. Gates and Ballmer thought it was just fair competitive business practice. "By mid-1991, it was a battle, us against them," Ballmer told *Forbes*.

Their scuffle with IBM showed them that their partnership was sound and that each of them had the fortitude to do whatever was necessary to succeed in the business, risk and fear notwithstanding. "Tenacity and Ballmer's ferocious business acumen have made it the power house that it is. Elbowing aside competitors, pushing for every little advantage, scrapping with everyone, the company wins almost all the battles that it fights," wrote Jeffrey Young in *Forbes*.

Overall, their positions have remained similar throughout the years, and while the title change may have given Ballmer more right to veto or sanction projects without Gates's approval, the two still share the same responsibilities for Microsoft's future. Gates figures out what's bound to happen and what needs to happen, and Ballmer remains the go-to guy who makes things happen.

Increasingly, Ballmer has taken over the role of the company's traffic cop—telling its lieutenants when to go and stop, and which direction to turn. Soon after being initiated as president, Ballmer officially changed the company's mission statement. While maintaining Gates's overall principles for the company's founding, Steve brought Microsoft into the Internet Age from the Information Age. Its motto went from "A computer on every desk and in every home" to "Empower people through great software, any time, any place and on any device."

His second move was a major management and business realignment that was internally dubbed "Vision Version 2," initiated in the spring of 1999. A few months later, Ballmer announced a three-year growth plan that included new business opportunities and increased revenues from home consumers and small businesses. As well, he says he plans to focus the company's efforts on what he and Gates believe is the most rapidly growing segment of the Internet: the software that connects businesses to other businesses.

A New Twist to an Old Formula

Ballmer's name for his corporate redesign speaks volumes about his intentions for Microsoft's future. "Vision Version 2" says that he intends to instill a new purpose in the organization.

Though Microsoft was far from stagnant, growing revenues in 1999 at a 30 percent clip, Ballmer and Gates recognized that the environment around the organization was changing rapidly, and if it didn't set itself up to maneuver quicker and become more agile, it would get flattened. Bill felt that he was not able to pay enough attention to the Internet and user-interface technologies within Microsoft in order to develop new directions, and Steve felt that people within the company needed a new focus. "We needed to give people a beacon that they could follow when they were having a tough time with prioritization, leadership, where to go, what hills to take," says Ballmer.

Shareholders and journalists were calling for drastic measures. "Half of you guys want to break us up and the other half wants to do a megamerger," Ballmer said on a conference call, according to *The New York Times*.

Ballmer, uninterested in a megamerger, responded in kind, dividing the company's corps into new groups based on competitive landscape and customer base. No longer will Microsoft create new technologies based on what its engineers are developing. Rather the software maker will follow cues from its customers and competitors in order to remain more focused, and to ensure that there is a market for everything the company develops.

"Follow the customer," Ballmer explained to *Business Week*, "that's the number one thing to do if you get lost," he tells employees.

Gates himself had lost focus. He said publicly in 1995 that the company had no plans to "own any telecommunications networks, phone companies, cable companies—things like that." Yet in the past couple of years he's spent billions on investments and acquisitions, largely in cable (Comcast, MediaOne, and TCI via AT&T), telephony (Qwest, Qualcomm, Nextel) and the Internet (WebTV). Not too far off from Paul Allen's "Wired World" (see Chapter 2).

But Ballmer argues it's time to redirect the company toward its roots in software. "This notion of the PC as a very fundamental device to drive everywhere was a very clear thing to focus in on, very, very clear," Ballmer said at a shareholders' meeting in 1999. "But over the last three years we've seen a number of things happen. We've seen the absolute tidal wave of the Internet hit. The whole notion of a computer on every desk and in every home ceases to have the same kind of relevance. We needed to rearticulate to our partners and our people what it is that we are all about. So we need a rallying cry for the company as we turn and face the new millennium."

He said in a speech shortly after his appointment to chief executive, "We're a group of people in a company that passionately loves software technology. We're not a cable company. We're not a hardware company. We're experts in certain kinds of software."

The BLT

With a redirection toward consumers and new competitors in mind, Ballmer reorganized Microsoft into eight divisions to be run by a team of 12 executives called the "Business Leadership Team." The "BLT" ("a rather unfortunate acronym," jokes Robbie Bach, head of consumer retail) is a reflection of the direction of the Internet economy. Ballmer wondered whether it was possible to capitalize on the great number of new opportunities with just one guy writing all the plays.

The new structure is a collection of seasoned executives who are representative of a variety of different businesses across the company. They meet regularly to discuss management issues, bounce ideas off of one another, and make management decisions together. Microsoft needed to be more flexible as an organization as well as more efficient. "It was hard to do in a world in which you had to get four vice presidents in a room to make any important decisions," says Bach. "We all had different managers and different objectives."

Now it's Bill and Steve's responsibility to manage the development and business side of Microsoft, and the heads of the divisions can run their businesses as if they were presidents of subsidiaries. In the past, decisions changed late in the game had to be approved by Gates and Ballmer—if you were lucky enough to grab some of their time.

Executives say the new organization empowers people. "People have more autonomy. They're able to make decisions. We're moving faster. It's a better structure," explains Bach.

The idea behind having 14 managers who meet monthly to coordinate strategies across the operating units was set up to reinvigorate managers who had lost their competitive zeal. Senior executives had been leaving the company in droves. Ballmer hired ACNielsen, the marketing research firm, to survey former employees and find out why they had left the company. Many left because they felt, in part, that they were not in control of their own destiny.

It's a big change in Microsoft management, where Gates had always hired people who were really talented, brilliant, and driven, but didn't always give them power. "Now I've got to be a leader of leaders," Ballmer told *Business Week*.

"Bill and Steve have done a really good job of bringing these guys forward and promoting from within and building a really strong group beneath Bill and Steve," says Anthony Audino, a former Microsoft executive and head of the ex-Microsoft affiliation, Microsoft AlumNet. "But the real question is: Can the individuals at the top of the organization and the organization itself evolve in that way?"

"We're not at the end of a process," Ballmer told *Fortune*, "We're at the beginning of the next phase."

Ballmer's Challenges

E-commerce and the Internet represent both challenges and opportunities for Microsoft. The challenges of open source software and ease of proliferation of that software are very threatening—as are the number of competitors in software for application devices, such as the 3Com Palm handheld device and certain mobile phones. Beyond that, there are Web sites popping up all over the place that would love to provide application services similar to Microsoft's offerings, as well as innumerable e-commerce and portal sites that compete with Microsoft's online network, MSN.

Steve has made the Internet a priority, but, while he's made some progress thus far, Bill can't be excluded from receiving credit for launching the company's initial Internet efforts. As early as 1995, Gates told *Fortune* he wanted to move the company's software beyond the desktop and into the "guts of the Internet." He also talked of the day when Microsoft would license its software products out like a utility, rather than sell like prepackaged software products that must rely on shelf space and salespeople. (That was the thought behind his attempt to buy Intuit, the financial software maker.) In the same article, Gates went on to say that Microsoft's software should be at the base of all Internet business. "This New World on the electronic highway will generate a higher volume of transactions than anything has to date," he said, "and we're proposing that Windows be at the center, servicing all those transactions."

Ballmer's running the company comes at a serendipitous time in history. Now is when companies of all shapes, sizes, and industries are relying on Internet hype and marketing, rather than new technology, to succeed in the new economy. After that, people just want to have fun and work with a company they trust. One needs look no farther than AOL and Yahoo!; neither is technology focused; yet they are the most popular destinations on the Web. Ballmer's marketing history from P&G, as well as his innate salesman abilities will be quite useful in promoting Microsoft online.

While the Web properties have received much criticism, MSN is finally a top-10 Web network, according to Media Metrix.

The Internet Entrepreneur Threat

Ballmer charged his executive team with power at a time when many Microsoft executives were leaving to start Internet businesses of their own. Why be part of a huge organization when you can run your own?

Some of the talent who have left to successfully run new businesses are Naveen Jain at InfoSpace, Rob Glaser at RealNetworks, and Peter Neupert at Drugstore.com. Chief Financial Officer Greg Maffei left in December 1999 to be chief executive of a Canadian Telecommunications Company. Other executives, like Paul Maritz and Nathan Myhrvold, were simply burnt out and in need of a lifestyle change.

Steve began to catch on, and thought if he empowered his most senior executives with some more autonomy, they might feel like they were each, in fact, running startups rather than divisions of a mammoth company. "What's important is, Do you feel like you're the leader and owner of your business?" poses Bach.

"The people leaving Microsoft today are choosing to go into business because they still want to make a difference," says Tony Audino, one-time executive at Microsoft who runs its alumni Web page. Ballmer wants to encourage them make that difference within Microsoft.

Monopoly Concerns

Not to be ignored is the fact that Steve's transition into the executive hot seat puts a new public face on the company at a time when watchful eyes are looking for someone on whom to pin a case.

Moreover, due to the November ruling that Microsoft did, in fact, act as a monopoly, the company has had to make numerous changes, including making its Microsoft Office program Web-based. The BLT management delegation may prove to be necessary now that the judge has ruled that the company be split into two.

Microsoft obviously prefers to remain intact, citing that synergies of departments help the company run more smoothly and that they share many of the best practices between them. "I think it would be absolutely reckless and irresponsible for anyone to try and break up this company," says Ballmer, "I think it would be unprecedented and the single greatest disservice to consumers in this country."

Microsoft is, as to be expected, taking the ruling to the higher courts.

Whatever happens in the courts, you can be sure that Bill and Steve have no plans to split up.

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Chapter Two— See It, Believe It, Do It

Paul Allen • Bill Savoy
Vulcan Northwest

Every once in a while you get a whole new area of technology that really explodes, like the personal computer or the Wired World or the Internet. If you're lucky enough to catch one of those waves of change and you can see maybe a little bit further out in the future than other people, it creates huge opportunities to take advantage of.

—Paul Allen

In the early days it wasn't well understood and a lot of arrows were shot in our backs—but people understand now. People finally accept things we're talking about—they take faith that they're going to happen. They see it's not just a pipe dream. If you wait for everyone else to see it, then you lose.

—Bill Savoy

If you remain steadfast to your vision, invest heavily in it, and ignore critics, you'll emerge victorious.

The Partners

You know Paul G. Allen as Bill Gates's partner who helped construct a personal computer at The Lakeside School in Seattle, and then in 1975 cofounded one of the most powerful corporations in the world: Micro Soft. Together they developed the first graphical, "windowing" operating system. While at the company Allen served as executive vice president of research and new product development.

In 1983 he left Microsoft to fight Hodgkin's disease. After the disease went into remission, he traveled and spent time with family before returning to Microsoft as a member of the board in 1990. He is still a board member and the second-largest individual shareholder of Microsoft.

Allen told *Fortune* in 1995 that while at Microsoft, he was "the one always pushing a bit in terms of new technology and new products, and Bill was more interested in doing negotiations and contracts and business deals." He seems to still operate in the same way: as the visionary with a partner to execute. He owes his latest fortune to another Bill: William "Bill" Savoy, the realizer of Allen's "Wired World" vision and manager of his great wealth (at last count, an estimated \$40 billion, including his Microsoft holdings).

Allen, 47, and a dropout from Washington State University, gives millions to charities each year, focusing on medicine, education, music, and the Pacific Northwest.

He also owns the Portland Trailblazers and the Seattle Seahawks. He plays guitar, is a voracious reader, and is a scuba diver.

He has been historically media shy and extremely private—perhaps only adding to speculation and skepticism from the media.

Managing Paul Allen's fortune is no small feat, and it requires an efficient and risk-seeking dealmaker who is as open-minded and determined as he is thick-skinned. Allen hired Bill Savoy, no doubt, in addition to his intellectual bandwidth, for the fact that, at just 28 years old when he started working on Allen's team in 1988, he had yet to develop any technological or investment prejudices. Perhaps he thought Bill would be better able to absorb his methods of analyzing business strategies and interconnecting his corporations.

Savoy was chosen just two years later to be the lead manager of Paul Allen's fortune—at the time only in the hundred millions. Since then, the non-Microsoft segment of Allen's portfolio has turned into a \$20 billion investment vehicle called Vulcan Northwest. As president of Vulcan, Savoy has considered hundreds of deals and personally wrangled the company's current stronghold of 125 companies. He is a board member of seven of Allen's larger investments and is the chairman of Mercata.

Originally from Massachusetts, Savoy holds bachelor's degrees in computer science, accounting, and finance from Atlantic Union College. Before working with Allen, Savoy had been an investment banker on Wall Street, as well as the president of Polar Beverages.

Bill's slight build, youthful looks, and wispy blonde hair might make some doubtful that he can successfully deliver the Wired World to Allen, but speak with him, and those concerns will melt away. Extremely quick-witted, Savoy is also the picture of confidence. He's very well spoken—in fact he often acts as the talking head when Allen declines public inquiry. The question shouldn't be whether he can make it happen, but whether the right elements to the formula are available—and for sale.

The Partnership

Paul Allen, as 100 percent owner of Vulcan, controls its overall direction, but when it comes to management and investment negotiations, Savoy takes the reigns. "It's Paul's vision," says Savoy, "I'm like the mule at the front of the wagon."

Savoy says the two speak every day, whether from their offices next door to each other, on a plane to see a prospective investment, or in a board meeting. Either way, Savoy listens carefully to what Allen thinks about future technologies and insights into end-user experiences, as it will impact the buying decisions he makes later. "You can't underestimate the power of a guy who's as smart as Paul," says Savoy, "There are few people who are true visionaries—when you meet one your best strategy is to just listen."

The Idea

Ever since he and Gates built their first computer in high school, Allen has envisioned a world where everyone would be electronically connected to just about everything. After he left Microsoft, Paul decided to pursue a different way of achieving that goal: by investing in different components of it. The fortune he amassed from his Microsoft shares has enabled him to take significant risks to compose a group of companies that could help each other create that world even faster. "For over a decade I have been pursuing a vision of a Wired World where everyone would be interconnected in a global network, providing immediate availability to information and resources anywhere in the world," he explains.

More specifically, the Wired World is an interactive entertainment and communication universe that relies on cable, or broadband. Paul focuses on four basic building blocks to the foundation: hardware, software, infrastructure, and content. The software processes and presents information, such as graphics, databases, and messages and data on the Internet. The hardware, which also processes and presents information, can include servers, telephones, and digital assistants. Infrastructure is made up of the channels that are needed to deliver information, such as cable, wireless, satellites, and infrared. Finally, the content is the information itself: music, cinema, sports, games, products, art, and media.

Allen's investment in and subsequent partnership with a company focus on efforts to deliver information and entertainment in a way that consumers would want to receive and personalize it, rather than forcing technology down users' throats in a way that makes sense to the programmers.

Important to deciding whether a company fits the portfolio is that it be a good match for the other investments and that it can create symbiotic relationships with them. If a company can show that it has a technology, relationship, or management team that can assist some of the other Vulcan companies to achieve their goals, chances are it will be considered. "The unique thing I look for in an investment is breakthrough technology that can tie into or benefit from the other organizations I've invested in," explains Paul. "Because in a Wired World, connected ideas win."

As the only owner of Vulcan shares, Paul can invest in companies that are expected to deliver long-term wins, rather than short-term Wall Street quick hits. However, many outside viewers don't necessarily subscribe to that investment theory and have questioned whether Paul is wise to follow it. Without a focus on immediate shareholder returns, they ask, how can a company be successful? Paul would rather the companies spend more time worrying about perfecting their addition to the Wired World than short-term financial results.

Another area he's received a great deal of criticism about has been timing. He sees these technologies being useful to consumers years from now, but many are looking for current applications of products. "Periodically in our industry you see new ways to marry technologies. Then you try to push the envelope, and ask what wholly new applications, products or services you can do," Paul explains, "I'm trying to come up with those. It's high risk, but you can't schedule revolutionary ideas."

Being ahead of your time often means few people in this age relate to your vision.

The Company

Vulcan was established in 1986 to support Paul's Wired World strategy. In a given year, analysts at Vulcan review more than 5000 proposals and Paul makes a few dozen investments. Thus far Savoy has invested nearly \$10 billion, with a current value of about \$20 billion.

Setting Out on Your Path/Getting Started

Before you get started on fulfilling your vision remember that the beginning is always the most challenging. You are more than likely not as focused as you should be, and following some vague dream that doesn't have any practical application. "In the early days we weren't as laser-focused," admits Savoy, "It wasn't clear how the world would unfold and by definition we had to invest in multiple platforms and technologies—any one of them might become the core to the Wired World."

When you start that way as a public figure you open yourself up to critics. You're just chasing windmills, they argue. Your best bet is to get on a straight path to the goal as soon as possible. The quicker you find your most likely course of action, the quicker you can start to show everyone what your vision is by example. "Along the way things became clearer," recalls Savoy, "and we were ahead of the pack when the dust started to clear but if we waited for all the evidence along the way we would have been too late."

Your First Screwup

"My first investment for Paul was a disaster," recalls Savoy. It was 1990, and he spent \$10 million on one of the first direct broadcast satellite companies: SkyPix. It was founded by two men in New York, Richard and Fred Greenberg, who turned out not to be "honorable people." In 90 days all the money was gone and the company fell into bankruptcy.

Savoy was worried Allen would take it badly, but he said only once, "We've got to make sure we invest in better people." Learning from early mistakes is critical. "It made me realize the importance of quality management," says Savoy. "Today I'd rather invest in a great team of people and a mediocre plan than in a great plan and a mediocre team."

Bill and Paul look for proof rather than buying into an idea. "We decided not to invest in seed companies but companies with a proven management team and a business model we can subscribe to—we don't take it on faith anymore."

Another benefit to the investment was that to Allen, "it represented a paradigm shift," says Savoy. "We saw that we could transfer large quantities of information through digital channels. Paul just said, now go find more" and set Savoy on a path with some clear direction.

The funny thing is, ten years later you can't seem to find an article about Allen or Savoy that doesn't talk about SkyPix. The public loves a loser. It validates the fact that they didn't believe you in the first place.

Criticism

The critics will surely follow as soon as you make your first public blunder. Beware if you make more than one before your vision begins to crystallize. Though being the brunt of a media-induced public hanging is more than humbling, realize that the press is paid to be judgmental and skeptical. It isn't personal. You can't blame a few journalists who tried to stick their necks out and make a call on something that could have truly gone either way. That said, you can't take everything we say as gospel. Members of the media report what's there and make assumptions—they aren't seers.

Bill recalls that most of the criticism was, in fact, from the press, not industry insiders. Some of the comments stung both Allen and Savoy pretty hard. In fact, Bill won't entertain the question of which articles he remembers most.

It's no wonder. In 1994, when his Vulcan holdings were valued at just \$1 billion, Paul was labeled an "accidental zillionaire" whose ship only came in by being friends with Bill Gates. Naturally Bill wasn't given much credit, either.

Perhaps the harshest piece of criticism came from *Wired* magazine in 1994. In "The Accidental Zillionaire," Paulina Borsook wrote, "Microsoft spawned two billion aires. Paul Allen is the other one." She began by saying that Allen was "being touted as the high-tech investor cat to watch. But this impression of Allen may stem more from the quantities of money he holds than from the qualities he's demonstrated as an investor. . . . His wealth is a lucky trick of time and place, and particularly of his involvement with Bill Gates."

Wired went on to say that Allen's Microsoft fortune had little to do with him and everything to do with Gates, a popular, if painful, opinion. It pointed out that "contrary to the myth surrounding him," Allen was largely unsuccessful at launching any new ventures since partnering with Gates. Moreover, it lambasted him for starting companies that were "far from profitable," and asserted that the only investments in his portfolio that were doing well were companies with management already in place.

It called his startup Asymetrix "the reorg of the month club" and said he and his team "ruined" Layered, a software company in Boston that he invested in early on. Of course SkyPix was featured, and called "a spectacularly messy flameout." What's the reasoning for the string of failures according to the article? "He means well but has more money than vision." Ouch.

The article closed with a metaphor. It compared Allen to an ascendant to a throne of an ancient empire. It called him "a ruler who, not quite sure how to deal with the power and wealth he has been blessed with" ends up being duped by his courtiers and spends all day playing with odd inventions.

An earlier article by *Forbes* in 1991 pointed to Allen's founding of software company Asymetrix in Redmond, Wash. The author pointed to an Allen-generated press release that announced a "lofty charter: 'redefining software for the 1990s,'" and that a year later the company's sole product, Toolbook, sold less than 50,000 copies. *Forbes* also noted that Toolbook was far from "the revolutionary product Allen had predicted" and that Apple had introduced a similar software package, HyperCard, in 1987. All true at the time but still, it had to hurt to hear.

In an article entitled "Expensive Tickets: Ticketmaster: A Billionaire's Boo-boo?" *Barron's* castigated Allen and Savoy for investing in Ticketmaster. "Paul Allen might seem to be an astute investor," *Barron's* stated, but "while Allen has managed to make money on his position in America Online, he has shown a generally lackluster touch in recent years." *Barron's* noted that Allen bought into Ticketmaster three years prior, acquiring an 80 percent ownership stake for \$173 million, and that after the planned initial public offering Allen would have 54 percent of the company, still valued at \$173 million. The expected return (flat) would be far less than what the Dow delivered in that same period.

"It's possible that all of Allen's investments will pay off in the long term. But the billionaire isn't necessarily an investor others would care to follow," *Barron's* concluded.

That year, *Forbes* followed its earlier piece with another scathing review of four of Allen's investments, entitled "Desperately Seeking Another Success: Microsoft Cofounder Paul Allen." How's he done? asked *Forbes*, "Not very well. . . . The four technology companies where his involvement has been the most active look like fizzles."

In 1997 *Fortune* magazine entered into the ring with a piece that led with the question, "Is Paul Allen, America's third-richest man, a good businessman, or just unbelievably lucky—the Ringo Starr of high tech?"

Even worse, "In the beginning the more we did the more people didn't understand because they didn't see the thread that pulled it all together," says Savoy. Allen and Savoy were obviously not slam-dunk successes and far from media darlings. For their gutsy attempts at starting something meaningful they were snickered at and exiled.

How to Deal with Critics: Ignore Them

If everyone in history stopped what they were doing because they were laughed at, chances are we'd have far less innovation and much less comfort than today. The conclusion you can draw is that the best way to deal with critics is to ignore them. "I've learned in my ten years that if you have a vision and believe, you should not pick up the newspaper or a magazine—just do your job."

Bill emphasizes that "when people don't understand a strategy or a segment they tend to scoff at it." He says early critics of the bathtub said it would cause arthritis, and that an indoor toilet was considered disgusting and unsanitary. "The first inclination is to ridicule—it's the root of all bias," he says, "but if you listen to all the nay-sayers you won't do anything."

The most important piece of advice he offers to anyone facing the same challenges is this: "You have to have a tremendous amount of intestinal fortitude and conviction that you're right to get up every day and do it again."

Your Next Public Screwup

Oh, yes, there will be one. If you take risks and seek adversity you are not going to reap benefits without taking a few punches. Allen still receives public lashings for his missed AOL windfall, though he never lost money on the investment. You can add him to the list of investors who curse themselves for selling too early. He had accumulated a 25 percent stake in AOL for a total investment of just \$30 million and let it all go when its CEO Steve Case wouldn't give up any more control to Allen. It was 1994. While Allen more than tripled his \$30 million investment by the time he sold out, if he had held, he could have scored billions.

Never Doubt, and Never Fear

The loss of potential earnings from AOL far from bankrupted Allen. That year he had a \$3.5 billion fortune, including his Microsoft stock, and \$750 million invested in 20 companies. Today it's closer to \$40 billion. The message: Don't let one setback throw you. Never, ever lose sight of the end goal.

Savoy says even after a few rounds of mix-ups and public ridicule he and Allen "never doubted the vision—never once did that thought enter the conversation. It was always a very strong belief."

It helped that in 1993 positive results began to appear. "We started to see that we were doing the right thing," says Savoy. StarWave, an investment they made in 1993 became a successful consumer-oriented Web site from day one. Popular components include Mr. Showbiz, ESPN SportsZone, and *Outside* magazine. A million viewers logged on to watch the first online Super Bowl. The next year Savoy and Allen invested \$11 million in CNET because they believed that television and the Internet belonged tightly connected. That stake was recently worth some \$600 million. "They were some of the early investments that pulled us away from the pack," says Savoy proudly.

Keep Building the Foundation

Much like building a long-lasting home, a strong foundation is critical to building upon a vision. In the 1990s, Allen and Savoy went out on a cable-buying binge to pick up the necessary assets for their broadband initiatives. They gathered a cluster of cable companies through a company called Charter, making Allen the country's fourth largest cable operator, spending \$15 billion on cable in the year from June 1998 to the end of 1999.

What's the next step? To "lay more pipe, which requires lots of hardhats and fiber," says Savoy. "It's a vision, not a technology yet, it still needs to be developed. It's a real business, not virtual." He expects to make capital expenditures of \$3 billion over the next three years to bring the vision to consumers. That, and buying some content to deliver through the cable set-top boxes.

Build the Next Layers

Through the years Allen has been selling Microsoft shares to buy more pieces to complete the puzzle. In addition to cable, he and Savoy have bought into other means of distribution for his content—digital assistants, digital VCRs, pagers, cellular phones, and telecommunications companies.

Next, fill the pipeline with entertainment. For the silver screen as well as the television, they invested in USA Networks, DreamWorks, the Oxygen network, and Blue Sky Productions. They're also piling on Internet properties, with stakes in Priceline, Mercata, Drugstore.com, Homegrocer.com, and the Go2Net network portal.

One interesting technology Allen invested in is called Wink Communications. Wink allows TV viewers with the latest generation of set-top boxes to interact with broadcast programming. Collaboration with Charter will give Wink much needed cable distribution. Wink both provides the software to set top box manufacturers and processes the viewer responses.

Another edgy investment was Res Rocket, a technology that enables anyone with a multimedia computer connected to the Internet record live music with fellow musicians. Think of it like a musician's chat room.

Savoy also negotiated a deal with HealthAnswers, which uses technology and interactive multimedia to deliver healthcare information. It connects healthcare providers, administrators, product manufacturers, and consumers to information and to each other.

Another online buy was Mercata, an e-commerce store that allows groups of shoppers to form online and get together to purchase products through a group discount.

The Wins

A helpful suggestion: Focus on the wins.

Bill and Paul—against the odds—built the fourth largest cable company whose broadband pipes are capable of delivering into the homes of its 11 million subscribers more than 300 times more data per second than conventional telephone lines. Its broadband access will enable cheap Internet access, efficient e-commerce, and better service to its subscribers, and provide Allen with viewers for all his acquired content.

Bill turned \$30 million into \$1.5 billion in four months by funding pre-IPO Priceline.com, the name-your-price Internet retailer.

Allen's \$500 million investment in David Geffen, Jeffrey Katzenberg, and Steven Spielberg's entertainment vehicle DreamWorks SKG made him its largest individual shareholder, with an 18 percent stake. Allen hopes to use the studio as a vehicle for digital editing and animation production, as well as adding an element of interactivity into entertainment. With many doubters calling out the fact that the firm is still unprofitable, it seems to be on the right track, as it backed *American Beauty*, which won five Oscars in 2000.

Allen's sale of Ticketmaster, in a \$210 million stock swap for shares in Barry Diller's USA Networks, is now valued at around \$600 million.

The Next Generation of the Vision

Every successful vision spawns offspring. In 1999, Allen founded another company, initially named Broadband Partners, now Digeo. He is the majority holder, but shares ownership and responsibility with partners Go2Net, Charter Communications, High Speed Access Corp, and RCN Corporation. Together they will deliver Internet portal services and cable television through set-top boxes.

"The thing nagging at the back of our heads was that we knew we needed to bring additional value to the cable structure that hadn't yet been created," says Savoy. "The whole reason to buy cable was a belief that broadband is a better platform to bring what people have thought of as Internet content to the user." With cable, high-speed access, and a portal, they've got another great early partnership.

Wait—Are People Starting to See This is Working?

Periodically Bill and Paul witnessed positive press. *Business Week* was an early believer. In 1992, the magazine declared "If history is any guide, Allen certainly bears listening to. The last time he had such an inkling about the industry, it planted the seed for Microsoft, now the world's largest software company . . . when Paul Allen says multimedia is the wave of the future, you can bet he's more than just a talking head."

Seven years later *Business Week* wrote an extensive article entitled, "Paul Allen Gets a Little Respect." The writers said that although Allen had been considered a "billionaire dilettante who got rich mainly because he was a high school pal of Gates," he is now a "serious cable player" who "looks to be on the right track" this time.

The Retractions

Every person who has been slighted by the media longs for the day they see a retraction with apologies for shortsighted and premature negative judgments.

Bill relishes *Barron's* article in November 1998, "Oops! Scoring big investment gains, Paul Allen proves us wrong." In it, the author stated "When Microsoft cofounder Paul G. Allen brought Ticketmaster public two years ago, *Barron's* dismissed his investing skills ('Expensive Tickets,' November 18, 1996). . . . The bottom line on our assessment of Allen 's investment acumen: We stand corrected."

Bill says he hasn't seen quite enough retractions or "Oops!" stories for his taste, but he isn't letting that stop him from continuing with his mission.

There Will Always Be Doubters

Just because you've had some successes and a couple of positive reviews, don't expect that to mean the close examination by outsiders is going to stop.

In November 1999 *Forbes* asked, "What on Earth has gotten into Paul Allen?" Stating that "for years Allen frittered away a fortune on a seemingly incoherent mix of farfetched ideas and ill-timed decisions," which appeared to be "random, like a food fight—throw a little of everything against the wall and see what sticks." The article did say that Allen's early vision is starting to become clear but ended on the note that "it will take a long time to emerge, if it emerges at all."

In a way, part of the role of a visionary is to give us all something to ponder and analyze. It's more interesting to dissect a confusing compilation of companies and try to make sense of it than to talk or think about a simple company that's never taken any risks and never diversified its holdings or product lines.

With Faith in the Vision Come Connections and Credibility

It's a great day when people begin to understand your mission and give you credit for figuring it out early. "In the early days it wasn't well understood and a lot of arrows were shot in our backs—but people understand now," says Savoy. "They accept things we're talking about and take faith that they're going to happen. They see it's not just a pipe dream."

Beyond understanding, it has reached the domino effect. Not only is Allen's venture arm considered legitimate but an investment by Paul Allen has become a seal of approval for an up-and-coming company, opening doors that were slammed shut not long before. "If nothing else, the relationship tells the outside world that we think they're a good, credible team to work with."

The Downside to Being Understood

The problem with being understood is that, once everyone figures it out, you're no longer the only guy in the bidding war. Prices escalate, making it hard for you to own everything, and once everyone buys their own pieces, you've got competition on many fronts.

Even Allen's oldest ally, Bill Gates, is now a competitor. Add to that Bill Gross at Idealabs, David Wetherell at CMGI, and others. Though Savoy will acknowledge that they are all very successful he does add, "they are later to the game" and with lateness come higher acquisition prices. "Everything that's happened up to now has been preseason," he says, "and I don't think our collection is repeatable. What you'd have to pay would be orders of magnitude greater than what we had to pay."

At the End of the Day, Your Vision May Not Be Realized in Your Lifetime

The farther ahead you look, the longer it may take to achieve the end goal. Paul Allen and Bill Savoy have accepted that harsh reality. "You and I may not live long enough see it," says Savoy. He recognizes that innovations of this magnitude will change the world, and though the speed of technology is dizzying, it will happen but slowly.

"New innovations make it to market so quickly and replace everything so quickly that the balance of power shifts overnight," he says with no small amount of anxiety. He knows full well that the billions he and Allen have spent on cable as the key distributor for the next generation of entertainment could prove to be eclipsed by something greater. But, he says, "hopefully we'd see it long before it turned the corner and hit the market."

With all his resources and Allen's vision, let's hope so. If they don't see it coming, who will?

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Chapter Three— Remaining King of the Hill

Andy Grove • Craig Barrett
Intel Corp.

Only the paranoid survive
—Andy Grove

It's not just the big machine continuing to roll on. [We have] a bunch of smaller businesses starting up, which are forced to compete, scratch and claw for market share.
—Craig Barrett

How chipmaker Intel stays on top when new competitors are constantly rising from the field.

The Men

Andrew (Andy) S. Grove ran the world's largest microchip manufacturer from a cubicle for 11 years, and surrendered the title of chief executive officer to Craig Barrett in May 1998, retaining the distinction of chairman. Grove was part of the initial management team of Intel, recruited by founders Gordon Moore and Robert Noyce in 1968 to help run Intel's manufacturing. He was named president in 1979 and chief executive officer in 1987.

Born in Budapest in 1936, Andy was a Holocaust survivor who risked his life to escape Communist-controlled Hungary and immigrated to the United States at the age of 20. He graduated from the City College of New York with a bachelor's degree in chemical engineering, and received a doctorate degree from the University of California at Berkeley.

The consummate scientist, Andy holds several patents in semiconductor devices and technology. He lectures at the Stanford University Graduate School of Business, and has penned four books and more than 40 technical papers.

He is also a hyperaggressive manager, largely responsible for Intel's near-monopolistic position in microprocessors. With a single-minded determination to dominate the semiconductor field, he grew the company from \$3.1 billion to \$26.3 billion in revenues in his 11 years at the helm. "That focus has been the single factor most responsible for Intel's success for the past 15 years," Grove told *Forbes*.

As a leader he is known to be a hard-driving perfectionist and a tough, highly demanding manager intolerant of failure. In the field he is respected for his seemingly boundless energy, clear vision, and diligence. Andy not only understands how to handle relentless competition, but he wrote the book—literally—*Only the Paranoid Survive*.

Grove was voted *Time* magazine's "Man of the Year" in 1997.

Craig R. Barrett was born on August 29, 1939, in San Francisco, California. Like many of the executives of the modern age, he attended Palo Alto's Stanford University, where he received his bachelor's, master's and doctorate degrees in materials science.

He ventured to England as a NATO Postdoctoral Fellow at the National Physical Laboratory from 1964 through 1965, and then moved to Denmark as a Fulbright Fellow at Danish Technical University in 1972. He returned to his alma mater and joined the faculty of Materials Science and Engineering; he left academia in 1974, when he went to work for Intel.

Barrett, like Grove, made a name for himself in the company's manufacturing division. He proved his pluck in the 1980s by halving the time it took the company to attach casings and wires to semiconductors (two weeks). He has also been credited with improving quality control and consistency of Intel's product lines by implementing company-wide standards in manufacturing plant specifications.

Craig joined the ranks of senior management in 1993 as Intel's chief operating officer, and became its fourth chief executive five years later. Where Andy is kinetic and charged, Craig is process-oriented and systematic. He is "a manufacturing whiz who's as methodical as Grove is impulsive," says *Bloomberg* magazine.

Noted as having a drier personality and not being as charismatic as Grove, Barrett will likely be remembered for a different managerial trait: the ability to transform a global company at a pivotal time in history—the Internet age—a time when nothing less than a quick, seamless execution of radical business ideas and manufacturing processes will do.

Sarcastic with a dry wit, Barrett is the antithesis of Grove. Today Andy remains a mouthpiece for the business and the industry, while Craig manages the organization. Though their responsibilities have evolved, their positions as joint visionaries of the business can't be denied. "Andy and I still deal on a daily basis and meet and hypothesize and strategize," Barrett told *Bloomberg*.

Barrett lives mostly in Arizona, commuting to and from Intel's headquarters in Northern California each week. He owns a ranch in Montana, where he rides horses and fly-fishes.

The Idea

Everybody wants their startup to become a mammoth company. Some CEOs have even said they wish someday to wield enough power to be accused of monopolistic behavior. But it isn't easy being the king. Other people are always coming along trying to take some piece of your kingdom from you. The bigger the company gets, the harder it is to fend off the newer, nimbler enemies who are hungry for the position you've achieved.

Intel, along with Microsoft, booted the mainframe computer off the technology map in the 1980s with the advent of the Intel-powered personal computer. Soon nearly everyone had a PC at work, at home, or both. Each has grown into a multibillion-dollar company that influences the direction of its respective segment of the technology industry.

Over the years, Intel developed chip after chip, each faster and more powerful than the next, dictating to the PC manufacturers the computers they would need to create to keep up with Intel's advances. Each new chip was perceived to be the next best thing, and not unlike a new car model, consumers soon demanded a newer, faster computer every couple of years to keep up with the Joneses. That demand spurred hardware developers as well as software and peripheral manufacturers to offer new products that would showcase Intel's fancy new chips.

"The PC is the great leveler of enterprises," Grove offers. Where mainframe makers all competed with one another to dominate the mainframe and its components, he says the PC "horizontalized" the industry by creating a handful of companies that supplied the processors, the software, and other materials that were used to power and run PCs. It became horizontal, as well, in terms of competitiveness, which was ferocious. "All of that gave an enormously productive, enormously competitive offering, much more so than the vertical industry did before."

That competition not only spurred advances in product offerings, which benefited consumers, but also created fierce price wars, particularly with the microprocessors that make the computers run. In fact, it was one of Intel's founders, Moore, who devised what is now known as Moore's Law: the microprocessor will double in speed and halve in price every 18 months. The 1990s have witnessed the commodification of the microchip, and to succeed, Intel and its peers have had to not only build better products, but they have had to build them better to remain profitable.

The competitive landscape was furthered by the advent of additional platforms. The PC is no longer king. Its heyday has given way to cellular phones, personal digital assistants, and other machines people use to process data and communicate. With the proliferation of those devices, Intel must not just advance in PC chips, but develop different microprocessors that run smaller machines.

While Intel was peripherally blinded due to its straight-ahead-focused, steadfast commitment to the PC, more nimble chipmakers have been sprouting up and engineering products outside Intel's bailiwick. Rather than compete head-on with Intel, they made chips for small devices. Now Intel must fend them off to protect its overall position. Now multiply that threat to the *n*th degree to see what the challenges of the Internet brings.

The company stands at an inflection point, Grove says, a critical change point that must be correctly assessed and affected if the company is going to survive and be successful. "Depending on the action that you take to respond," he says, "you either bring your enterprise into a higher state of efficiency, a higher state of effectiveness, a higher discounted cash flow state—or you miss your chance and you move toward a marginalized operation." You need to think quickly, assess danger and opportunity equally as well, and execute the hell out of the strategy you choose. And woe is the company that misreads the situation.

For Intel, redefinition is part of its stability plan. To provide the company with a touchstone, Intel's new mission statement reflects its environment. PC-centric is out. The Net is now the center of the Universe around which all businesses revolve. Where once Intel wanted to be the key building block of the PC, it now defines itself as the building block supplier to the new computer industry. "The computer industry over the last 15 years consisted of personal computing," explains Grove, "and as the phenomenon of the Internet and e-business is upon us, we had to redefine our playing field to that being the Internet economy."

New opportunities present themselves every day, but Grove and Barrett are now in a position where they need to discard some familiar ideas and aggressively pursue others. That decision-making process involves a great degree of risk, particularly as any new venture requires reallocating resources away from its PC chips. "The trouble is that one product area has been so successful that everything else sort of pales by comparison," Moore told *Fortune* magazine. "I never imagined we would get to the point where we would say, 'Shucks, that's just a billion-dollar business opportunity,' but here we are."

There are problems. In this new Internet age everything is new again. No one really knows how it will play out. Typically global businesses would have looked to a company such as Intel to provide direction but even Intel admits it is feeling its way in the dark. "It is like discovering a new era without a history book. It is like discovering a new continent without a map," says Grove. "The rules are being written as we go along."

This is a defining moment in time for the global economy, as well as history. Leaders such as Grove are hoping their influence doesn't fade, and that they continue to sway the direction of technological development. "Market share is won at the time of technological transitions," notes Grove. "Between technological transitions it is very difficult, very expensive, very bloody to move market segment share by even a point or two. At times of transitions, the early movers tend to drive the technology transition and reposition themselves." Andy and Craig are trying to move quickly enough to obtain that first-mover advantage.

Perhaps the hardest thing to accept is that once a company gets to a place that's secure and promising in the Internet era, things change radically with each daybreak. What was successful yesterday is eclipsed by something more exciting the next morning. Loyalty and attention span are shortening. "Competition is only a mouse click away in our futures," Barrett told an audience at *Internet World* wearily. This is no time to get complacent.

Worse again: Intel must remain innovative and competitive in PC chips, its bread and butter business. "There's a lot to be paranoid about in that space," Barrett told *The Wall Street Journal*. "We're still very dependent on the PC marketplace for a lot of our revenue and earnings."

Leadership comes with a price: constant awareness, defensiveness, and agility. Craig has inherited a coveted throne just as his country is being besieged. If he reacts quickly enough and properly deploys his resources, he'll be able to assure himself and his shareholders a comfortable spot in the kingdom of the Internet.

The Company

Intel Corporation, the world's largest chipmaker and a leading manufacturer of computer, networking, and communication products, is based in Santa Clara, California. With \$29.4 billion in 1999 worldwide revenues, the term *behemoth* just doesn't seem to cut it. Founded in 1968 by legendary semiconductor scientists Robert "Bob" Noyce and Gordon Moore, founders of Fairchild Semiconductor, an influential technology company, Intel is listed on the Dow Jones Industrial Average.

Intel was the first company to produce the microprocessor, which is an integrated circuit etched on layers of silicon that organizes the central electronics of a computer on a chip. The company continued through the years to innovate and perfect that very product. Intel's business of making the microprocessors and motherboards that provide juice to computers contributed an impressive 86 percent of the company's revenues last year. Its chips can be found in more than 85 percent of all new PCs on the market today.

Yet Intel is no stranger to change. While initially the company was a bit more diversified in its component manufacturing, in 1985 the company ditched its strategy of making all kinds of memory chips and decided to focus solely on the microprocessors that are needed to run PCs.

By 1997 its position as top chipmaker was threatened by cheaper chips made by Cyrix Advanced Micro Devices (AMD), enabling PCs to be sold for under \$1000. Intel computers were higher priced, more top-of-the-line machines, and could have been phased out, had Grove not opted to meet the market's demand.

"If we lose the low end today, we could lose the high end tomorrow," Grove rationalized to *Business Week*. Instead of accepting defeat by the lower-priced end of the market, Intel stratified its chip lines into three areas: Celeron for cheaper PCs, Xeon for high-end network server chips, and Pentium III for the middle ground. Previously, there were no price gradations for computers; they had come in only one variety—upgradable. By offering three price markets, Intel increased its reach and saved itself from being excluded from a large market that may have priced it out of the game.

Times have changed yet again. Now, Intel is seeing that while Grove's single-minded leadership centered on PC chips propelled Intel to an almost indomitable position, PC sales are slowing and there are other businesses it will need to master in order to remain relevant—and profitable. "The Grove era is over," proclaimed *Business Week* in a March 2000 article.

It's Craig's turn to show his own leadership skills. He is guiding Intel into all kinds of new businesses, including network servers that support the Internet, Web site hosting, and chips, as well as manufacturing Web-enabled appliances and wireless phones. "It used to be that the PC was the center of the action, but now it's clearly the Internet," Barrett told *Business Week*. Barrett hasn't totally abandoned the PC, saying that 90 percent of the world still doesn't own one, representing a significant growth opportunity.

Craig has one heck of a challenge ahead of him but he's got support in the market, which is generally confident in Intel's ability to emerge victorious. "Investors are already treating Barrett's plan as if success were a sure thing," wrote *Business Week*.

Strength in Numbers

Big companies have always been the influencers of economy, particularly when the industries they represent require heavy outlays of people and capital to manufacture products and make advances, such as in technology. Becoming such a giant of industry is much easier when you've got a partner of equal size, ability, and ambition. In the 1980s Intel found a comrade in Microsoft, a relationship that is still going strong.

The combination of a PC with a Microsoft Windows-based operating system with Intel microprocessor chips is commonly referred to as Wintel. Largely responsible for the outmoding of the mainframe computer in the 1980s, Wintel made the desktop PC the information appliance everyone needed to have. Once the two had built critical mass in the marketplace, they upgraded to provide more speed and features, creating pressure for computer makers and buyers alike to follow their lead. When Intel and Microsoft say this is where the industry is headed, this is where it's going. End of discussion.

Today, it looks like a new shift in technology presents a problem for the duopoly. Will the manufacturers of Web-based applications be as willing to be told what to do—and at what pace? Will they look to Wintel for software and power when countless startups offer new and different approaches?

Critics doubt the duo will be able to gain a monopolistic—or even simply dominant—foothold in the Internet network space with the same vigor as they did the PC market. Already, Internet appliances that use no technology from either Intel or Microsoft are proliferating, according to *The Wall Street Journal*, including Internet-able Sprint cellular phones and Palm Computing handheld devices, as well as Apple computers, which have demonstrated an unparalleled ease with which to get online.

In an effort to lessen Intel's dependence on its traditional Microsoft Windows PC business, Barrett announced a plan to sell information appliances through phone companies and Internet service providers, using open source Linux software, as opposed to the comparable Windows CE program from Microsoft. "The great numerical superiority demand is really [Intel/Microsoft Windows NT] although we are supporting all the UNIX or LINUX versions as well," says Barrett in what seems to be a disclaimer.

As strong as their relationship has been in the past, it doesn't hurt to build a backup plan just in case.

Brand

When you are in an extremely competitive business you need to give your customer a reason to choose your product over someone else's. Often the best way to differentiate your company is to focus on your brand. It is particularly important in a business where consumers don't know how to judge quality because a product is highly technical.

Dennis Carter, Intel's director of marketing, introduced the semiconductor business to the mass market in 1989, attempting to turn a commodity into a branded product. But when you're Intel, and your product is an obscure microchip hidden beneath layers of complicated technology and plastic, to create a consumer brand seems almost absurd. Moreover, Intel was two degrees removed from the end consumer. It sold its chips to the OEM (original equipment manufacturer), which then sold its computers to the retail outlet, which sold to the consumer. Did Intel really know who its customer was?

Intel's intention was to interest end consumers in a product they had never seen nor touched, and moreover, to cannibalize Intel's successful 286 chip by suggesting to consumers that they buy computers outfitted with the upgraded 386 SX chip.

The tactic was unprecedented. Billed internally as the "eating our own baby" campaign, the ads were simple—a big red "X" spray painted over the number 286 and replaced with "386 SX." It worked: the end buyers, IT professionals, began to request PCs based on an ingredient. This was Intel's first step in showcasing its biggest innovative asset: its ability to put itself out of business.

With each new generation of chips came new advertising and target markets. Soon Intel began to target the home PC buyer with simpler ads, suggesting that the complicated decision of which PC to buy was easy. In 1991 the company introduced its "Intel inside" campaign, which projected its label from the inside of the computer to the outside. Intel was no longer marketing a product but the company itself. This symbol outside means you have the speediest, most powerful, upgradable computer in town.

People began to buy computers based solely on the Intel label. Eighty percent of consumers preferred Intel to other chips. "You're less likely to buy a brand you never heard of," says Carter, "and when you believe in one brand you move from awareness to preference to conviction."

It was a classic pull versus push consumer campaign: Market directly to the consumers so they will pull the product through the channels of distribution by requesting your brand. "There is nothing unique in this business," says Grove, "We're using standard building blocks, standard protocols, standard networks, standard business ideas. It is how we implement it that is the difference between one company and another company." That, and how you market yourself.

After the brand awareness effort came personification: the Bunny People. Named and designed after the outfits people use in the clean rooms where chips are manufactured, Intel's ads showed people in the labs in white bunny suits to symbolize innovation and quality. The next generation of chips brought brightly colored, dancing bunny people to commercials to portray the graphic and audio boosts enabled by the Pentium II and MMX chips.

The marketing attack was relentless, with an estimated budget of \$1 billion in 1998, up from an initial \$5 million campaign in the late 1980s. The Intel brand became so pervasive that its symbols have entered popular culture, having appeared on *The Simpsons* and *Late Night with David Letterman*, among other media outlets.

"Everybody wants an 'Intel inside' campaign," says David Aaker, professor of marketing strategy at University of California at Berkeley, "It's the holy grail for a high tech company."

Today the Intel brand is carrying its first new message in a decade. While "Intel inside" said Intel was the brains of the world's PCs, today it wants to be the supplier of "building blocks for the Internet economy." If Carter's done his job, the equity Intel has built into its brand will help carry it through this transition—and will likely be strengthened by it.

Better R&D and Engineering = Advantage

There is no better way to keep competitors at bay than by outpacing them. If you're spending significant amounts of money developing the latest advances and perfecting your processes, it will be near impossible for upstarts to keep up with you, let alone take the lead from you.

Intel is still by far the world leader in developing fancy, zippy chips to power computers. In 1998 Intel spent \$8 billion on research and development, mainly on its Internet-related chips businesses, making it nearly impossible for other chipmakers to forge ahead in ways Intel hasn't already considered. To put its budget into context, AMD, one of its closest competitors, had total revenues of \$2.8 billion in 1999.

In a commodity business, efficient and cost-sensitive manufacturing advances can mean the difference between profitability and bankruptcy. "In contrast to conventional wisdom that says you price on the basis of cost, in this industry you set the price first by what the market demands," says Grove. "Then you work to adjust the cost to match in a profitable fashion the prices that you set in order to be competitive. The result is an enormous performance drive delivered at a lower and lower cost." Intel has been smart to install leaders such as Andy Grove and Craig Barrett, scientists who not only understand engineering but who began in the manufacturing side of the business.

Intel's dedication to driving its engineers toward excellence has created a global image of innovation and technological savvy. At a time of transition and amidst the advent of competition, Intel announced in September of 1999 that it would introduce a new collection of chips that will carry data through the guts of the Internet. In March 2000 Intel released the fastest PC chip ever created, the Pentium III, which runs at a gigahertz, or a rate of a billion cycles per second.

Cash = Clout

Keep a conservative amount of cash lying around in case you need to buy yourself out of trouble. Quite simply, Intel has so much cash that if it ever feels sufficiently threatened it can just throw money at its problems and buy any competitors outright. Through its keen manufacturing prowess, Intel makes an impressive 60 percent profit margin on chips. That leaves a good amount of cash left over for emergencies. The company currently has \$12 billion in cash, on hand.

If Barrett sees that he and Intel don't have a capability in-house that will help it compete better, he usurps the companies that have developed those abilities. He spent \$6 billion in 1999 on acquisitions of companies that brought a wide range of expertise to Intel, improving his competitive edge.

Extend Your Reach

At a recent Intel sales meeting, 3000 members deep, Barrett had a staff handing out sticks of gum to the audience, and without saying a word, he strutted all around the conference room chewing gum. His point was clear and well taken: as Barrett can walk and chew gum at the same time, Intel can manage new markets in the Internet and appliance era and maintain PC chip dominance simultaneously.

In a time when the landscape is changing, sometimes the best way to maintain your position at the top of the mountain is to train your troops for combat in all environments. Craig understands that theory, and as such, has marshaled his troops to learn to spread out throughout the field, operate new weapons, and execute new strategies.

"The strategic inflection point we're facing with this exponential growth of the Internet is having an impact on all of us as we talk about computer infrastructures, applications of the future, and cost of ownership of our computing infrastructure," says Barrett. Through creating and marketing new Internet-enabled products such as Internet-based network servers and other infrastructure, chips, appliances, broadband and wireless capabilities, and Internet services, he plans to address those issues and assert his dominant position on the business community.

Internet

Craig and Andy know today's business environment begins and ends with the Internet. So will Intel. "The Internet enables large businesses to act like small ones by introducing electronic collaboration," says Grove. Through proper use of the Internet's resources, he says, "a company like Intel has not only managed to fight off the tendencies to slow down, but we grow bigger." The implication is that your business can be just like Intel's. Feared to be too slow to turn tight corners, for its part, Intel already generates \$1 billion a month from its own e-commerce.

"All companies that will operate will use the Internet in their business operations, or they will be marginalized out of operations," predicts Grove. "The Internet is going to be no less of a revolutionary technology than the telegraph or the telephone was in its own time."

"The rate of Internet adoption and content creation is accelerating. Businesses must make themselves relevant to the Internet—and do it quickly—or face possible extinction," Barrett said, as if to acknowledge that he sees the same threat facing his own company.

Craig takes that position to a deeper level. "The whole issue with the Internet is Internet time, or time to money, the speed with which you can get your product and communication done, and at a lower cost. This whole issue of competitiveness really drives the convergence of the engineering backbone into the corporate backbone and into the Internet backbone." His message: Intel will help you move faster by using the Internet's best features to make your business stronger.

Networking

Craig believes that the company's role is to evolve with the computing needs of the modern corporation. "It's really connecting the workstations and computer servers with the enterprise servers so we have a seamless system." He goes on to say that, through data sharing, we have a lower cost of ownership because of common architecture; and, if you include the Internet in this equation, people will then not only share information internally but share data and services with external groups as well. Further, networking helps a company scale, or grow incrementally, and effortlessly.

And while many corporations are already connected to a network, they may not have full capacity to handle the inevitable deluge of information that its employees increasingly import, save, change, and export. "As information becomes [digital]—as newspapers and magazines become bits, music and movies become bits, all of that can be delivered with this growing and efficient network without warehousing," explains Grove. In essence, a network is just the modern form of a warehouse.

Moreover, the world is moving from phone lines that were not built to handle this high degree of information transference into cable-based broadband. That move requires a lot of revamping of old networks and other infrastructure upgrades. When your data needs more space you store it on a server.

The future looks good for companies like Intel that are supplying networking capability. Andy says that 96 percent of the total Internet networking capacity that needs to be up by the year 2005 is yet to be deployed. Barrett expects a billion connected computers in the next five to six years, as well as 20 percent compound growth in workstation servers.

"I don't think anybody has come close to suggesting there is enough server power," Grove told *The Wall Street Journal*. "We have only seen the very beginning of electronic commerce on the Internet." You can be sure Intel will be in there fighting to give it to you.

Services

One logical extension of network servers is Internet network services. Intel has built a new data center across the street from headquarters where it houses thousands of computers that run Web sites for other companies. It calls it a server farm because it has rows of computers that power Web pages. Supplied with Dell Computer Corp. machines, the server farm runs the Web sites for large companies such as Citicorp and NEC Corp. Now, Web hosting with Intel can mean anything from providing a "warehouse" to store data systems to running entire Web sites for customers.

Soup to Nuts

In Intel's case "soup to nuts" means moving from making just chips to the hardware appliances that house them. Barrett wants Intel to supply the building blocks to the new Internet economy. While a decade ago—or even a couple of years ago—one would assume he meant microchips, today he's referring to hardware and software as well as networking. "Whatever happens with the Internet," Barrett told *The Wall Street Journal*, "people can't do this without hardware and components, and that's our specialty."

Barrett has diversified beyond the PC into handheld devices such as personal digital assistants, phones, and Internet-enabled devices. Barrett thinks that mobile phones will be the most popular carrier of Internet information when people are away from their PCs. He's even created a division to focus on making devices for wireless, and plans to produce Intel-branded set-top boxes, screen phones, and other information appliances. One company he acquired in June 1999, Dialogic, even makes PC-based phone systems, which will help Intel enter the field of convergence of voice and data.

All That and a Bag of Chips

Beyond its obvious strength in PC chips Intel makes processors that direct traffic on the Web, hasten e-commerce purchases online, as well as power mobile and wireless Web phones.

For networks, Intel is working on network router chips that will adapt to any network, as opposed to the product-specific chips of the past. Cisco, Lucent, and Nortel look to Intel to provide their networking communication processing chips. To beef up its efforts in network chips Barrett spent \$2 billion acquiring LevelOne Communications in March 1999. Expect more of the same.

Intel believes that as wireless devices become more dependent upon data than voice, its chip technology will become more necessary. *Bloomberg* magazine reported that Barrett has moved some of his strongest microprocessor engineers from making PCs to designing chips for cellular phones. Dataquest research firm says that there were twice as many cellular phones sold in 1999 than PCs shipped. Intel's StrongArm chip, which it acquired from Digital Equipment Corp., is a quick little number that doesn't require a lot of horsepower (it's good for things that run on AA batteries). As such, it is a good weapon to have for the coming onslaught of mobile phones and handheld devices, as well as set-top boxes.

In June 2000 Intel introduced its zippy Celeron chip for the sub \$1000 PC market. The new technology enables greater speeds, higher volume manufacturing, and lower overall production costs. In the first six months of 2000 Intel released six models of Celeron processors for this lucrative business segment. Utilizing its keen ability to cannibalize itself, it has introduced this new chip to serve a lower price bracket with the added benefit of performance, outrunning competitors, as well as itself.

That same month, Barrett brought out a line of five new processors for mobile PCs: the fastest mobile processor ever—yet again—and this time a Pentium III. The tiny chip runs on less than one watt of power on average.

You can bet as more devices are created that represent a challenge to the PC or other aspects of Intel's business, Barrett will make sure it is one of the first, if not the strongest, movers in that space.

Keep Your Ear to the Ground

A good way to know what the up-and-coming competitors will bring is to make them your allies. In an effort to not only keep up with what's new in development but also have a hand in new products that are successfully brought to market, Intel launched an investment fund in 1991. Named Intel Capital, the fund has already spent a large sum—\$1.2 billion in 1999 alone—to build a portfolio of 350-plus companies valued at \$8.2 billion. So far it's landed a few winners, including highfliers Inktomi, eToys, and RedHat.

The irony, of course, is that as you lessen the fear of the unknown for the larger entity, the smaller organizations that you support acquire their own group of competitors. "We are acquiring companies, acquiring people, and putting a new image on top of the big, powerful chip monster that eats the world," Barrett told *Business Week*. "It's not just the big machine continuing to roll on. [We have] a bunch of smaller businesses starting up, which are forced to compete, scratch and claw for market share."

The Challengers

Advanced Micro Devices: At one time considered a joke because it didn't have the production capacity to compete on a large scale with Intel—today Dell is making computers for AMD chips. And Gateway announced a plan to use AMD for certain chips because it felt Intel was falling behind on schedule, reported *Business Week*. As for speed, AMD's Athlon chip is in a tight race for the "fastest PC microprocessor" title with Pentium.

Broadcom: Makes chips for cable and broadband for digital transmission of voice, video, and data. Includes cable set-top boxes, cable modems and high-speed office networks, home networking and digital subscriber lines (DSL). The company supplies 3Com, Motorola/General Instrument, Cisco Systems, and Nortel-Bay, and is more established than Intel in this area so far.

PMC Sierra: Makes chips for Internet networking. Wants to be the "Intel of the Internet." But Intel wants the title for itself, and is spending billions on networking and communications capabilities.

Cisco: Cisco is the world leader in networking for the Internet, and as such connects people, computing devices, and networks to one another. It creates a unified information infrastructure for its clients by integrating various computer systems. Intel announced in February 2000 that it would offer network servers specializing in managing Internet traffic. Competition in this area will certainly get brisk.

Government Problem

Intel has one other force to reckon with—the U.S. government. A possible antitrust examination of Microsoft and Intel's business practices and whether dominance was exerted in a monopolistic manner became a much different situation for each of the companies. Intel, rather than oppose the government like Microsoft, looked to partner with the government and was more conciliatory.

In March 1999 Intel settled Federal Trade Commission charges that it had used monopoly power to bully customers with which it had patent disputes. "Intel avoided a long trial that would have aired rough tactics it uses against rivals, tactics the company doesn't dispute," says *The Wall Street Journal*. The company was forced to curb its practice of withholding samples and technical data on next generation chips with which it has intellectual property disputes.

Future monopolistic queries may or may not arise. Surely the results of the United States versus Microsoft battle will not bode well for the second half of the Wintel team. If a Republican wins the next presidential election, Intel can hope for less regulation going forward. As Ballmer is facing the legacy of inheriting a powerful leadership position at a company as mammoth as Microsoft, so is Barrett taking on the responsibility of maintaining and strengthening the dominance of the company his predecessors built—monopolistic claims be damned.

Barrett would no doubt use a derivation of Microsoft's defense if it were to be put up to government scrutiny: "Monopoly? You can't be serious. We have plenty of competition. In fact, new rivals are sprouting up every day. We need to fight tooth and nail to keep the title, and it's because we have spurred innovation, pushed our limits, and re-created ourselves multiple times that we have been able to survive. We are being tested constantly, just like everybody else.

We will not lie down. We will never be the sleeping giant.

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Chapter Four— Don't Be Afraid to Be an Agent of Change

Carly Fiorina
Hewlett-Packard

We are a company founded by inventors, fueled by invention and adept at reinventing ourselves to track with new market opportunities.
—Carly Fiorina in her first address to shareholders

I am not afraid.
—Carly Fiorina

When you're new in town, you need to establish yourself as a leader. You must become an agent of change.

The Woman

Carleton (Carly) S. Fiorina is undoubtedly the most admired and revered woman in the world of business today. As chief executive of Hewlett-Packard she is the first woman to ever head a company listed on the Dow Jones Industrial Average. HP is the largest public corporation ever to be run by a woman, and she is its first senior executive to be hired from outside the company.

As known for her sharp wit as for her stylish Giorgio Armani suits, 45-year-old Carly Fiorina is said to have a silver-tongue and a will of steel—necessary traits for a leader who is embarking on bringing a 60-year-old, \$43 billion corporation into a new age.

Carly was appointed to the posts of president and chief executive officer of Hewlett-Packard on July 19, 1999, succeeding HP veteran Lewis Platt. She instantly began making her mark on the company, the industry, and global business.

To give you an idea of her impact in the first few months of her arrival, here are a few headlines: "These Women Rule; Hewlett Packard's new CEO and president tops *Fortune's* 50 most powerful women," *Fortune*; "The Cult of Carly," *Forbes*; "Carly Fiorina's Challenge Will Be to Propel Staid Hewlett Packard into the Internet Age," *Business Week*; "In this Family, She's the CEO and He's Home," *The Wall Street Journal*; "Hewlett Packard Earnings Exceed Estimates in Quarter," *The New York Times*; "HP Chief Shuffles Top Roles," *The Wall Street Journal*.

There was even a short-lived headline on *Wired News'* Web site that read, "HP's new CEO: It's a girl!"

Fiorina's most noted accomplishment should not be that she is a woman in a male-dominated profession. In her own right, she has long been regarded as a change agent and an able leader. "She has an exceptional track record of accelerating growth in large technology businesses and building organizations that distinguish themselves in tough, competitive environments," said Sam Ginn, a member of HP's board.

Before making the move to HP, Carly was president of Lucent Technology's Global Service Provider business, Lucent's largest and fastest growing division, with more than \$20 billion in annual revenue. In her last two years her division dramatically increased its growth rate, rapidly expanded its international revenues, and gained market share in every region across every product line. Before that she spearheaded the planning and execution of Lucent's public offering and subsequent spin-off from AT&T—which turned out to be one of the largest and most successful initial public offerings ever.

Furthermore, Carly oversaw Lucent's brand campaign immediately after the spin-off—who doesn't remember the swirling red circle? It was largely she who was responsible for enforcing the company's image as a technology high-flier rather than an old-line telecom.

Carly started her career as an account executive for AT&T, and held a number of senior positions there before moving to Lucent. In all, she brings to HP nearly 20 years of technology and telecommunications experience.

Oddly enough, Carly received her bachelor's degree in medieval history and philosophy from Stanford University.

She went on to receive a master's degree in business administration from the University of Maryland and a master's of science from MIT's Sloan School. She tried and quickly dropped out of law school from The University of California at Los Angeles. She even spent a short time teaching English in Italy. "I truly grew up with no sense of limits," she told the *San Diego Union-Tribune*. That's clearly evidenced by her "can do" leadership style.

Carly is a member of the boards of directors at the Kellogg Company and Merck & Co. She was recently appointed to the U.S. China Board of Trade.

"Now is the right time for fresh leadership," said Lewis Platt in a statement upon Fiorina's arrival to HP.

The Idea

Rule number one when taking on a new challenge: grab the bull by the horns. When starting a new tenure as leader of any organization you must do the same; and you've got to let the bull know you mean it. When you are entering into a company that is in need, not only of more than just new leadership, but also a new *direction*, your employees are going to look to you for guidance. In times of steep competition, chances are your newly acquired workforce is scared to move ahead and take chances—particularly if the company has been around for a while and may not feel it has the most up-to-date tools to succeed. They need you to show unwavering bravery and vision. They need you to *LEAD*.

In its search for a new leader HP's board came down to four pieces of essential criteria, according to a *Business Week* article: the ability to communicate sweeping strategies, operational and financial savvy, a sense of urgency, and the management skills to see the company through the Internet age.

It's a sticky situation to be in, and one that requires delicate handling as well as political finessing and a strong will to succeed. "Fiorina's challenge is a ticklish one," noted *Business Week*. "She must strike a delicate balance between propelling HP's stodgy culture out of its moribund ways and into the high-speed Net Age while not losing the elements that have made the company an American icon—its deep engineering roots and its good, old-fashioned dependability."

Doing so doesn't come easy to most. You need to muster all your courage and make change in broad strokes without worrying whether you are upsetting people. And you must proudly take responsibility for your choices. *PC Dealer* asked Fiorina in a November 1999 interview whether it was possible to change a company without disruption. "No," she answered bluntly, "It is not. We're creating disruption in lots of different ways, including realigning the organization. . . . We must now find the right balance between preservation and reinvention."

Carly has so far shown she is looking to make some deep impacts upon HP. "Carly Fiorina isn't wasting any time shaking things up," said the lead to a *Wall Street Journal* story in October 1999. The article also noted that she "is clearly in a hurry to make her mark" on the company.

In a statement announcing her new position Carly made the statement that she could not pass up such a once-in-a-lifetime opportunity. She is fully aware that she will be making powerful changes at a pivotal time in history. And she knows everyone is watching. "Leadership is a performance," she told *Forbes*.

The Company

Hewlett-Packard has been credited with inventing Silicon Valley. Labeled "the Granddaddy of Silicon Valley," its humble beginnings in a one-car garage in Palo Alto, California, have created a legend six decades in the making, as well as a multitude of subsequent garage startups. HP was founded in 1939 by Bill Hewlett and Dave Packard and launched with \$538 of personal capital. In these 60 years it has grown to a \$43 billion computing and imaging giant. It has developed many management and employment practices that are emulated by companies around the world.

HP's original products were electronic measuring instruments used primarily in engineering, and which soon expanded into medicine and chemistry. It later evolved into a broad line of computer and computer-based products, including associated software, peripherals, support, and services.

Today the company has 83,200 employees worldwide and 600 sales and support offices and distributorships worldwide in more than 120 countries. Revenues and net income were steadily growing, but in the mid- to late 1990s at much slower paces than years prior. Its stock had traded in the neighborhood of \$70 a share for the year and a half leading up to the management change in 1999. The company was beginning to show signs of stagnation.

Some attribute the company's troubles to falling computer prices and delayed product offerings. Others cite the lack of speed at which it was able to move; there were layers and layers of bureaucracy—sometimes more than 30 layers at a time—before being able to approve a change in product or strategy. Divisions proliferated and a singular brand was missing; there were 130 disparate product groups.

On HP's corporate Web site it proudly declares, "Doing a job properly the first time, and doing it consistently, allows us to employ fewer assets, reduces our costs and contributes significantly to higher productivity and profits. This applies to every aspect of our business, from research and development to order fulfillment and support." Once upon a time conservative behavior was fine and good—but nowadays the best thing for speed to success is taking chances, not being in the right business and with the best practices right away. Today the quicker you fire the better; it's become shoot first, ask questions later.

Also on HP's Web site: "We serve a dynamic and rapidly growing segment of our technological society. To remain static would be to lose ground." Ironically, that's exactly what was beginning to happen. It goes on to say, "The dynamic nature of our business places an important responsibility on managers to create an environment that embraces change."

To be fair, this isn't a bankruptcy turnaround story, it's a "get with the program before it gets too late" story. HP's board was smart to realize it needed an outside jolt; you can't give yourself CPR. Shareholders lauded the company's wisdom in hiring an outsider; six months after Fiorina's arrival the stock was up to \$135 a share.

Know What Needs to Be Done, and Get Started

If you want to make an impact you need to start somewhere. Your first step should be to make an assessment of the company's most immediate and glaring issues, and then set out to correct them. Sometimes these issues are hard to see and accept from inside. Carly quickly got to work analyzing the company's weaknesses. She told *Forbes* that the most cumbersome issues at HP were turf battles, slow growth, tireless decision analysis, mixed messages to the marketplace, and a late entry to the Internet boom. Quentin Hardy at *Forbes* wrote, "Fiorina is trying to tear out the rot that insiders tolerate or fail to see."

"I came into HP believing that whatever changes we needed to make, we needed them quickly," Fiorina told *The Wall Street Journal*, "You can let people speculate and wonder for a long time or you can get on with it."

Making Your Intentions Known

During a time of transition employees always fear the worst. Inevitably, rumors will filter through the organization about pink slips being distributed and entire departments being wiped out. As the new leader you are clearly responsible for making your plan known. You need to convey that you expect your staff to embrace the changes you plan to implement.

Carly understands that her role as leader also means she must be lead communicator. "It's very important to speak not only to the customers of HP but to speak to the people of HP about who we are, where we come from and the commitments we are making," she says. "We owe you a very clear vision of the future and a very clear sense of direction," she proclaimed to an audience of HP employees when she first started.

Furthermore, she took an opportunity during her keynote address at the COMDEX trade show in the fall to announce a call to arms. "I believe an absolute mandate is that companies need to build a culture of radical ideas," says Fiorina. "Take a look at your company culture and ask yourself: Is this a place where unorthodox ideas are allowed to flourish? Is it a place that encourages creativity? In an economy of ideas, your worth depends almost exclusively on you building that kind of culture."

She continued to promise that HP would drive inventiveness for the new economy. She encouraged people to witness its reinvention and then noted that the new brand strategy is indicative of the new, revitalized HP.

"You can expect to work with a reinvented HP," she told listeners, "We're even going to look different, and it will be far more than a symbol. It's about the fundamental transformation and reinvention of this company."

Carly made it clear what her specific objectives were at her very first shareholders' meeting. She outlined her six priorities that would drive HP's new strategy: accelerating growth in current businesses, enforcing a decentralized operating model, implementing a total customer service approach, taking advantage of HP's balance sheet (roughly \$3 billion cash generated each year), leveraging the company's market positions in consumer and commercial businesses to drive the adoption of next generation appliances, and creating e-service "ecosystems."

Don't Knock the Previous Establishment

An important political subtlety many new managers miss is that you should never blatantly disrespect the previous establishment. They are the people who built the company, and many of the people who work within it have learned to love the place, along with all its faults. Be sure to compliment them for the successful work they've done and make the troops feel you are on their side, all at the same time. Carly is aware of this delicate dance, "The most important challenge for any organization today is to preserve its traditional strengths while encouraging the creative pursuit of new opportunities," she says.

Carly made a public declaration of respect for the previous CEO, Lewis Platt, at HP World 99 where she said, "I am deeply honored that he has agreed to stay on as chairman. . . . I have been blessed by his support and advice in the first month of my CEO-ship."

It is also prudent to praise their group accomplishments as an institution. "Invention has always been at the core of HP," Fiorina told an audience, "During the past year alone, our people generated more than 1300 patent applications."

Moreover, Carly was wise to center her reorganization model on the principles with which her new employees had grown comfortable. At her first shareholders' meeting, HP chairman Dick Hackborn praised her efforts to maintain that culture, driving the reinvention by leveraging what the original founders defined. After the introduction, Carly told the corporate audience that she greatly admired the legacy of the founders, the contributions they and the company had made, and the values and inventive capability of the company. She pointed to the importance of HP's core: values, respect, integrity, teamwork, and contribution. The implication, of course, was that she was looking for teamwork to support her new charge. "Inventiveness defines us," she declared.

It was a wise move to point out the historical strength that would come in handy, that she could call upon, to move the company forward and change it without fear. Never discard the principles upon which the organization was founded. "We are blessed with a company that was given a very strong soul and spirit and character by Bill Hewlett and Dave Packard," she said. "And it is the nature of that soul that helps us now in our reinvention."

Get more people signed onto your ticket. "Our phrase inside HP today is 'Preserve the best and reinvent the rest,'" she proclaimed. "Our first rule is 'Believe you can change the world.'" Brilliant.

The Reorg: Give All a New Focus and Let Them Feel It

Beyond talk, as the new leader you need to take action. Carly set some lofty goals when she first spoke to her new share holders. Next she had to show she was willing to apply some muscle. A month after she joined HP, Carly reorganized the company into four business units. No longer would HP focus their efforts on technology, but taking a cue from Microsoft's recent reorganization—and other technology companies looking to compete—on customer groups.

Carly took advantage of the company's original decree on its Web site: "the reason HP exists is to satisfy real customer needs. . . . We must listen attentively to our customers to understand and respond to their current needs and to anticipate their future needs."

"This is a great company and is also a company not yet living up to its potential," Fiorina told *Computer Reseller News*. "We have traditionally taken a somewhat product-focused, silo kind of approach to customers, and they are asking us to be much more focused on their business and hide the complexity of the structure from them."

Carly established four new divisions. In place of complicated technology-focused segments there are now business, consumer, computers, and printers. She reassigned her four immediate subordinates new responsibilities: the head of the old PC division will oversee personal computers and enterprise servers; another member of her staff will run ink-jet and laser printers; a third will focus on e-services, and a fourth will be responsible for digital imaging.

After assigning new jobs comes establishing a system of accountability. "One of the things I talk about with our employees is understanding the difference between minimally acceptable performance and aspirational performance," she told *PC Dealer*. "We intend to become the performance company . . . and if we don't, there are consequences."

Early on, she established that the top 150 executives—including herself—would be compensated based on bench-marks. "If one quarter of the people in HP don't want to make the journey, or can't take the pace, that's the way it has to be," Fiorina told *Forbes*.

She isn't afraid to be accountable, nor to make her employees feel the same. "We decided to transform this company," Carly told the *Los Angeles Times*. "Everybody has been engaged."

Get an Early Win

Just months after Carly came on board, she was called upon to execute the long planned for spin-off of one of HP's divisions. Agilent Technologies is focused on test and measurement, chemical analysis, components, and medical operations. She implemented the spin-off by selling a 16 percent stake to the public in a highly successful initial public offering in November 1999 at \$30 a share. The stock traded at a high of \$162 in March 2000. Hewlett-Packard now reports the results of the unit as a discontinued operation.

First challenge met.

Set Targets—and Meet Them as Soon as Possible

As the chief executive of a public company, Carly knew her responsibility would be to deliver positive financial results—and quick. She performed a solid analysis of her business and came up with some revenue targets she felt she could deliver in the short term. Carly publicly predicted revenue growth for 2000 of between 12 and 15 percent—double the growth from the year prior.

Industry and financial analysts are on board with those projections. So far, Carly hasn't proved them wrong. HP's first quarter 2000 revenues were up 14 percent from the year prior, excluding costs related to the Agilent spin-off. She knows that she also has a responsibility to deliver bottom line improvement, and has said she sees "a lot of replication and redundancy and inefficiency" that can be eliminated—\$1 billion or more.

In a conference call to analysts after reporting the first quarter, she stated, "The renewal and reinvention of Hewlett-Packard is under way."

Build the Company in Your Own Image

One surefire way to make an impression on a company—the community—is to change what represents it to the outside world: its brand and its logo. As Carly said at a shareholder's meeting: "A brand is a promise to our customers and a reminder to ourselves of what we should stand for and what we should be." If you're going to make a drastic change to an existing company, it may as well be outside as well as inside.

As for the company's logo, gone is the long and hyphenated Hewlett-Packard, in is the newer, more modern acronym: HP. Beneath it? Simply, the word "invent." (Not unlike Apple's hugely successful "think different" campaign.) "We are a company founded by inventors, fueled by invention and adept at reinventing ourselves to track with new market opportunities," says Fiorina.

She launched the new logo in November 1999. A \$200 million relaunch of the HP brand through advertising and print began the next month, including an image of a garage that recalls the giant company's innovative and sprightly beginnings. "Our new brand sends a 360 degree message," says Fiorina. "It starts with our employee audience and extends to everyone we work with and work for," she says.

Carly is taking the brand renewal one step further. Worried that HP had dozens of brands for different products, with nary an "HP" to represent it to the outside world, she set out to make sure that everyone in the company knew that "mind share" is the same thing as market share. She has placed an emphasis within HP of rebranding many of its disparate product lines with HP on the label.

Ah, focus, and a clear message.

Renovate the Products

Let's see. You've realigned, invigorated, and inspired the workforce, instilled a sense of responsibility, renewed forgotten dogmas, reinvented a company's icon and reassured Wall Street. What's next? The products.

Printers

Printers are one of the company's strongest and most recognized product lines. Demand continues to be strong, and its growing installed base (HP sold its 100 millionth InkJet in the fall of 1999) is driving sales of its wide-margined supplies, such as paper and ink cartridges.

The only thing left is to bring it into the modern age of the Internet. "We are moving," says Fiorina, "from a world where we print and distribute to a world where we distribute and then print." She wants a piece of that action. Among other partnerships, HP is working with Kodak to share imaging technologies. This relationship promises to move the technology from HP's labs to the marketplace and connect HP printer-related appliances to the Internet. "We are putting our minds to work to identify ways in which services, plus digital imaging and publishing will revolutionize the whole process," Fiorina states.

Servers

Demand for high-end UNIX servers in the marketplace is good but HP has a large competitor that focuses solely on this more expensive market; Sun. On the lower-priced server front, Intel-based server sales continued to be disappointing in the October period. Much of that has been attributed to sales force problems.

Carly is addressing slowing sales problems by enforcing a sales force reorganization. Compensation is being reconstructed to reflect performance, and underperformers are being terminated. As much as 90 percent of the sales team will have to deliver sales quotas. Roughly 250 salespeople had been fired or reassigned as of October 1999.

Services and E-Services

Carly frequently mentions the fact that the value of products in the future will rely on the Internet, or e-services, wrapped around them, such as a printer that delivers news or a car as a platform for navigation systems. In Fiorina's keynote address at COMDEX she stated that tomorrow's profits would come from the rise of services. "I would argue that in this next phase of the Net economy, services are what make most products valuable," says Fiorina. "The 'era of the pure product' is coming to a close. . . . It's the combination of product and services that brings in business."

She believes the next movement in the networked economy will be that any asset, process, or other technology that HP possesses can be turned into a service that can be delivered through a Web-enabled network. The e-services industry is expected to be worth between \$50 and \$150 billion in the next three to five years.

"We are reinventing ourselves and working hard to provide innovative products and new types of electronic services," proclaims Fiorina. "Our goal is to become the company that makes the Internet more warm, friendly, pervasive and personal."

It sounds like a tall order, but don't count her out. Carly Fiorina has managed to begin an inside and outside transformation of Hewlett-Packard. Who says she can't change the way we use the Internet?

It's a big challenge—but she is not afraid.

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Chapter Five— Of Cults and Computers

Steve Jobs
Apple, INC.

This is going to be a revolution.
—Steve Jobs

Jobs does the "revolutionizing thing" with such originality and success. He brings a notion and philosophy we should all live by.
—A posting from "Chris," a fan, on an Apple Web site forum

Want devoted customers? Give them something to believe in. How Steve Jobs converted millions into Apple followers.

The Man

Steve Jobs, with Steve Wozniak, cofounded Apple Computers in 1976. Together they began a revolutionary movement centered on a newfangled computer that came in one piece and featured picture icons on the screen. From the beginning, Steve ran Apple with the fervor of a man obsessed with a vision that could never be fully realized—the ultimate PC—and made it his mission to instill the same kind of devotion in his employees. His mission was too successful: ultimately it was their absolute belief in their assigned doctrines that began to cause troubles within Apple. Infighting ensued, even among management.

Jobs told *Fortune* that the Mac was originally designed to be a consumer PC priced under \$1000. But it turned out Apple couldn't make it that cheap. Based on costs, Jobs believed charging between \$1500 and \$1799 would be fair. Then-CEO John Sculley wanted to sell it for \$2499. Neither would bend.

Steve was subsequently cast out—exiled—from Apple in 1985 by John Sculley, who was replaced in 1993 by Gil Amelio. But Gil couldn't cut it. "He was streamlining at a time when the company needed to be inspired," wrote Walt Mossberg at *The Wall Street Journal*. After a few years of running the company, Amelio turned to Jobs for advice on how to repair Apple's fading position at a time when PC sales were falling and most of the industry was in a slump.

Steve returned to Apple as a special advisor to Amelio in December 1996. He soon persuaded Amelio to purchase NEXT, a company Steve started after his expulsion from Apple, for \$400 million in 1997. Criticized by some of the media at the time for being overpriced, Steve is now vindicated, as many of the new technologies and designs at Apple have been generated by the NEXT staff.

Apple's board made a plea for Steve to return as CEO, and he agreed to come back on an interim basis in September 1997. "My position coming back to Apple was that our industry was in a coma," he told *Fortune's* Brent Schlender, "It reminded me of Detroit in the 1970s when American cars were boats on wheels." Steve was again determined to rid the industry of all things beige. When he returned he had found religion: the iMac.

Whatever the reason, it sure wasn't about the money. He is paid just \$1 a year. Moreover, he sold all but *one* of his Apple shares at a time when it looked bleak for the company—just days before signing on as chief again. "I was able to walk in with some moral authority and say, 'Look, this isn't about me or the money I'm going to make. This is about what's right for Apple,'" he told *Fortune* in November 1998. "It was purer in some ways."

The products he initiated upon his return, as well as some operational fixes, put Apple back on the map. To validate his welcome back to the techno-elite, *Upside* magazine named Jobs #1 on its annual "Elite 100" list in November 1999, citing his "cocky attitude and marketing savvy" as winning attributes.

Steve's higher purpose gave way to some earthly pleasures in January 2000. He was granted an option to buy ten million shares of Apple stock and given a Gulfstream V jet airplane by Apple's board of directors, who were overjoyed at the turnaround he had orchestrated in two years.

That month, Steve announced his plans to stick it out as permanent chief executive officer—probably for another four or five years. He still calls himself iCEO because he thinks it's "cool." (It is also fitting: most of Apple's new products are assigned with the prefix "i.")

Steve grew up in Northern California's apricot orchards, which later became known as Silicon Valley. He still lives there with his wife and three kids.

Oh, yeah, he's also CEO of another company he cofounded: Pixar. Founded the year after he left Apple, Pixar is an Academy-Award-winning computer animation studio, which created half the top-six domestic grossing animated films of all time: *Toy Story*, *A Bug's Life*, and *Toy Story 2*. It's noted for being the only company other than Disney to have made a blockbuster animation feature. (Pixar is allied with Disney.)

The Idea

This may be the oldest strategy in the book. Give people something to believe in and they will dutifully follow. There has always been something magical and compelling about the unification a dream provides.

Steve—doubtless unwittingly—took on the role of Crusader Against All Beige Computer Manufacturers. He built a religious following based on the anti-PC. The first Macintosh in 1984 promised to overthrow the bland, fireless, passionless, causeless PC as well as mainframe computing.

With pictures of brave visionaries, such as Albert Einstein and John Lennon, who had their own following of fans, even Apple's "think different" campaign contributed to its revolutionary image.

His passion, charisma, and ability to get masses of people to rally for his cause are arguably the main reasons Apple is again a contender in the computer space.

The lesson: if you want consumer and employee loyalty, learn to turn water into wine—well, deficits to profits would be a good start.

The Company

Based in Cupertino, California, Apple was incorporated in 1977. The company is credited with igniting a personal computer revolution in the 1970s with the Apple II, and reinventing the personal computer in the 1980s with the Macintosh. Apple's Mac was the first PC to popularize the graphical user interface, complete with mouse and easy-to-click icons. Today, more than 31 million Macintosh systems have been sold in 140 countries around the world.

Apple didn't get here without its share of troubles. In fact, in the mid-1990s it had been left for dead. Sales and market share were drastically falling, there was infighting among disparate groups, and expenses were rapidly rising. In the fiscal year before Steve returned as interim CEO Apple lost \$1 billion on revenues of \$7.1 billion.

Steve quickly got to work fixing the place, nixing what he deemed unnecessary divisions, such as printers and Newtons, focusing on desktop and portable Macs and cleaning up operations, such as inventory build-up.

In Apple's first fiscal year after his comeback, the company reported sales of \$5.9 billion with earnings of \$309 million. In 1999 profits doubled. Apple's stock, at \$130 in March 2000, is nearly 10 times the price it was when Steve first returned. Talk about turnaround.

Jobs's work isn't through. Despite its solid fan group, Apple's worldwide market share is still around 5 percent.

Evangelist Leader: Charisma to the Nth Degree

"Evangelist" is an overly used and often abused term nowadays, being used as a descriptor for multitudes of Internet chief executives who are little more than good marketers and salesmen who drink too much caffeine. Jobs is far more than that. Able to turn a roomful "been there, seen it" techies and skeptical journalists into hooting, hollering, whistling fans, Jobs takes charisma to the *n*th degree.

Yes, as *Business Week* noted, at the 2000 MacWorld trade show Jobs was interrupted by a group of teens chanting, "Steve rocks!" But rock star popularity isn't the half of it. It's about something more. Apple's resurgence has something to do with the fact that people see Steve as a cross between a minister and a revolutionary Bolshevik. As David Kirkpatrick wrote in *Fortune*, "His celebrity is a tremendous business advantage, given his mythical stature." His colleague Brent Schlender put it more concisely: "He is a cultural revolutionary."

The power of a man who can communicate to the masses in a way that mesmerizes them to follow his suggestion, or makes them feel philosophically fulfilled cannot be underestimated. "Jobs has the uniquely powerful personality that either entrances or alienates those around him," Jim Carlton at *The Wall Street Journal* wrote. He went on to say that Jobs's "ability to charm and persuade" is like a "reality distortion field." Pretty powerful stuff.

People are looking for a leader. More than someone who can create efficiencies by cutting staff or building a faster assembly line, people are looking for something to have faith in. And creative people, such as designers and programmers, strongly desire the inspiration to create that which is worthy of praise. "Steve Jobs seems to be one of the few individuals in the world who truly understands that a computer company needs a vision of the future if its employees are going to invent great stuff," says Stewart Alsop at *Fortune*. "Getting a future involves imagining what the future should be, rather than starting with what is possible . . . [Jobs] is an extreme guy who doesn't seem to think anything is worth doing unless it can change the world."

The Preacher Man: A Few of Jobs's Revivalist Speeches

Witnessing Steve Jobs deliver a speech is something every leader—business, political, or otherwise—should do. And they should have a pen and paper handy. The feeling is a cross between a Baptist service and an infomercial. The whole room turns into both believers and buyers. Two summaries of recent industry speeches follow.

Macworld Expo 1998

MacWorld Expo, an annual industry gathering hosted by Apple, was held in New York in 1998. Steve Jobs was not supposed to be there. The rumor circulating was that he would deliver his keynote address by satellite from California. In true dramatic form, Jobs took a red-eye flight to New York just in time for the big event. After a thunderous standing ovation, Jobs reviewed Apple's progress in the year since he took charge as the company's interim CEO.

He began by reviewing the company's performance against the expectations of its critics. Noting how the critics (the business media, mostly) had beefed up their performance criteria each time Apple accomplished something it set out to do, Jobs presented what he called Apple's Hierarchy of Skepticism (modeled on humanistic psychologist Abraham Maslow's famous Hierarchy of Needs).

He then explained that Apple determined it would focus on four products—a desktop and a portable for the professional market, as well as ones for the consumer and education space. "If we have four great products, that's all we need," Jobs said. "If we only had four, we could put our 'A-team' on every single one of them. And if we only have four, we can be working on the next generation of each one while we're introducing the first generation. So that's what we decided to do—to have four great products."

Then he began to tell everybody about them, beginning with the Power Macintosh G3. The power Mac G3 "whipped the fastest Pentium machine hands down. We wanted to tell people about that," said Jobs. "So we put it into our advertising—and we've sold more than three quarters of a million G3s today."

The next product in Apple's lineup was the portable computer for design and publishing professionals, the new PowerBook G3: "Our fastest PowerBook, the 292MHz G3, is faster than any Pentium machine—desktop or portable—that money can buy," Jobs said. "And we're bringing DVD video to these PowerBook G3s. This is now the coolest way to watch movies on an airplane."

Next came Apple's consumer desktop product, the iMac. Remember that when Steve took over at the helm Apple hadn't had a consumer desktop product—and hadn't had one in years: "We immediately started a program to build the most kickass product we knew how to do, and that's the iMac," he said in true salesperson form. "Let's not wimp out here," he said. "Let's put a killer engine in this machine. [Sound like a car dealer? "What's it gonna take to get you into a car today?"] The fastest Pentium machine money can buy is slower than our consumer machine. This thing screams."

Then he told them about the iMac's universal serial bus (USB), a peripheral connector for things like external disk drives and printers. "It's 30 times faster than the old Apple serial ports. And it's hot-pluggable [meaning that you don't have to shut down and restart your computer each time you add a peripheral device]."

After delivering his product successes, the time was perfect to return to the Maslow theory of media attacks. "We rolled out our software strategy," Jobs said, "And it wasn't a day later before we started hearing the next level in the Hierarchy of Skepticism, and that was, 'Well, you've survived and you're still in business; that's really great. You're making some profits; that's really good. The business is under control; that's really wonderful. You've got a dynamite product strategy and you execute it on time, but you know, are you going to have any apps?' And you know, we anticipated this a year ago, and we've been working with a lot of developers in the past year."

This was a perfect segue into the relationship with the biggest software developer imaginable: Microsoft. In what was in some circles seen as a "deal with the devil," Jobs had a tough job getting people to support his decision to partner with his staunch rival. Microsoft invested \$150 million in Apple and promised to launch new versions of its Windows Office applications for the Mac along with new versions for the PC. "They said, 'We love the Mac, and we've got a fantastic business selling Mac software.' And I'm really pleased to tell you that despite the boos we received a year ago at MacWorld Boston (after the Apple-Microsoft deal was announced), this partnership has really blossomed," Jobs proclaimed.

Then he detailed all the other software companies who had agreed to develop applications for the Macintosh—177 applications in all, including Internet software, graphics applications and utilities, and great games. "Lara Croft is coming to a Mac near you," he teased, referring to the busty animated star of the wildly popular video game "Tomb Raider." The crowd went bonkers.

Then Steve started to brag a little. "There's no brand in the computer industry as strong as Apple's brand," he gloated. "Apple's brand is right up there with Disney and Nike and Sony in terms of recognition and customer loyalty."

After all the talk it was time for some theatrics. Steve called for a "simplicity shootout" to demonstrate that Apple has "the easiest-to-use, easiest-to-sell computer in the world." It was a video of a competition between a small boy setting up an iMac and logging onto the Internet versus a 26-year-old Stanford MBA student attempting to do the same on a Wintel machine—a standard ours-versus-theirs approach to commercials. Shocker—the kid got online in one-third the time as the smart guy. "We ought to make that into a commercial," Steve said. Make that an infomercial.

Macworld Expo 1999

Steve could hardly begin without some drama. After an introduction as Steve Jobs, actor Noah Wyle of *E.R.* fame walked on stage dressed as and acting like the real Steve Jobs. Wyle had some practice—he had recently portrayed Jobs in a highly publicized made-for-TV movie, *Pirates of Silicon Valley*.

When the real Steve Jobs came on stage he went straight for the moneymaker. He told the audience Apple had completed its seventh consecutive quarterly profit—\$200 million—and flaunted Apple's \$3 billion in cash on hand. Then more operational miracles: Apple had gotten inventory time down to 15 hours, versus as much as 28 days for other computer manufacturers, such as Compaq.

He then announced that Gap Inc. leader Mickey Drexler would join Apple's board. (Get the connection? Extremely consumer-friendly, awesome marketer joins board of decision makers. Jobs sits on Drexler's board, as well.)

After a talk about his video viewer, QuickTime, and Apple's built-in search engine, Sherlock 2, Steve reflected on the success of the iMac. Internally coded "lifesavers" due to their five bright colors, he said they had "taken off like rockets." More important was the thought that followed. "The iMac," he preached, "has already become pervasive in our culture."

In its first year Apple sold 2 million iMacs and generated plenty of buzz. He explained that in the United States 90 percent of iMac owners were using it to surf the Web ("which validates why the i is in iMac"), and 33 percent of iMac users were first-time computer owners. Clearly it was breaking into new markets.

Back to the universal serial bus—USB—1999 was its one-year anniversary. "We started evangelizing all device makers" to make compatible products and 125 USB devices were shipping, with another 100 to follow in the next few months. Please don't mistake his choice of words. Looking the part of evangelist minister in black turtleneck and thin-rimmed glasses, Jobs rehearsed the speech for hours before delivery.

And he is just getting warmed up. Soon he is pacing the stage, waving and wringing his hands, and emphasizing statements by pointing both arms out to the audience at the same time. Nearly 4000 new and renewed Mac applications had been announced since the iMac came out. "Developers are committing to the iMac in a big way," he proclaims.

Some more talk about applications before he points to a four-boxed square on a screen. Three are filled. One, labeled consumer portable, is blank. "Which leads us to the blank square . . ." he taunts. "There's been a lot of speculation and rumors about this consumer portable machine." The audience goes wild. They know what's coming. The portable iMac has been whispered about all week preceding MacWorld.

Jobs knows how to give them what they want. "I hope you like it," he says confidently. "We went to our consumer and education customers and asked, what, precisely, do you want? They said, 'An iMac to go.'" The applause gets louder. Hmm. What would they call it? Well, he explains, "We've been starting most of our products with 'i' so that would be a good start, and, oh, yeah, it's a notebook, so . . . iBook!" Cheers all around.

Now comes the hard sell. It's got millions of colors, the fastest graphics ever in a portable. "It's a rocket ship, the second fastest portable in the world—second only to [Apple's] PowerBook." A G3 microprocessor, built in CDROM, 56K modem, USB and Ethernet connection ("unheard of in the consumer marketplace"), and a full size keyboard. And it has a six-hour battery. "We wanted ground-breaking battery life. We have *six-hour* battery life. This is an all-day battery life product. You'd never have to carry the battery or charger to school." He may as well be selling a George Forman Grill.

The audience still hasn't even seen the thing. He's dangling the carrot and they're chomping at the bit. "What I'd like to do is show it to you right now." He brings out the tangerine model of the iBook. Cheers! Whistles! "This is made incredibly durable—from the stuff they make bullet proof vests out of. Let me tell you about this. [Here comes the pitch.] It has a handle. Let me show you something else. No latch! The iBook opens like your cell phone."

Wow! All those features! But what will they charge? First he'll tell you what you *won't* have to pay. "We could have charged over \$2000." But no, it can be yours for only \$1599. The audience claps like they're getting paid.

Then he shows some commercials he's planning to air. He asks the audience for their help. They're going to vote for their favorite using an "applause-ometer." The winners? One that asks, "Is it possible to fall in love with a computer? Oh, yes. Oh, yes!" The other hands-down winner features R&B seducer Barry White. "You turn my whole world around," he croons as the iBook spins on screen. Everyone laughs. Right on cue.

"There is one more thing," he says. He goes over to an iBook on a counter onstage and logs onto CNN. "Hmm. Wait, let me go over there and check Disney." He picks up the iBook and walks across the stage. He doesn't say a word. As soon as the audience gets it [there's no wires!], everyone goes crazy. He puts it through a magician's hoop. This is no trick, he assures. "What is going on here?!" he asks. Wireless networking.

Now back to the revolutionary talk: "Wireless is the only thing that will free you from these doggoned wires!" The first computer ever to be designed from the beginning to be optimized for wireless, he says. It even has antennas built into the sides. "Just lift the keyboard and drop in the AirPort card. . . . This is going to be a revolution in networking."

There is even a guy who shakes the iBook and jumps onto a trampoline to show its durability. The viewers eat it up. He didn't disappoint. The show is heavy on spectacle. You half expect someone to jump up and shout, "Hallelujah!"

"I'd like you to be the first to see the iBook up close. Lights up!" and he raises his hands like God creating light. There are 100 Apple employees in the audience and each has an iBook connected to the wireless airport so the viewers can tool around with them first hand.

The press responded in kind. "The keynote was vintage Jobs, an executive known as much for his theatrics and marketing acumen as his technological expertise," wrote CNET News.com. "He used the opportunity to espouse Macintosh religion, as he has been doing for the past two decades."

Design Your Resurrection

The product that has been credited with much of the responsibility for Apple's resurrection is the iMac. A new icon to praise, for just \$1299.

Two million have been sold. Jobs started the line of translucent bubble Macs in teal, and the upgrade brought in five more bright and delectable colors.

Jobs talks of design like a religious experience. "Design is the fundamental soul of a man-made creation that ends up expressing itself in successive outer layers of the product or service," he told *Fortune*. "The iMac is not just the color or translucence or the shape of the shell. The essence of the iMac is to be the finest possible consumer computer in which each element plays together."

Released in 1998, the whole product cycle for the first round took just 10 months. Using the same one-piece construction as the first Macintoshes, iMacs are replete with translucent keyboard, cool candy colors, and a lit-up mouse that looks like a Skittle. More than just cosmetic, the machines are built with a powerful G3 microprocessor, which is faster than computers based on Intel's Pentium IIs.

Buyers were as intrigued with the souped-up horse-power as the friendly design. "The Macintosh is not a computer. It's a Harley Davidson. It's functional art," wrote Scott Feldstein on an Apple Web site forum. "Jobs, his company and its products have an admirer and loyal customer in me."

The media was equally as wowed with Jobs's knack for providing a new idol for Apple fans to praise. Brent Schlender at *Fortune* declared in 1998 that "Steve's renewing his holy war with the inelegant, overly complex, beige blandness of PC computing. Once a zealot, always a zealot." Walt Mossberg at *The Wall Street Journal* noted that Jobs was "being hailed as a bold revolutionary." His colleague Jim Carlton said Jobs was "touting it as nothing less than the second coming of Macintosh."

The new product, with all its buzz, greatly helped Steve's missionary work. Its accessible design and ease of use made a lot of new believers. One-third of all iMac owners were new computer owners. Some of them, however, found it hard to get access to a new one to try out. Joel Dreyfus of *Fortune* tried to borrow a colleague's iMac to conduct a test drive. "It wasn't easy," he says, "Mac fans often develop a bond with their machine that makes you feel as if you're asking to borrow their baby."

The "to-go" extension of the iMac, the iBook, continued the iMac craze. For \$1599 the iBook comes in blueberry and tangerine. It started shipping in September 1999 and by October it had given the company an 11 percent share of the U.S. retail portable market. In January it was announced that the iBook had earned the number one spot among all portable computers in United States for the fourth quarter of 1999.

Sign on Outsiders

Steve knows he needs all the support he can get; even from outsiders. Non-Apple software companies need special incentive to work with a niche player like Apple. External software developers, such as Adobe, are assigned "evangelists" within Apple to maintain relationships. Hundreds of outside software companies now support iMacs.

As for the retailers—the people with the direct relationship with consumers, and who represent Apple to the outside world—Steve made sure when he became CEO to continue to work only with those who "spoke the speak" his way. He took Apple products away from retailers who weren't pushing Macs hard enough, and rewarded those who did a good job by cross-promoting them. With CompUSA, for example, he signed a contract to create Apple "stores within stores." Sales at that outlet have since quadrupled.

Convert Them One-by-One: Missionary Work

Steve makes no effort to serve the enterprise market. While some may criticize Apple for giving up big revenues from corporations, Steve wants only to serve individual consumers. Missionary work is most effective one-on-one. The companies can follow if they like. Jobs told *Fortune*'s Brent Schlender, "A lot of people can't get over the fact that we're not going after the enterprise market. But that's like saying, 'How can the Gap be successful not making suits?' Well, we don't make wingtips here either." (Jobs' comment is more than just an analogy—it's a plug: he sits on Gap Inc.'s board of directors.)

Comments from Believers

On a Mac posting page, "Chris" writes in January, "Jobs does the 'revolutionizing thing' with such originality and success. He brings a notion and philosophy we should all live by. Jobs for president!"

"Scott Gray" also writes on an Apple Web site forum: "When the rest of the computing world realizes how powerful Apple's hardware AND software is, the revolution will have already begun."

British-born designer Jonathan Ive, Apple's industrial design team leader: "I still remember my first experience using a Macintosh and falling in love with it. It was a very religious experience in terms of understanding that even I could figure out how to use this tool and then understanding what opportunities it offered, what I could do with it. I think that is one of the reasons I moved halfway around the world. Apple was probably the one company where I felt the heritage was so precious."

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Chapter Six— David Takes on Goliath

Scott McNealy
Sun Microsystems

Have lunch or be lunch.
—Scott McNealy

The Man

As the chief executive of a cutting-edge software company you might expect Scott McNealy to pack a couple of engineering degrees and speak in unintelligible code. In reality he's more linebacker than line programmer. McNealy was raised in the suburbs of Detroit, the son of an automotive executive at the American Motors Corporation. From his father he learned a love of manufacturing—and a strong work ethic.

Born in 1955, Scott graduated from Harvard with a BA in economics, followed by an MBA from Stanford. In 1982, while at Stanford, he cofounded SUN Microsystems (originally an acronym for the Stanford University Network) with friends Vinod Khosla and Bill Joy. While his partners provided the technical know-how, Scott had the management and manufacturing background, and moved into the president's spot after Khosla, who became chief executive, in 1984. He took the company public in 1986. After building a presence in the market as a network server provider, Sun introduced the platform-independent Java programming language in 1995.

To call Scott McNealy ambitious and competitive is an understatement. A powerful hockey player, you'd half expect him to body-slam his corporate adversaries to make a goal. Instead, he acts out his relentless desire to win in other ways. He has publicly positioned himself as an alternative to, and crusader against, the unstoppable software powerhouse that is Microsoft.

Fortune magazine had fun with Scott's missionary "good against evil" character and depicted him as a Java-wielding, comic-strip super hero in 1997 (believe it or not in real life he proudly wears his own Java ring). Dubbed the "Anti-Gates," Scott has publicly called the Microsoft chairman "the most dangerous and powerful industrialist of our age." Talk about Goliath.

Scott's libertarian approach to business has set him apart from other players in the industry by providing customers with a choice of technology in product categories where one company had previously dominated. His message suggests that by choosing Sun products you are not only buying the best new technology, but you are also making a bold statement about your independence and willingness to stand apart from your peers. He has also managed to portray Sun as a forward-thinking, innovative company, implying that if you opt for another company's comparable product you are somehow behind the times.

As a signal that he has been recognized as a respected businessman outside the high-tech community, he was named to the board of directors of General Electric Company in November 1999.

Outside the professional arena, Scott plays hockey in a local league and is an avid golfer. Last year he was named the number one golfer of *Fortune* 500 CEOs in *Golf Digest's* ranking. He is married with three sons.

The Idea

The concept is simple enough: If you want to succeed in a big market where one player owns the dominant position, you have to find its Achilles' heel—and strike it. McNealy not only found weaknesses in Microsoft's business model but he made them public. He went after the platform upon which Microsoft was dependent—the PC—with a vengeance, and found new ways to attack the industry at every turn.

Realistically, McNealy et al. did not found Sun with the intention of beheading Microsoft. From the beginning, its focus was on the network computing business model, and on creating different ways to expand upon that vision. But the network's very nature is a direct assault on the PC—it assumes there will be one central computer that will supply all the muscle, memory, and software to various "dumb" terminals. "The network is the computer" was Sun's mantra, and many corporations bought into the idea of a centralized network to share information, as well as save time and money on fixes and upgrades.

Further, Sun's Solaris operating system, a version of UNIX for workstations, was an affront to Microsoft's Windows NT. Then came the attack on Microsoft's ubiquitous Word software. McNealy wanted to provide an option to Microsoft's Word monopoly. Rather than relying upon one platform and one operating system, McNealy's Java programming language works no matter who hosts the application, no matter whose chip or operating system runs it.

The strategy is such: if your competitor is larger and more powerful than you are, you can find the kinks in his armor easier. When you are smaller you are nimbler and have the ability to focus better. He is busy running his business and fending off other would-be competitors. Moreover, careful analysis of his actions will show you what does and doesn't work.

The network promised to run PC manufacturers out of business, reducing costs for corporations who only had to buy shells of computers that could handle the incoming data from the network server. Intel and Microsoft—commonly known together as Wintel—were supposed to have lost some monopoly clout as well. However, people generally like having the ability to store data and run independent programs on their own personal computers. Moreover, PC prices are falling. What's cheaper now? Time will tell.

But do we dare to doubt the network? As Scott told writers Don Clark and David Banks of *The Wall Street Journal* in 1998, "Go ahead and write that the network computer is dead. If I can scare everybody else away I can own the market." That's what he intends to do.

It isn't enough that Scott developed a business that competed with Microsoft and made some of its ideas and practices seem archaic and obsolete; he had to go for Gates's jugular and sue him in 1998, exposing a side of him that is anticompetitive. Why bring attention to himself? Scott is using every tactic to weaken his competitor, turning Gates's attention to the courts instead of his product lines and internal management.

In his professional career McNealy has picked a fight with more than just one Goliath. He competes with other big technology companies, as well, such as Cisco, Intel, and IBM with servers, operating systems, microchips, and services. He then deals with them in other business segments as if to say, "It's OK if one of us wins this particular baseball game, let's all meet again next Sunday on the basketball court and play a game of hoops."

McNealy is a classic underdog. Or at least he started that way. The better he gets at competing with the big boys, the more he starts to look like one, himself.

The Company

Sun Microsystems is an \$11.7 billion company. It grew revenues by 20 percent in 1999. Scott's "the network is the computer" slogan has done well for it. Sun's products are sold in 170 countries around the world.

So what exactly does it do? Sun provides products, services, and support for building and maintaining network computing environments. Specifically, it sells scalable (able to grow with your need for increased capacity) computer systems, high-speed microprocessors, and software, all of which help you operate your company's network.

Sun has made a concerted effort to position itself for the future, focusing its attention on the Internet. As such, it provides products, technology, and services for brick and mortar companies to transform their business into an e-commerce model, and for new companies who want to build Internet capacity directly into their foundations. The company does so using custom combinations of its programming language Java, as well as its Jini (an instant networker: it tells other connected devices how to use the device it's programmed into) and Jiro technologies, SPARC micro chip, and Solaris operating environment (a UNIX operating system).

Think of it this way: it's all about connection—ultimately, to an Extranet (for your clients and customers), an intranet (within your company), or the Internet. The chip and operating environment work to power that connection, and the software brings it together.

The company's aim is to "connect anyone, anywhere, anytime—using virtually anything—to the resources they need." As Scott states, his goal for the future is that "every man, woman and child will be connected to a high speed network at all times, no matter where they are."

Where is the company headed? Says Scott, "Sun solutions have always been based on open interfaces and industry standards—an approach that promotes competition, innovation and customer choice. We're also seeing voice, video and data converge on a single network based on Internet protocols. As that happens, our aim is to provide what we call Webtone—like the dependable dial tone of your telephone but with multimedia capabilities." Scott is not satisfied with simply dominating network computers at the office. He wants to be the connection between you and every piece of electronics imaginable—all monitored and maintained by one central location.

That's adding quite a bit of products to his bailiwick—and quite a few new competitors, to boot. McNealy, after taking on the first of the big Goliaths, must now rise to the challenge of a new world where every new company stands to be another Goliath—or at least a David, aiming straight at him.

Challenging Goliath

It will take more than one rock to knock out a competitor the size of Microsoft. McNealy has had to continue to develop new ways to challenge the behemoth that is Microsoft—and he'll need to continue to do so to remain in the same arena, or he could end up defeated.

Start with a Direct Hit to His Product

The most direct offensive move against a dominant player in an industry is to offer an alternative to its product lines. Scott's networking business zeroed in on Microsoft's flagship suite of Word software products and its Windows NT operating system. McNealy began with a powerful lineup of network server products, aimed at pushing PCs into oblivion. Then came the Java versus Word battle. Both these battles are still being fought in the field.

Java, the "write once, run anywhere" programming language, was quickly adopted by hundreds of thousands of programmers. They began to write software using the Java technology, and thousands of companies soon began building applications for their own use, as well as for retail. McNealy made it known that the benefit to consumers was that they would not have to use a computer specified by the application; they could tell the application on which type of computer it would be run. Java meant freedom, while Microsoft represented being shackled to one platform.

Truth be told, the PC hasn't been abolished, and most people don't believe it ever fully will be. True, PC sales aren't as strong as they once were, but the home consumer is still buying the things—what use would a network be for one person working out of a living room? Scott will not give up his end of the fight. "Network computing is the heart and soul of this company," he says, "Always has been; always will be." Translation: we will always think of the PC and Microsoft as our chief competition. We will be steadfast in our mission to succeed them.

Legal

In a fight against a giant you can sometimes feel bullied around. When that happens, you need to go to an authority, someone stronger than you to loosen its stronghold and keep it at bay. In this instance, that intervention was the U.S. justice system. When McNealy began to feel he was being taken advantage of, he took Microsoft to court. Here's why:

Microsoft and Sun signed a contract whereby Microsoft agreed to distribute Sun's Java technology in its products. The contingency was that the technology would have to conform to Sun's specifications and compatibility tests. It all seems simple enough.

Scott says that Microsoft needed him because Java was at the center of the Web languages, and at the same time it was "clear that Java could break the operating system lock-in that the Windows monopoly depended upon." He says that Microsoft became threatened by the success of the program and decided to work around the contract to suit its needs. "They began to insist," says McNealy, "unlike any of the other 100-plus licensees—that their contract didn't mean what it says. They claimed they had a right to change the formula to suit their needs." McNealy offers this analogy: "Imagine if McDonald's felt its customers wanted Coke that was sweeter, so the fast-food chain unilaterally changed the formula, distributing a new concoction at its 10,000 or so outlets. Imagine if McDonald's said it just wanted to give customers a new choice. It would take Coca-Cola about a nanosecond to come down hard on its distributor."

Sun and Microsoft undoubtedly view each other as competitors. Sun should have seen this kind of complication coming. To sign a distribution agreement with your archenemy is taking some serious risks. McNealy was obviously prepared to undertake those risks based on the hope that its software would get to more consumers by using Microsoft's distribution channel.

Scott's case to defend his agreement brought up some poignant issues about fairness and market dominance. What began as a defense of a contractual obligation became an antitrust investigation into Microsoft's monopolistic behavior. Scott remained involved in the case as it went on, taking on the role of the underdogs' advocate.

Scott staunchly opposed Microsoft's moves, which he felt were tipping the scales in its favor. He blamed the company's business practices for slowing progress in technology. "The opportunities for the future are virtually unlimited, as long as the competition in the software industry is strong," he said, "and that, precisely, is the threat posed by Microsoft's domination of the software market."

McNealy used American corporate history in his argument, stating, "When the government has moved against monopolies, innovation and competition have flourished. Consider the example of AT&T. In the early 1980s the telecommunications giant was being challenged by a small contingent of upstart companies—one of them was MCI. Because AT&T was a monopoly and had virtually unlimited resources, it squashed every new and innovative idea MCI came up with to provide high-quality phone service." The parallel we are to draw, of course, is that Sun is MCI.

He goes on to say that the government broke AT&T up in 1984, and that "the consumer benefits, as has our economy at large. Whether it is AT&T in the early 1980s or Microsoft in the 1990s the behavior of monopolies and their consequences for all of us and our economy are consistent."

McNealy brings home the analogy and implicates Microsoft directly when he states "monopolies by their very nature stifle choice. Without choice there is no competition; without competition, there is no innovation." Finally, he pronounces Microsoft the enemy of the public, "Dominating any market carries with it a hidden tax on society, the price of which may be incalculable." By this statement, he has not only made it clear that he is against the software company, but he attempts to enlist the American public in his charge against monopolistic behavior.

Take It Public

It's one thing to sue a public company; it's another to make your suit public. McNealy knows that as Gates becomes more vilified in the media Sun gains more attention, as well as increased perceived edge by consumers. He would also stand to win if Microsoft's customers began to distance themselves from the company. Sun is an easy alternative.

McNealy has never been shy about his stance against Microsoft. He takes the company on in the media and on his company's Web site. He has built himself a following of people looking to see what brash comments he'll offer up.

In an editorial in *The Wall Street Journal* in 1998 McNealy explained that the reason he was suing Microsoft was that he believed the company was trying to "steal the Java programming language and subvert the growth of a new software industry that's not dependent on the Windows operating system."

McNealy noted that Microsoft said in an e-mail shown to the Justice Department that it realized Java had the potential to "devalue and replace" Windows. His contention is that Microsoft wanted to "convert the Web into its proprietary domain . . . continuing to deny [customers] the ability to create and distribute a single application that can run on a variety of operating systems."

In an interview with *Newsweek* on June 21, 1999, McNealy discussed what he thought the U.S. government should do about its antitrust case against Microsoft. "They should force Microsoft to publish APIs [the rules of how to write programs for Windows] in a responsible, transparent way to the rest of the world," he suggested. "That allows for interoperability, so that any innovation that we do can run on Windows. . . . I have yet to see a customer disappointed when there's interoperability between two different pieces of technology."

His other suggestion for the government: force Microsoft to divest itself of all minority equity investments, such as those in AT&T and cable company Comcast. McNealy told *Newsweek* that through these investments "Microsoft generates monopoly profits and uses that monopoly money to get an influential position with the [Internet] service provider." McNealy compares that to Standard Oil buying gas stations, pointing out that a company such as AT&T or Comcast is a service provider as is a retail gas outlet in the gas business. By owning the stations, he is controlling the distribution, as well as the creation, of his products.

Inevitably, when Scott makes a public statement as strong as that, Microsoft responds in kind. In answer to McNealy's October 1998 *Wall Street Journal* editorial, Paul Maritz, vice president of Microsoft's platform and applications group wrote, "Our industry is one of rapid innovation and strong competition." He continues, "Microsoft believes that competition is good for Java developers, consumers, and for the Java programming language."

Maritz turned the tables on Scott when he wrote, "Sun is trying to use Java to 'kill Windows' and other operating systems with a layer that is under their control." He took that one step further and accused McNealy of complaining only because he was failing to beat Microsoft in a legitimate product war. "Since Sun has been unable to accomplish this goal by competing in the marketplace, it has chosen to litigate rather than innovate." Let the games begin.

Copy Goliath's Strategy

Fight fire with fire. If you want to be as big a force as the competitor, perhaps you should try to approach the business using its strategy.

When McNealy began to notice Microsoft was investing heavily in telecoms, perhaps the most significant of which was AT&T, he wanted in on the action. Sun chose a partnership with wireless company Motorola. He maintained that his move was more geared toward the future than Microsoft's dated alliance with AT&T. "It's about moving from the old way of developing and maintaining wireless networks—characterized by high maintenance costs, limited features and limited access—to a model that opens the whole industry to greater innovation," he boasted.

With his statement, he not only condemned Microsoft but also criticized its move into telecommunications as stodgy, whereas in McNealy's model, "platforms will be open," and therefore more modern. In his partnership with Motorola voice, data, and multimedia would converge, and carriers would be able to reduce total cost of ownership.

Lambasting Microsoft for insisting on keeping its development private, McNealy announced that a Sun/Motorola deal would mean "a non-proprietary, high availability platform for infrastructure development [that would] break down the barriers to innovation." In an effort to expose a previously backward and ineffective model, Scott stated that his deal would enable network operators, developers, manufacturers, and service providers to offer customers "feature-rich, universally available, and affordable services more quickly and cost-effectively than before."

Attack His Business Model

One holistic way to attack your opponent is to claim the entire premise upon which his business is built is obsolete. McNealy and Sun are moving even further away from the prepacked software and hardware business that made Microsoft what it is today by extending the network and going toward an application service provider model.

McNealy predicts that in five years people won't buy computers or software anymore. Rather, they will rent those resources from an application service provider. "You don't want to worry about which operating system you're running on, which mail program you're using, or which calendar," McNealy explains, "Your company doesn't own and maintain telephone switches, yet you enjoy all the benefits of the phone system. Network computing is moving to the same highly reliable utility model."

Yet another assault to Microsoft's model is Sun's move to multiple platforms, and away from PCs. More than simply touting desktop computers that are connected to a network, McNealy is banking on the success of multiple platforms that will be centrally managed by that same network. His Java and Jini technologies give multiple products, such as personal digital assistants and other gadgets, the ability to communicate with the larger network. Ultimately, McNealy sees appliances and other electronics in your home connected to that network as well. Again, he suggests using Java and Jini to enable those devices to coexist.

Even more futuristic is Scott's suggestion that companies will be able to diagnose appliances and fix them remotely. This service could include, for example, virtual housesitting, maintenance, and home security.

One example of the universal connectedness Scott envisions is enabling a mobile businessperson to connect his or her Palm pilot and other personal digital assistants to the network used by his or her office—something, Scott emphasizes, that you can't do on a PC. Wireless handheld devices could enable a salesperson to check inventory, update a customer's profile, and determine a need and whether it can be filled. An order can then be placed on a mobile phone. "I have seen the future of software. It's not a product, it's a process—a new, inclusive process that results in rapid innovation while protecting what may be the most precious commodity of the dot.comers," says McNealy, "cross-platform compatibility."

By not following Microsoft's dictates to the market and by offering a choice, Sun has gained relationships with manufacturers as diverse as Whirlpool and Nokia, which are redesigning their products using Java and Jini technologies. The more pervasive Sun-based products become, the less likely manufacturers will be to choose to run on Microsoft technologies because they will want their products to be compatible with the rest of the market.

Open up the Battle

If you expect your artillery to annihilate the competition, you may need to enlist more scientists to help perfect your weapons. With the creation of Sun's Java programming language, McNealy made it his mission to maintain an open source code to the software so that programmers could see what makes it run. In this way, users can see how to make it best run on their own systems to suit their own needs. "We believe that proprietary lock-ins (still being touted by some of our competitors) have no place in the network age," proclaims McNealy. "We believe everyone should have access to the grammar, syntax and alphabet of [the Internet technology] languages."

Pre-Java, programmers and other consumers of software did not have the ability to dissect a core language. When McNealy granted access to Java the industry took notice of closed-systems such as Microsoft's, and some began to request that open-source code be made available industrywide. The rift McNealy created was his intention from the beginning. "It's gratifying to see so many companies rallying toward a shared vision, a vision of computers that talk to each other no matter who built them," he says, "On the Internet you never know what software or hardware another company or individual may be using—and you shouldn't have to. The .com world runs on open standards. There's simply no other way to do it."

Sun makes Java's language and development kit free for all software programmers. It also publishes the specifications and invites people to comment on documents as they are drafted. Further, it enlists help from its customers by licensing the source code to them so they can help evolve the technology and later distribute it through their own products—software or hardware.

Though Sun makes its Java code widely available, the company insists on some control over its use in order to maintain a sense of "consistency and integrity." True open source activists argue that developers would assure consistency and integrity of the product simply by finding bugs and adding features.

When Focused on Beating Goliath, Don't Forget Smaller Davids

The free and dependable Linux operating system represents a real competitor for both Microsoft's Windows NT and Sun's UNIX. If Scott remains steadfast to defeating Microsoft, he just may take his eye off the ball long enough for LINUX to come in and change the game.

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Chapter Seven— It's the Brand, Stupid

David Filo • Jerry Yang
Yahoo!

We didn't know it was a brand. . . . It became a brand when real business people told us it was a brand.
—Jerry Yang

Make it easy for your customers to choose your product over all others: Give them something they'll ask for by name.

The Management

It's hard to say who is the titan most responsible for the success of the wildly popular Yahoo! brand. Neither of the two cofounders had more of an impact upon its creation than the other, and shortly after the company was founded, two managers were brought in to help solidify the foundation beneath the image and grow the company. As for titan status, while the cofounders are each billionaires, the bosses have significant ownership stakes in Yahoo!, as well. Thus, the following is a brief introduction to all four integral members of Yahoo management.

Jerry Yang is cofounder, chief Yahoo!, and director of the board. Yang works with the chief executive and president on business strategies, and is considered internally and externally to be the key brander of Yahoo! The billionaire still flies coach, and wears a T-shirt and sneakers with jeans nearly everywhere. He's known for his messy cubicle. The Taiwanese native was raised in San Jose, and holds a B.S. and an M.S. in electrical engineering from Stanford University. The story of his cofounding of Yahoo! with his friend, David Filo, has become Silicon Valley legend and universal folklore. In April 1994 while procrastinating studying as Ph.D. candidates at Stanford, the two devised a categorical filing system for the hopelessly unorganized Internet. A year later the duo swapped a third of the company for \$1 million by venture capital firm Sequoia. Jerry is now married.

David Filo was raised in Moss Bluff, Louisiana. He cocreated the Yahoo online guide in April 1994, a full year before they incorporated. Another chief Yahoo!, David is a key technologist at the company, and as such, directs technical operations. Also known for his ultra casual dress code and style of management, he received his B.S. in computer engineering from Tulane and an M.S. in electrical engineering from Stanford before passing on his Stanford Ph.D., like Yang, to start Yahoo!

Timothy Koogle is chairman and chief executive officer of Yahoo! Hailing from Virginia, Tim joined in mid-1995 as president and CEO, becoming chairman in January 1999. He, too, attended Stanford, but unlike his younger counterparts at the company, completed his Ph.D. in engineering. Tall and slim with graying, longish hair, Kara Swisher at *The Wall Street Journal* calls him a "gangly and sleepy-eyed . . . single, guitar-strumming Southerner." At Yahoo!, Tim's responsibility is to develop Yahoo!'s large-scale partnerships and find new sources of revenue. Prior to Yahoo!, he was president of Intermec, a Seattle-based manufacturer of automated data collection, and held various executive management positions at Motorola, where he stayed for nine years. A headhunter called him in 1995, and told him of a tiny company called Yahoo! with four employees "in need of adult supervision," he told *The Wall Street Journal*. He jumped at the challenge.

Jeffrey Mallett, president and chief operating officer at Yahoo!, was brought on just a few months after Koogle in the fall of 1995. Jeff is the inside operations guy, operating the programming, editorial, engineering, business development, planning, sales and marketing, and customer service areas within Yahoo! Before joining Yahoo! Mallet was vice president and general manager of Novell's worldwide consumer division, and founder of two startups. Described as "short and intense, jumpy and kinetic like a soccer player," by Kara Swisher, Jeff played soccer for the Canadian national team, and attended Santa Rosa Junior College in California. He is married to his college sweetheart and has two small daughters.

The foursome has managed Yahoo! during a tumultuous time in business history into the most famous brand in cyberspace. They have steadily—yet briskly—grown Yahoo! from a search-engine-based technology company to a consumer-friendly entry point to all points in the virtual world.

The Idea

This is the most fundamental concept in creating a viable, long-lasting, and hard-to-beat business: Make sure your customer not only knows about your product and your company but has a good feeling about it and prefers it to all similar offerings. We know that there are few significant differences in laundry detergent, but many of us still pay a couple of dollars more for a bottle of the brand with which we most affiliate. Why shouldn't the same rule apply for the Internet?

Branding is critical in the Internet era, where your brand is the same as your company name, as well as your address. It is a rare circumstance in the bricks and mortar world when you see a company's brand, title, and all its products under the same name. Microsoft, Intel, Ford, and Procter & Gamble, some of the best-known company names and brands, don't center all their offerings around a singular, prominent, self-branded product from which all else flows. Yahoo! showed prescience in managing early on to place all its businesses under the same moniker, constantly reinforcing the strength and recognition of its brand.

Yang and Filo knew about the importance of a timeless, boundless brand when they created Yahoo! Today you'd be hard-pressed to find a person who doesn't recognize and have an opinion about the Yahoo brand. It spans countries, cultures, age groups, sexes, and levels of education and technological expertise.

An article in *Brand Week* explains that Yahoo's management decided in the beginning that "instead of speeds and feeds, content and distribution would reign. In what seemed like an act of heresy for three geeks circa 1995, they said Yahoo!'s long-term differentiation point would be the company brand." Misunderstood then, Jerry and David look like heroes today. The article goes on to say that "the result is a company that everyone roots for: from Wall Street to grandmothers to businessmen to the media to a loyal group of employees who, in the world's most competitive job market, keep obscene hours, cheer around cafeteria football tables and sleep under their desks." And isn't that the goal of a brand? To be pervasive in the minds of many groups of people, and the subject of loyalty and banter.

The team at Yahoo! developed a mass audience appeal that few companies have been able to achieve. A 1998 article in *Business Week* credited Yahoo! with "conjuring up a cool California image—hip but not rad, easy-to-use but not simplistic—it has managed to create a cult-like following not unlike that of Apple Computer Inc.'s." Matching Apple's consumer dedication is a feat in its own right, but perhaps more significant is that Apple has a decade's lead over Yahoo!

At a time when Internet companies were bickering over which had the best search technology and other fancy offerings to lure the digerati to click to their pages, Yahoo! made it clear that none of that mattered. It won the race by simply bowing out and taking a different tact. Management saw that consumers on the Internet would mimic the attitudes and habits of consumers in the real world. "We clearly articulated what we were not going to be," Mallett told *Brandweek*. "It was a big to-do at the time. We were not going to be a technology company."

Beyond just a brand, the company realized if consumers would begin all their Web activity at Yahoo!, the company could use those viewers to its fiscal advantage. Both brick and mortar and e-commerce companies know that Yahoo! is a great place to reach potential customers. Much like billboards on a highway, advertisers know that the odds are in favor of traffic ending up at Yahoo!. Today Web portals attract just 15 percent of all page views on the Web but earn 70 percent of Internet advertising dollars. "Portals are more than just gargantuan Web sites; they're the gilded entrances to the kingdom of the Web, and advertisers will pay dearly for royal placement," wrote *Upside* magazine.

And they have; Yahoo! is one of the few Internet companies with earnings, which has endeared the company to investors. The resulting stock price translates into a currency, which has enabled Yahoo! to make significant acquisitions, contributing to its growth.

The message: big brand = big \$.

The Company

Yahoo! blazed many trails. It was one of the earlier entrants to the Web race, having been founded early, in April 1995, and being one of the first companies to feel Internet time: it went public the year after its founding. Considered the "most successful Internet company" and "the Internet stock to own" after just five years of its founding, the Santa Clara, Calif.-based company is included in the prestigious Standard & Poor's S&P 500 index.

Even with Yahoo!'s stratospheric market cap, it is viewed as a stock conservative enough to be held by mutual funds that manage retirement money for tens of millions of Americans. Fidelity Investments is one of its largest holders. Analysts even call the Internet darling—along with AOL, Amazon.com, and eBay—an Internet "blue chip."

It's no wonder: Yahoo! either leads or is a strong second in unique visitors in nearly all categories in which it participates—including sports, finance and auctions—as well as in total viewers, or "eyeballs." Yahoo! is the rare Internet company that is profitable. It turned its first profit in the fourth quarter of 1996—a full year ahead of most expectations. Today the company produces annual revenues of \$588.6 million, with earnings from continued operations of \$61 million in 1999.

Indeed, Yahoo! has achieved many of the same successes of Internet jewel AOL—a massive audience, wide recognition and reach, and a fierce deal-making business acumen—while remaining perhaps the most independent of all the big Internet players.

Future growth is imminent, as Yahoo! is determined to dominate the international market. A smart move, considering numerous industry analysts report that growth in U.S. online usage may be slowing. Yahoo! has already made advances in parts of Japan, Europe, and Mexico, and expects its international acquisition plans to be even more ambitious than its domestic strategy.

Yahoo! is heralded for more than its brand and stock price, but also for the genius and foresight of its inventors. *The San Jose Mercury News* noted that "Yahoo is closest in spirit to the work of Linnaeus, the 18th century botanist whose classification system organized the natural world."

Still, there are some who wish to add a touch of sobriety to the festivities, saying that for all its fame and fashion, Yahoo! still has much to prove in the future. Says *Fortune*, "On the Net, Yahoo! is an 800-pound gorilla. But it's no blue chip."

Give it time.

OK, but how did it get there?

It's the Brand, Stupid

No doubt the most pivotal event in the creation of the corporate persona is its name. While tooling around with their Internet filing system of sorts, Jerry and David unofficially dubbed their segregated aggregation of sites "Jerry's guide to the World Wide Web." Can you imagine if that ended up as the name of the company? Wisely, the two renamed the project Yahoo! An acronym for Yet Another Hierarchical Official Oracle, they also liked the irreverent and crude connotation that came along with being called a Yahoo. As for the exclamation point? "Pure marketing hype," Yang told *Fortune*.

Interesting name for an upstart, but why not change the company's name to something more practical and descriptive like so many other Web sites? isearch? eportal? entrypoint.net? Elch. "Jerry and David had the common sense not to change the name," says Karen Edwards, Yahoo!'s vice president of brand marketing. "They really understood the importance of a brand."

Yang and Filo knew that a close relationship with the consumer was an important aspect of the brand—and the company—catching on. They didn't want to lose the feeling and excitement about Yahoo! "So much comes down to a name," says Edwards. By retaining such a maverick name the company is able to maintain a sense of youth and exuberance as it grows—key attributes customers say they love about the company.

Edwards recalls a conference in early 1996 when the chief executive of a close competitor was giving a presentation. In his speech he reassured the audience of his company's future leadership position on the Internet, detailing many of its upcoming strategies. Finally, as she recalls, he said, "All Yahoo has over us is a brand." "They said it as if the brand didn't matter," says Edwards, "It was like having a strong brand was the same thing as simply having a better parking lot."

Without even knowing which of its competitors made the comment you can be assured Yahoo! is still the victor on the Web. In fact, you can even assume that as more competitors rise up to attempt to throw Yahoo! off the top, its brand will again be its most valuable asset. "Yahoo!'s power brand will be one of its greatest weapons in fending off the coming assault," wrote *Business Week*.

The Brand as Identity

When you feel lost about a pending decision and need a direction, if you have remained steadfast to the brand, you will always be able to fall back on it to find guidance. "The brand becomes a beacon," says Edwards. "It is a touchstone of what we're trying to do."

Much like a mission statement, a powerful and simple brand—as much as a tangible property—provides an identity for the company's employees and management, and the public. If your staff doesn't understand your brand and its ideals, how will that translate into a singular message to the consumer? "When you ask people on the street what they think of Yahoo! and what Yahoo! means to them they answer the same things as the employees," notes Edwards.

For Yahoo! its brand has created an entire corporate culture. Employees find themselves acting differently—less traditionally—than at other organizations. "With a name like Yahoo! you can't take yourself too seriously," says Edwards. "It's an important part of our culture, and it gets reflected in what we do." She explains that often at previous employers, decisions always had to be rationalized and labored over. "Here, we just do things that are fun."

Know Your Target

By its very nature—a user-friendly Web site aggregator that organized content into manageable, logical categories—Yahoo! is made for mass consumption. It makes the indomitable Web seem accessible and useful. Yang and Filo were smart to capitalize on its essence, its core function. It made sense to apply its purpose to its goal: helping the everyday Joe and Jane get into the Web.

Jerry and David knew that the biggest opportunity for Yahoo! was to target its service to the people who would appreciate it the most. "We felt there was an opportunity to reach out to that next generation of people who weren't on the Internet," explains Edwards. "The people who are not early adopters are more brand sensitive and loyal." With products and services where people are in any way intimidated or confused, they tend to go for brands that they know and trust. Edwards continues, "You need to be viewed as approachable. We wanted to be seen not as a part of technology but as part of popular culture."

"It has really helped us to . . . be known as a user-oriented tool, something your mom can get on and use and try to understand," Yang told Jonathan Littman of *Upside*. "Yahoo 's goal was to make the technology invisible, like the quiet ride of a luxury sedan," Littman observed.

The key to Yahoo!'s approach that kept it going long past the initial "coming out" was that Jerry and the rest of the team considered the lack of technology focus as a long-term branding strategy, beyond the froth of a product launch. However you classify it (*Upside* called it a "folksy, shucks-anybody-can-use-us image") the image was simple:

The Yahoo! team decided to ditch all efforts of flogging its technology, like some of the other Web companies, and instead focus on consumer marketing with a heavy emphasis on kitsch. "Everybody else was about being sophisticated and savvy," recalls Edwards. Yahoo! went the other direction: hokey. "We could have said in our advertising that we had more links to the best Web sites . . . there are so many features we could have highlighted but instead we kept at a high level of brand communication."

The most important thing for Yahoo! was not to prove to all the high-tech insiders that Yahoo!'s search engine was faster than anybody else's but rather that if they chose Yahoo! they'd have a good time online.

Establish the Brand:

The Hard Part

So you know what you want your company brand to stand for and the audience you want to attract. Now you need to get the two together.

First things first. If you want to build a company whose strongest suit is its brand name, find yourself a relentless brand manager. Less than six months after Yahoo! hired Koogler and Mallet, and with just 17 employees, Yang recruited Karen Edwards from BBDO Worldwide, the advertising agency that helped evangelize Apple, to run Yahoo!'s brand and marketing.

"Yahoo! might never have won out had it not been for Yang 's obsession with what he saw as the fundamentals of his business: Give users abundant reasons to visit your service, and promote the hell out of the brand," wrote *Fortune's* Randall E. Stross.

And promote he did—with the help of Edwards and her so-called "guerilla marketing" tactics. Karen was in a tough battle and armed with a miniscule budget—hundreds of thousands of dollars in the early days, as opposed to the hundreds of millions many high-tech companies spend on their marketing campaigns. She had to make a big impact in order to get noticed. Edwards spent most of the budget on commercials in a concentrated time frame, and then followed up with the guerilla warfare. Karen explains that's when you hit consumers where "they aren't expecting to see a tech campaign," such as community events, gay pride parades, and film and beer festivals—all of which raise visibility.

Then she really got serious. She plastered the brand all over the place: sports events, rock concerts, magazines, sure, but she also hit the obscure outlets. *Fortune* reported in 1998 that she gave free paint jobs to any employee who would splatter the Yahoo! logo over his or her car. One employee had it tattooed on his butt. "You can be pretty creative when you have no money," Edwards says.

"Today, the Yahoo name is scrawled on seemingly every available surface," *Business Week* wrote in a 1998 article. The same story noted that Yahoo!'s purple and yellow logo was seen on the Zamboni ice smoother at the hockey rink of the San Jose Sharks, tins of breath mints, Slinkys, parachutes, skateboards, sailboats, surfboards, yo-yos, kazoos, shoes, and a music CD.

Fortune asked "How did these corporate kids achieve levels of brand recognition that would make Procter & Gamble envious? Well, not the way P&G does it. These companies have built strong, flexible brands quickly and cheaply by looking beyond advertising, the mainstay of consumer-products companies, and pioneering less conventional marketing approaches."

More than setting Yahoo! apart from traditional consumer brands, Edwards's strategy was drastically different than that of the other tech companies. At the time tech companies like Cisco and AT&T had corporate campaigns targeted to the business user or the investor. Perhaps you would expect to see ads for network servers and telecoms in *The Wall Street Journal* and on CNBC or CNNfn. But an Internet ad on TV when you're vegging out on a Sunday evening watching *The Simpsons*?

"We were in an environment where there wasn't a lot of clutter," says Edwards, "We came across as a breath of fresh air." Beginning in 1996 the cattle rancher-esque "Yahoooo!" cry, along with the "Do you Yahoo!" tagline was advertised on popular shows like *The X-Files*, *Friends*, *Seinfeld*, and *ER*. Its logo even had a placement in the movie *Ed TV* and on *Ally McBeal*.

Even more unusual was that Yahoo! started its ad campaign on television when only 7 percent of Americans were online. People wondered, why advertise to a market to a group of people who have no access to your product? Why not advertise where you know you'll reach your user: on the Internet? Today we know that answer to that, but the public wasn't so sure a few years ago. Because of related curiosity and criticism—and the press honed in on that distinction—Yahoo! was the beneficiary of plenty of free publicity. But don't think that was a mistake. Edwards says it was all part of the plan. The Yahoo! public relations staff made certain that the media was aware of its ad efforts, and the media responded.

After all Karen's brand promotion tactics, Jerry Yang still doubted himself. "We didn't know it was a brand," he told *Upside* magazine. "It became a brand when real business people told us it was a brand."

Whether Jerry realized his company's power is irrelevant. What he had on his hands was more than a fluke; it was a hit. His brand message had carried into other parts of his business, accruing interest from customers as well as fans from Wall Street.

Position Management as Icons

As obvious and simple as it may seem, many companies fail to realize that in addition to the product, the management team can be hawked and promoted, as well—especially if they have a marketable tale. Jerry Yang and David Filo were a PR department's dream. They were young, unassuming, and smart, and they had seemingly stumbled upon greatness. They were the American dream wrapped up in an attractive package. Even more deserving of fame, they were card-carrying Stanford Ph.D. candidates—far more valuable than any finished degree at any other university in the world. Stanford has become a virtual Hollywood for the Internet's would-be directors and producers.

Upside magazine reported that "one of the smartest things Filo and Yang did was to lay the PR groundwork early, then stick to their strategy." In 1995, almost immediately after the firm was founded, they met with a public relations firm in south San Francisco. "The mission was clear," said *Upside*, "To plot a gutsy public relations strategy to spin their product into a household word and land the just-out-of-college founders on the cover of *Time*." The product was still a dot.edu, not even a dot.com, and most of the country hadn't even gotten online. And here they were, constructing a SWAT team PR strategy that would place articles about the boy-wonder duo positioning them as superheroes of the digital age. For Ed Niehaus, cofounder and president of Niehaus Ryan Wong Inc. (NRW), a south San Francisco PR agency, they were dream clients.

"They had all the ingredients for a killer PR brew: charismatic boy-founders who could put a human face on a new, sizzling-hot technology destined for the masses," wrote *Upside*. "Very early on, before the launch, we were talking about making Jerry and David poster boys for the Internet," Niehaus told the magazine.

In short order their mission was achieved. *Time* answered the call with a cover, as did *Forbes*, *Wired*, *Business Week*, and *Upside*, in addition to countless regional newspapers. Niehaus said that in the first six months of his effort he racked up no fewer than 600 articles about Yahoo!

Brands Make It Easy to Choose

Even in the bricks and mortar world, a powerful brand is necessary to entice consumers to pick yours over another product. Once that brand is established, you need to reinforce its image constantly, and consistently. On the Internet that brand distinction and preference is even more important, because in most cases, you need to know about a Web site before you'll go there. There's no shelf upon which your product can achieve preferential placement.

In 1996, however, when Yahoo! was still a newbie (as were most portals and search engines), there was the virtual equivalent of a grocer's shelf: Netscape's browser. Netscape worked out a deal with a number of search engines, such as Yahoo! Excite, Lycos, and Infoseek, to promote their pages. For \$5 million apiece, the Web sifters received optimal link placement on the browser's entry page. Each company would be listed on the page all the time but on a rotating basis, each of the search engines would appear more prominently on the page. What the companies discovered after some time was that Yahoo! was getting more page views than the other companies—even when it was the very last search engine listed at the bottom of the browser's page. Users were scrolling all the way down to grab Yahoo!, bypassing the other, larger links.

"It was the equivalent of when Coke is at the end of the aisle display at the grocery store," offers Edwards, but instead of grabbing the easy to reach bottle nearer the register, "you walk down a couple of aisles to find the Pepsi. That's the brand you prefer."

When it came time to renegotiate the deal, Yahoo! told Netscape that it wanted a better arrangement: Netscape's browser wasn't critical to Yahoo!'s existence because the browser only generated 8 percent of the search engine's traffic. "Some companies were putting all their marketing dollars into that Netscape button distribution; paying to be on the top shelf," says Edwards. She said Netscape's team just couldn't see where the other 92 percent of Yahoo!'s traffic was being generated. "They couldn't understand that people were going there because they had heard of it someplace offline."

It became clear to Yahoo! management that this was a critical point in its positioning strategy. Market the brand to the consumer or be the brand that pays the store to make a display at the end of the aisle. In other words, get them to demand Yahoo! or make it easy for them to get it.

"We decided we wanted people to walk in the door and ask for Yahoo," asserts Edwards. The strategy is not unlike Intel's early 1990s "Intel inside" campaign where they got the end-consumer to request a highly technical and complicated commodity that they never would have known about without advertising. Choose to buy an expensive computer because of the brand of chip it had inside? The industry could hardly believe it worked. That's like buying a car because of the engine alone.

It just goes to show you: "That brand thing? Yeah, it matters," says Edwards.

Extend the Brand

When your brand has reached critical mass and recognition, you can leverage it to launch other products or properties. Yahoo! wasted no time making acquisitions of, investments in, and partnerships with Web sites that had offerings its customers would want. "Having a strong brand allows us to be in whatever business we want, as long as those core attributes they associate with the brand still exist in the consumer's minds," says Edwards.

Adding features to the product or product line. New! and improved!—catches consumers' attention, and it makes them feel you are working hard to earn their business. Plus, for an Internet business, the more offerings you have, the longer your customers will stay with you (and the more money you can siphon from advertisers). "It becomes a self-reinforcing thing," Edwards explains. She says Yahoo! has 145 million visitors and wants the brand and additional offerings to help it attract another 145 million. "You can launch more properties off the brand as the brand becomes more powerful, and the more properties you launch, the more powerful the brand becomes," she explains.

Yahoo has certainly mastered that concept: nearly every day it puts out another press release announcing some new service or capability to enrich the user's experience. "We want to be the only place anyone needs to go online to find anything or connect with anyone," says Karen. "And we want Yahoo to be the core brand. It provides credibility and legitimacy to the services we offer," says Edwards.

Nearly every offering on Yahoo! is so branded, which is crucial on the Internet, as oftentimes your brand name is also your address. "If we called Yahoo! Sports something else, you'd never know where to find it," Edwards points out. "It's even more important when you want to integrate those products and services." For example, Yahoo! Mail taglines and agencies," says Edwards. Yahoo!, meanwhile, has maintained all the same relationships with its agencies as well as the core members of its brand and marketing staff. "There is a cost to those changes, you can't just do it on a whim."

Go Global

A surefire way to be a global company is to make sure your product can be carried over into many cultures. The Internet adoption rate in other countries is slower than in the United States but catching on. Yahoo! wants to save itself a place as the first mover and leader in world markets. Already, the company has launched Yahoo! Mexico, Yahoo! China, Yahoo! Germany, and Yahoo! U.K., among others, with many more due in rapid succession.

"Humor translates well internationally, so we haven't had to reinvent ourselves," says Edwards with a sigh of relief that all her work will not need to be repeated. "'Do you Yahoo?'" translates well anywhere in the world." For one lucky stroke, Yahoo in Chinese means savvy tiger.

Longevity

When you're building your brand you should keep in mind that what's cool and hip today may not be relevant years from now. Says Edwards, "I would encourage people to think about whether the brand that makes sense today will do so four years from now. Put yourself in the consumer's shoes. Will you still be relevant, or will it be clear that you have hitched yourself onto a fad? The world changes so fast that if that's the case you'll never be able to keep up. A brand has to be true and able to stand the test of time. Communicate on a level that's broad enough so that what you stand for can stand the test of time, not just get people's attention for the moment."

Prospects

As for Yahoo's future, here's what Tim Koogle told *Business Week*, "I'd be hard-pressed to say [Yahoo! is] over-hyped. We've set out to make Yahoo! the only place anyone needs to go to get connected to anything. There's nothing in the real world to compare to that." He continued, "We want to build the biggest company we can. We've taken the lid off."

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Chapter Eight— Part Shaman, Part Soothsayer

John Chambers
Cisco Systems

The implications of this Internet Revolution are greater than anything we can imagine today. We are committed to helping our customers become agile in this explosive Internet economy. I look forward to shaping the future of global networking with [our customers].

—John Chambers

In times of confusion and change, foretell the problems of your customers; provide healing solutions.

The Man

John Chambers was born in Cleveland, August 23, 1949, and raised in West Virginia. The son of two doctors, John leverages his southern charm and candor to sell anybody anything. He is said to have a warm-hearted, straight-talking approach in management, and is lauded for being both innovative in technology and a dynamic leader.

John holds B.S., B.A., and law degrees from West Virginia University and an M.B.A. from Indiana University. He began a career in sales before joining Cisco, starting at IBM where he was taught that he wasn't selling technology but rather, a dream. That perspective stayed with him through the years—even after he witnessed the erosion of Big Blue's leadership position. He moved on to Wang computers in the late 1980s, where he was second in command. Ultimately the company failed because it got too far away from its customers and refused to change to meet their needs. John was forced to lay off 5000 employees. He vowed he would never be a party to that kind of disastrous failure again. Chambers learned that a keen focus on customer needs is essential to survival.

He doubted he'd ever be hired for another job after coming from two failed companies, but was asked to join Cisco as senior vice president of worldwide sales and operations in 1991. He became chief executive in January 1995.

Under his stewardship the company increased revenues from \$1.2 billion to \$17 billion in four years.

John politely passes the credit of the company's success to his customers. Rather than dictate to the customer what he or she needs as the company's technology advances, John takes the opposite tact. He trains his employees to listen carefully to their customers in order to fully comprehend their business models and get to the heart of their core technology challenges—even if the client hasn't yet diagnosed a problem—and then create a mix of products that will solve them. The clients' current and future needs determine what Cisco produces and markets. "The fear of getting too far away from customers keeps me up at night," John told *Information Week*. It is that fear that drives him.

The Idea

When everyone else is lost, be the compass. Know the direction in which they need to go, and clear a path toward that goal. And when they fall ill, gather the necessary ingredients to prepare and provide the salve. Soon people will begin to see you as part shaman, part soothsayer.

John Chambers is a perfect example of how The Ordinary Man becomes The Man with the Answers. In his early years running Cisco, John was not seen as a visionary. He was an ordinary salesman—but he found a number of ways to portray himself as a visionary.

John knows his strengths lie in communication; he doesn't expect to know about every technological possibility. Rather, he hires and keeps only the best employees, promotes teamwork, and relies on his teammates to share information and keep the company running ahead of its game. In this way, he multiplies his intellectual resources and ensures Cisco a competitive edge.

It needn't be the role of the chief executive officer to be the most techno-literate individual in the company. He isn't coding software or piecing together semiconductor chips in a clean room. He's speaking to the public, to customers, to the staff, and investors. He needs to be more messenger and salesman than programmer or designer. As such, he is the one who appears to the outside world as the visionary.

John also draws inspiration and expertise from his customers. By getting closer to the customer and examining the fundamentals of their business he is able to determine their needs before they see a problem developing. "We get almost all of our ideas for products, features, acquisitions and trends in the industry from customers," he told *ComputerWorld*.

His acquisition strategy fits the same profile. He isn't afraid to acknowledge when Cisco does not have an essential capability in-house. If he discovers he is missing a product or technology that would help complete a product solution for his customers, he seeks it out and brings it into the fold. Translating that into a prosperous relationship takes collaboration and communication—two of John's biggest strengths. He then takes the resulting product and offers it to the customer as a new Cisco solution. When adopting new technologies many companies feel more secure with one supplier who will help solve all the impending issues once—end-to-end.

John is sensitive to the problems an executive faces when his company becomes complacent. By insisting that his own company remains forward-thinking and aggressive, he enables his customers to do so as well.

"The technology revolution currently going on will rival the Industrial Revolution in terms of impact on our society," Chambers told *Electronic Business*, "At Cisco we have the chance to be at the very forefront, driving these changes—if we do our job well."

Make no mistake: knowing what your company needs before your competition figures it out is not only necessary to survival and success, it's clearly a sign of being a visionary. To apply that knowledge to heal troubled customers—particularly when their problems are the kind they couldn't have tackled on their own—is not unlike a shaman.

The Company

Based in San Jose, California, Cisco Systems is a global leader in networking for the Internet. Much like Sun Microsystems, Cisco's networking solutions connect people, computing devices, and computer networks, allowing people to share information across barriers of time, distance, and computer operating system.

Cisco's end-to-end networking solutions create unified information infrastructures for its clients. Its main products are IOS software, which provides network services and enables networked applications, network design and implementation, and technical support.

The company is a leading vendor of routers and other data communications devices that are the foundation of the Internet, as well as a provider e-commerce enabling technology. Cisco is also working toward becoming a key provider of Internet infrastructure to service providers, such as telecommunication companies.

Cisco shipped its first product in 1986, and had its initial public offering four years later. Today it sells its products to 115 countries. The company had the third largest market capitalization in the world in January 2000, beating out such blue-chip stocks as General Electric and Microsoft.

Who are Cisco's customers? Cisco aims for three target markets.

1. ENTERPRISES

Enterprises are large organizations with complex networking needs, usually spread throughout multiple locations and types of computing systems. These can be corporations, utilities, or even government agencies.

2. SERVICE PROVIDERS

Service providers are companies that provide information services, including telecom carriers, internet service providers, and wireless communication companies.

3. SMALL-TO-MEDIUM-SIZED BUSINESSES

Small-to-medium-sized businesses may not seem like they have complex computing needs, but they require data networks of their own, as well as connection to the Internet and sometimes even business partners.

Communicate Your Mission: Break It down

If you want people to follow your vision, speak in simple terms so they can understand you. John breaks his mission into palatable pieces of information. He often talks of three categorical impacts of the Internet, stating that it will change the way we work, live and play, and learn. When John makes such sweeping statements, you can be sure there are Cisco solutions that can be applied to these issues.

Changing the Way We Work

"In business the picture of success is being redrawn," Chambers says, "and the corporations that survive in the Internet century will do so not with size, geographic location or physical assets, but with agility." The products offered by Cisco for enterprises and small businesses are designed to help companies work better, smarter, and faster. By helping his clients work more efficiently and profitably, he secures Cisco products a place in their information technology budgets going forward.

Changing the Way We Live and Play

"The fact that one day soon, everyone and everything will be connected will make a difference in how people live and play," Chambers predicts. "Soon, we'll be able to connect computers and other devices in our homes to form what Cisco calls a 'personal network.'" He believes people will be able to plan vacations, listen to music, and purchase cars directly, 24 hours, seven days a week—and most importantly—"in ways that are uniquely convenient to them."

Chambers points out that traditionally, technology that began in the workplace—such as PCs and cellular phones—was soon brought into the home by the people who grew comfortable using them. He sees high-speed access to the Internet as the next transferable technology. Cisco wants to be able to participate in providing the next technologies to the public.

Changing the Way We Learn

"There are two fundamental equalizers in life—the Internet and education," proclaims John. "The Internet is creating e-learning as one of the most powerful learning tools of the next decade for businesses, schools and individuals." Cisco enables this by creating and employing e-learning solutions, which allow it to develop and administer training quickly and effectively to its employees around the world. It allows tracking of results as well as accountability. Similar e-learning plans can be individually designed and implemented for Cisco's customers.

The company invests in the Cisco Networking Academy Program, which prepares students for jobs in technology. In this way Cisco positions itself publicly as a teacher: The Man with the Answers. Students—the workers and buyers of tomorrow—are taught early on that Cisco is synonymous with The Company that Provides Answers. "One day," predicts Chambers, "training for every job on Earth will be available on the Internet." Surely, Cisco aims to corner a large percentage of that market. In fact, it's already begun.

Learn from Your Customer

In order to know what advice to give, know your customer. Cisco sales representatives talk about changing business processes and changing corporate cultures in order to understand what a specific company's technological needs are immediately, and what they will be later.

Marguerite Reardon reported in *Information Week* that executives at Cisco spend 75 percent of the time with companies talking about their business, and only 25 percent of the time talking about technology. "Cisco's philosophy is to listen to customer requests, monitor all technical alternatives, and provide customers with a range of options from which to choose," says Chambers.

Think of it this way: If two different friends approached you for advice about the same dilemma, you would most likely not give one the same counsel as the other. More likely, you would take each friend's culture, beliefs, personal history, and future goals into consideration before providing any advice. Along those lines, a doctor would never prescribe medication without knowing whether the patient's existing medicine would conflict, or whether the patient was allergic.

Your business should follow the same guidelines. Your sales team should create an individual solution for each unique customer. As a home improvement retailer would have different suggestions of bath and kitchen combinations for different homes lived in by different people, a technology firm should have different approaches for its many varied constituencies. A small Internet startup will not have the same technology needs as a billion-dollar pharmaceutical company.

Chambers offered an example of some issues he learned about by getting closer to the client. He told *Fortune* that for each dollar a given company would spend on networking hardware and software, it would spend \$3 to \$4 on integrating and administering those programs. They weren't saving any money, nor becoming more efficient. "Worse," he said, "When there was a problem, finger pointing occurred, and more often than not they'd get five different answers from five different suppliers." Once Cisco learned of this widespread usage problem, it was able to tailor its products and services to minimize the need for a customer to spend all that time and money on administration.

Moreover, in addition to helping the immediate client, when Cisco learns something from one customer, it can apply that knowledge toward servicing another.

Perhaps most importantly, as a service provider you need to change with the times—even ahead of the times—so that whatever your client will need in the future, you will have prepared. Chambers told *Fortune*, "I learned that in high tech, if you don't stay ahead of the trends, they'll destroy everything you work for and tragically disrupt the lives of your employees. I don't ever want to go through that again."

Take Your Own Medicine:

Lead by Example

One sure way to lose customers is by appearing as though you don't use your own products. As a shaman should taste his own concoctions before administering them to his ailing visitors, a company that promotes Internet-based networking should use its own systems. Again, John Chambers delivers.

On the Cisco Web site, Chambers shares the ways in which Cisco utilizes its "Global Networked Business" model. John explains how Cisco uses networked applications over the Internet in conjunction with the company's internal network. "By employing our own Internet solutions," he declares proudly. "Cisco has maintained its speed, culture of empowerment, and competitive advantage."

Cisco's is the world's largest e-commerce Web site, with 85 percent of its orders and 82 percent of its inquiries transacted over the Internet. Cisco's monthly online sales are upward of \$1 billion and 70 percent of support calls are answered online. "All of the company's business operations—from finance to supply chain management to employee communications—are Internet-based," Chambers notes on the company's Web site. Cisco saves itself \$825 million a year in operating costs, and improves customer satisfaction by providing competitive product order and delivery times. In 1997, Cisco conducted one-third of the world's e-commerce.

John uses the company's "virtual close" as an example of how it utilizes its own networking/Internet technology to streamline operations. The system has enabled the company to close its books within one day, up from 15 days four years ago. Costs have been halved and employees receive information faster, which helps them respond quicker to problems. Further, as chief executive, Chambers can monitor performance through daily business updates, instead of waiting until the end of each quarter, when it might be too late to repair if numbers are coming in low. This way, he never gets surprised.

John's message: We've figured out how to make the Internet work for us. The same fate can be yours if you emulate Cisco's strategy. "Cisco is using its expertise in employing its own Internet solutions to work with customers to implement Internet business models and build New World communications infrastructures to position them for success in today's fast-paced business environment," he says.

Help Your Customer Work Better

Every company wants to work more efficiently. For many companies fast growth and a new economy have stymied efficiency because their employees don't know how to make technology work for *them*. Rather, they are working *for* the technology and falling behind in productivity. Anyone with suggestions on how to improve profitability through efficiency would be considered a hero to many executives.

Cisco aims to help its customers achieve a smarter, more empowered workforce. One method is through its workforce optimization program, which assists in streamlining routine administrative tasks, managing decision-making processes, and improving the ways employees communicate and learn. Ultimately, when employees are less encumbered by time-consuming administrative tasks, accounting responsibilities, and exhaustive training for new procedures, they are more productive as well as satisfied and loyal.

Office Depot, for example, utilized Cisco's network-based, Web-enabled training applications and found a 90 percent reduction in training costs. GTE, another Cisco client, combined a Web-based training tool with classroom training and a mentor, and reduced training time from 18 weeks to 8 weeks. The program was also more effective: the time from start date to first sale was reduced by 25 percent.

Help Your Customer Help Its Customer

The New World of e-commerce provides infinite possibilities—good and bad. You have two choices: grow your business exponentially or be phased out by a sprightly new dot com.

There are more than 70,000 new Web sites added every hour, and Internet traffic doubles every three months. Global revenues generated by the Internet double each year. If your company is not working with the Internet through an e-commerce model, you are missing an incredible opportunity for growth. Moreover, you could be left for dead if you don't start to convert your old ways of doing business to a model that accommodates the ways your customers wish to interact with you.

Cisco's Internet commerce solutions enable private enterprises as well as institutions to learn how to conduct transactions online with customers as well as suppliers through Web-based applications supported by an organization's network infrastructure.

Instead of fearing change, today's organizations need to view the Internet as a strategic business tool. Chambers and his team explain that by utilizing Web-based applications in business operations, companies can increase customer satisfaction, decrease operating costs, increase productivity, and reach new markets. They can also see improved order accuracy and reduced delivery times.

What was once a tool for internal communications has turned into a faster, better, smarter, cheaper way to reach and serve customers outside the corporate network.

Be a General Practitioner:

Don't Drive Your Customer to Shop Around

Much like a general practitioner helps manage a patient's health on a regular basis, if a service provider can supply an end-to-end solution to a customer's problems, the customer won't be compelled to shop around. Not only will you receive the bulk of its business today, but the chances are higher that the customer will look to you first when it has any future needs. Future inquiries spell future revenue streams.

Cisco offers to help retailers with network-based, supply-chain management from the beginning (order placement) to the end (fulfillment).

Many companies would be lost if they had to figure out on their own how to piece together different elements of e-commerce capabilities. With Cisco, they have one salesperson to put it all together for them and explain how they can best leverage the solutions out there to best serve their individual business.

Cisco can provide an organization's network foundation as well as Internet-related elements such as the commerce engine/server and related commerce-enabling services. This can mean logistics and fulfillment, financial services, invoices, and returns. Cisco will also help with transferring acquired data from older systems, and provide solutions for front-end issues such as transaction security, catalog appearances, organization, and maintenance.

One of Cisco's clients, Recreational Equipment, Inc. (REI), is now able to offer customers 100,000 items—10 times the amount available in one of its catalogs—since working with Cisco. By increasing product offerings it can appeal to more potential customers as well as generate more sales from its existing customers.

Advice is key, as well. Cisco provides industry trend reports from its internal team of analysts, and also reports leading best practices and case studies of how it has been able to help other customers. Where it lacks specific resources or expertise, Cisco has built some key partnerships with consultancies and software providers to be able to meet customer needs.

Case Studies

Cisco offers the following industry-specific case studies as examples of how it has been able to help customers solve operational issues and improve their businesses.

Healthcare

Kaiser Permanente, a \$14.5 billion health maintenance organization (HMO) in Oakland, California faced a structural challenge when it needed to consolidate its regional data centers in order to prepare for the deployment of national systems under development.

The organization, with 8.6 million members, needed its technology systems to operate as a national enterprise. It was running 13 semi-autonomous regions, each supporting independent data centers, custom applications, and a variety of networks. This would require far more work than a cut and paste solution. It came to Cisco.

"Under the former structure, each of the thirteen regions selected, deployed, and operated its own IT resources, which resulted in duplicating and implementing solutions already in use in another region in the country," says Paul Fingerman, KP's vice president of technology planning. Cisco's solution for Kaiser Permanente was to build a standardized, national network using its routers and switches in order to supply more bandwidth for the network.

Today, many of its members can access drug and medical encyclopedias, request appointments, and ask confidential questions of advice nurses and pharmacists over a computer. They can also access health plan benefit options, research local health education classes, access physician directories, and directions to facilities. Through the organization's intranet, clinicians have access to clinical content online. Caregivers are now able to take advantage of best practices for medical care through a national information system. Going forward, the network will support access to clinical recordings, images, training and mentoring, as well as enhanced Internet activities.

Logistics and Services

Federal Express, the overnight package carrier, has been synonymous with service since its founding. It has always believed that information about a delivery is as important as the delivery itself. Its initial market advantage was in technology that allowed packages to be tracked at various points of delivery. Now that many other delivery services offer some form of tracking, Fed-Ex needs another advantage: speed and ease of use.

Cisco knew it could help make the company even more service oriented and efficient by leveraging the Internet. Currently Fed Ex's daily service calls exceed 500,000. To help save costs and improve the speed and ease of information, Cisco hooked up an Internet-based, self-serve package tracking system over the Internet.

Having completed that project, Cisco has been called upon to help Fed-Ex streamline its expense reporting, purchasing, and benefits management. The two are exploring ways to use the Fed-Ex network for multimedia training and network-enabled teleconferences—all of which help save on costs and decrease the time it takes to accomplish goals.

Technology

Even high-tech companies need help figuring out what to do about technologies that fall outside the specific areas of their business. PeopleSoft, a leader in enterprise application software, turned to Cisco when it discovered that it was having difficulty managing growth. While balancing global expansion, a rapidly increasing customer base, and a quickly multiplying workforce it was faced with the challenge of maintaining the company's singular culture. Cisco solved that problem by providing an enterprise network that connects employees to the company and allows access to the network by customers and suppliers. The company's Extranet is able to communicate updates by the company as well as handle and process e-commerce activity.

Financial Services

Consolidation and globalization have been plaguing financial services companies in recent years. Technology has created a world of new dilemmas for financial services executives. There are multitudes of software programs and Internet-based businesses that provide basic services once controlled by person-to-person relationships in banking, such as account management and retention as well as advisory and brokerage services. Individuals who once had to pay exorbitant fees to obtain real-time market information and investment advice are now able to download data in seconds. Bills are paid automatically by computer. Existing customers are leaving long-term banking relationships because of cheaper fees and more reliable service from new, more techno-savvy competitors.

Again, Cisco provides solutions. By overhauling old networks and connecting both back-end business functions and front-end customer service models to the network and the Internet, Cisco has enabled many old-school financial service giants to remain in the game.

One such client is Merrill Lynch, which used Cisco's solutions to provide its clients with Internet-based trading and research, as well as worldwide training programs for its brokers and other employees.

Its identity authentication and authorization as well as encryption and security audit technologies can help a financial customer feel more confident that its clients are receiving confidential and secure service. The more secure financial service clients feel about conducting business with you the less likely they are to defect to an untested financial institution just to save a few bucks on fees.

For Charles Schwab, its 2 million online brokerage accounts comprise more than half its trades. Greater than \$130 billion in customer assets are handled online through Schwab. Cisco enables that trading activity by connecting Web-based applications to the company's mainframe computers. The company implemented its switches and routers to connect desktops to Schwab's corporate network, connecting hundreds of its regional offices together.

The ability to trade online has cut costs at Schwab, and allows customers to feel more empowered by managing all their trading activities on their PCs. Perhaps most importantly they did it all without needing to replace Schwab's mainframe-based legacy system.

When You've Got Answers Everyone Wants to Know You

Now that Chambers has proven himself more than able to run a company that remains on the cutting edge of technology and affects change, it seems everybody wants to talk to him to hear what he has to say about technology and the future.

Business Week reported in September 1999 that John met with more than 30 heads of state that year, including Britain's prime minister, Tony Blair, and U.S. Republican presidential hopeful George W. Bush. At a White House event in 1999 President Bill Clinton described him as "a true leader in this industry, in America's economy and in the global economy."

John knows he and his company are in a powerful position to impact our society. "We are truly empowering the Internet generation as we move into the Internet century," said Chambers. As he told *Business Week*, "We have the chance to become one of the most influential companies in history."

Now *that's* healing and seeing.

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Chapter Nine— Share the Power with the People

Meg Whitman
eBay

We are changing the face of traditional commerce by giving power to individual consumers, as well as by allowing them to extend their buying and selling reach around the world.

—Meg Whitman

Answer to your customers as you would answer to your shareholders; let them shape your company.

The Woman

Nearly as soon as Margaret (Meg) Whitman was inducted as president and chief executive officer of eBay, she was heralded as a member of the technology business elite on numerous national business and technology trade magazine covers. She quickly became a digital age popular culture icon and female role model as well, gracing the pages of *Vanity Fair* and *Glamour* magazines.

The affable, forever-grinning blonde was always an overachiever, having *The Wall Street Journal* delivered to her dorm room at Princeton, where she studied economics. She went on to earn a Harvard M.B.A., and then landed a string of résumé-boosting jobs, including brand manager at Procter & Gamble, vice president at Bain & Company, and senior vice president of marketing for Walt Disney's consumer products division. She then moved to Stride Rite as executive vice president, where she resurrected the Keds brand and was promoted to president of its Stride Rite division. Whitman jumped to FTD, where she led the launch of its Internet strategy while president and chief executive. Soon she was off to Boston, Mass., for Hasbro, where she was general manager of its Preschool Division, responsible for global marketing of the Playskool and Mr. Potato Head brands.

She ditched Mr. Potato Head and Boston after just 13 months, after acquiescing to a persistent headhunter who pestered her to take a chance on a tiny Internet company on the West Coast in May 1998. She took fledgling Web auctioneer eBay to the public market within six months. At eBay, Meg is charged with competing against super-retailer Amazon, all the while making a friendly, neighborhood garage sale act like a publicly traded e-commerce behemoth. And she does it all from a cubicle in the company's Palo Alto office that is decorated with a Mr. Potato Head.

So what if she doesn't know anything about technology? What she brings to the Internet high-flier is what few "e" companies have and all crave: leadership, market know-how, and management savvy. She is there to make sure no one comes between eBay and consumers, and between consumers and what they want or how they want to get it.

She is also the mother of two young boys.

The Idea

eBay was founded by Pierre Omidyar, who wanted to help his girlfriend find a place on the Internet where she could talk with people who shared her interest in collecting Pez dispensers. Maybe they could even trade their collections with each other. He got to work building a Web site, and eBay was launched on Labor Day in September 1995. The premise was to create a community of people who cared about the same thing and wanted to create a market around it.

The timing was right. Other entrepreneurs were beginning to realize the potential of the Internet as a viable forum for business transactions, and everyone was trying to determine what form commerce would take on the Web.

What Omidyar developed was a simple friction-free economy, where buyer and seller agree upon the market value of goods—supply and demand in their purest economic states. The model was maximized by the nature of the Internet: there was no middleperson needed to house the product and therefore there was no intervention needed by an authoritative figure to manage the process of commerce—in short, there was more freedom to trade. The fact that technology was the connector meant that transactions could be made quicker and more efficient.

When Whitman came on board the company was still relatively small, with 750,00 registered users in May 1998 when she was hired. Her purpose was to grow the company while remaining true to the consumers who were responsible for its success in the first place. She figured the best way to do that was to ensure that as the needs of the consumers change, so would the business model.

But how? She would not only listen to the consumers' gripes and suggestions, but also proactively seek them out. Then, she would put those suggestions into action. The Internet served as a perfect venue. It made it easy to get real-time suggestions from consumers and address them quickly. Moreover the company could react immediately if there was a problem, as well as build new features onto the site or morph the shape or appearance of the "virtual store front" efficiently and cheaply as needed.

Whitman's commitment to the consumer is what keeps eBay customers loyal in a time when copycat online auctioneers abound.

The Company

The company's Pez dispenser beginnings are legendary. When Omidyar founded eBay he wanted to create a level playing field for consumers to interact with each other. He did not begin with a commercial approach, but started with no fees, no registration, and no search engine.

The business has come a long way in a short time. Today a customer describes an item, sets a minimum price for bid, and decides how long he'll wait for the end of the bidding war (typically a few days). A customer looking to buy can browse the site or search for a specific item, and bid accordingly. The seller and potential buyer are linked by the company and informed by e-mail that they've got a deal. The customers take it from there.

For the role of intermediary eBay pulls in an average fee of 6 percent, of which 85 percent is pure profit since overhead costs are so low. There is no warehouse, no inventory to maintain, no sales force, and the buyer typically pays for shipping.

The number of items listed on eBay in 1999 totaled 129.6 million, up from 33.7 million in 1998. In the fourth quarter of 1999, every fifth of a second, someone listed an item for sale on eBay. Each day, eBay hosts more than 2.5 million auctions and handles more than 1.5 billion page views per month.

What started as an informal forum to trade knickknacks and tchotchkas like Beanie Babies and Pez dispensers has evolved into a new business opportunity for millions of people. The eBay community comprises more than 5.6 million registered users. Individuals looking to rid themselves of big-ticket items, such as a car or heirloom jewelry, are as well served as those who have small businesses, such as antique shops, and are looking to broaden the reach of their customer base.

eBay enables its users to buy and sell items in more than 2,900 categories, including collectibles, antiques, sports memorabilia, computers, rare toys, coins, stamps, books, photography, and electronics.

Opportunities for future growth and expansion abound, and include such possibilities as hosting individual dealer storefronts and possibly even selling merchandise at set prices.

Foster a Sense of Community

When customers feel more at home with their environment they will spend more time there, recommend the site to their friends and family, and hopefully be more comfortable providing constructive feedback to the company. In order to promote a feeling of unity between eBay and its customers, as well as provide an effective venue for free trade, management was challenged with creating a sense of community.

eBay's users had already developed a common interest—collecting and trading—so all that was left for Whitman and her team was to enable communication between individuals and groups.

The company has implemented bulletin boards, much like a corkboard in a community center or local general store, for updates on offerings and needs of people in the eBay community. It encourages open communication between users for a multitude of reasons.

There are also chat rooms and the eBay Café, where visitors can discuss a variety of topics, such as recent deals and finds, best practices for selling and buying procedures, as well as questions and advice on such issues as valuing items and verifying authenticity. They also share information: where to find rare items at live auctions across the country, for example.

The result? Individuals come to eBay to do more than just conduct business. They make new friends, share information and stories, and build support systems for each other. Users even protect one another by forming "neighborhood watch" groups to guard against violations of site etiquette.

eBay has infiltrated the personal and business lives of many of its visitors. Many users have created second businesses through selling on eBay's Web site, or quit their day jobs altogether. To the frequent visitor, other eBay customers have become coworkers or neighborhood friends. The Web site is full of little stories of how members have planned vacations together, bought special presents for one another, and have helped fellow users with home repairs. A group of eBay users in Ohio even planned to share a Labor Day picnic together.

eBay's online newsletter is another channel for communication among members. It's like a town meeting where they can go to get introduced and members share tales of ways in which eBay has changed their lives. (Think of an Avon, Mary Kay, or Tupperware sales meeting.) Questions get answered in all kinds of ways, making individuals in the community feel a kinship by sharing personal triumphs, even though they have never met in person.

At the holidays eBay posted comments from around the world, including notes from a customer in Okinawa, Japan, who sells Pokémon items on eBay and discussed his local customs for the holiday season. Through eBay the world is becoming a smaller, friendlier space for people to make new connections and feel a sense of commitment.

Let Customers Know They are Valued

Beyond attracting new visitors and providing places for them to make new friends, if you are in a competitive business you have to be sure your customer feels valued by you and your company. Under Meg's watch eBay has become more and more focused on letting customers know they are important to the success of the company.

"Our unique community of passionate buyers and sellers continue to take eBay to new heights," said Whitman in a press release announcing the company had reached a new position on the Internet's top ten. In this way she sends a message to the community that her success is dependent upon their interaction on eBay. She gives the credit of eBay's new popularity to her community of users rather than to herself or her staff.

Whitman finds other ways to empower customers. "Meg's quarterly letter" is posted on the Web site immediately following the company's most recent fiscal reporting cycle to Wall Street. In it Whitman informs customers of updates and business situations at eBay, much like at an analyst or shareholder meeting. It helps make the customers feel they are as important as people who own shares in the company, and deserve to be reported to in the same way and in a timely fashion.

Meg makes customers feel appreciated on a continual basis, as well. In nearly every section or click-through there is a note from eBay or from Whitman, herself, thanking members for their support. As well, most pages have e-mail addresses to click for sending comments about that particular page to the company for improvement.

Beyond asking for advice, questions, problems, and suggestions, the eBay site asks visitors to tell the company about their greatest eBay find and what made that item so special. The company will post selected stories in future issues of *eBay Life*. The site also requests information about special occasions, such as birthdays, new babies, and other personal milestones, which it will post to the new member announcement board. There is even a "giving board" for members to share services with others who are in need.

It's all about making the customer feel that his or her needs and concerns, whether business or personal, are important to you.

Provide a Forum to Air Grievances and Ensure Honesty

After conducting business within a free trade system it became clear to the company that its customers were looking for a way to prevent fraud and build trust within the member system. The solution was to create the nowfamous feedback forum. Managed and supported by users, sellers and buyers alike are reviewed and ranked according to their history of conducting honest and fair deals. Before engaging in a trade with someone, you can look into his or her profile on the feedback forum. Users build reputations for themselves and each other, solving the issues of fraud and counterfeiting without intervention from eBay.

In a person's feedback forum profile you learn answers to questions such as: Is she highly recommended by other buyers? Does he sell quality merchandise? Does a buyer provide fast and reliable payment?

Though the system was in place before Whitman joined the company, it has been tweaked to serve the customers better. Here's the way it works: You receive one point for each positive comment, zero for each neutral comment, and a negative point for each negative comment (To ensure relevance and fairness, negative comments will only be posted if they are written by the winning bidder or seller in an auction. If a comment is not about an eBay transaction, it is not included). Like a democratic vote, only one comment per person is allowed to ensure that no one has more influence than anyone else. You can also learn what other members say about you and respond to their comments.

eBay also established SafeHarbor, an in-house customer support team dedicated to a safe trading environment, should a customer need the help of the company.

In a business environment where many people were leery of conducting commerce over the Internet, eBay has created a sense of confidence in the system.

Make It Safe and Comfortable

When your customers come to do business with you they want to know they are protected. Soon after Meg signed on as president she forbade trade of firearms on eBay and moved pornography to an age-restricted area of the Web site.

Whitman also partnered with Lloyd's of London to insure trades, and made coverage automatic on items over \$200. Further, sellers can get their credit verified for a small fee through Equifax. In April 1999, Whitman partnered with Collectors Universe to provide an authentication service for items such as rare coins and trading cards that are frequently traded on eBay.

Some have criticized the added precautions Meg has taken, saying that she has created a policed system with less freedom, but others would disagree, saying she has helped increase the efficiency, safety, and price accuracy of trading on eBay.

Let the Customer Be a Force in Shaping Your Business

Meg knows that asking for suggestions from customers will create a sense of belonging and ownership, as well as foster a sense of pride. As a result "Have a suggestion for improving eBay? Click here" is plastered everywhere on the site. Even the online newsletter asks for help and improvements.

Feedback from the eBay community prompted the development of the Gallery in January 1999. eBay users requested a more visually appealing and exciting way to shop; they wanted something that felt more natural, more like a catalog or an in-person shopping excursion. eBay listened, and developed a patent-pending technology, called the Gallery, that enables people to use the eBay Web site in the same manner with which they would shop in the real world: by window-shopping and browsing. Categories and products may now be found by surfing through pictures posted on the site, which is more comfortable and easy to manage than the previous text-only entries. The technology indexes hundreds of thousands of images for eBay customers.

eBay is sure to give the customer a choice when visiting: when choosing a category of things they are looking to buy, customers are given the option to view items up for auction in the Gallery or sift through products using the standard text format.

Members have also written e-mails to the company in response to eBay's request for improvement suggestions for the advanced search results pages. Under Meg's watch eBay took those comments into consideration and conducted detailed usability studies to develop a better search results design. When the changes were still to be finalized, eBay offered users an opportunity to preview designs and post their comments.

Deal with Mistakes:

What to Do When You've Screwed Up

Let's face it. Perfection is impossible. Mistakes, glitches, and catastrophic problems can occur no matter how careful you are at maintaining an emphasis on quality assurance. When it does happen your best defense is strong customer relations. Every company screws up, but what sets eBay apart is its attentive response to its members.

eBay had three successive Web engine outages in the summer of 1999. The first blackout hit the site in June, the next in July, then a third, a couple of months later. Whitman was quick to respond, fully aware that any serious issues could cause customers to migrate to new competitors such as UBid, Amazon, and others.

You must remember rule number one when something goes wrong: accept the blame. Meg made announcements both online and off, accepting blame and apologizing for any inconveniences, assuring customers that they were valued and that she and the company were working to remedy the situation. In a letter posted to the eBay site on July 17, 1999, Meg wrote, "We want to thank you again for the patience and support you have show us in the past month while we have been improving eBay's system." Again, she not only acknowledged the value of the members but also let them know in an indirect way that eBay was working hard to fix the problem.

The next move is to explain publicly what the source of the glitch was so you don't appear to have been unprepared and caught off guard (even if you were). Whitman explained that the cause was likely due to an update to the database software, which led to the corruption of data. She announced that the company was working around the clock to restore data and rebuild systems. Further, she assured customers that eBay was going to invest heavily in upgrading both hardware and software. Specifically, the company would strengthen its engineering staff, improve testing, decrease changes to the system, install recovery mechanisms, and build future infrastructure for stability, performance, and scalability. Then Meg dropped the names of suppliers that her customers might recognize as respected technology companies to restore faith in the Web site going forward. She mentioned Sun, Oracle, and Veritas, brands her customers would know, in order to reassure them that she was working with pros.

Finally, she waived millions in listing fees for the site's members to show her regret and take responsibility for failed trades. The customer should never be left with the burden of your errors.

The site experienced a handful of blackout periods in 1999—one as long as 22 hours—but most customers remained loyal to eBay.

Enhance Offerings

It's one thing to attract customers and make them feel they are welcome and important; it's another to give them a reason to come back when the new store down the block starts slashing prices and carrying hard-to-find items.

Meg's answer to increased competition? Build the store to include new types of products for sale that broaden the experience for the current shopper as well as appeal to another audience. She engineered the purchase of one of the world's most respected and well-known auction houses, Butterfield & Butterfield, in April 1999. Together, they trade fine and decorative art and collectibles as well as unique, high-end items on eBay's site. The acquisition was the first case of a high-flying Internet company buying its old-world counterpart.

In another move geared toward strengthening the loyalty of existing members as well as acquiring new customers, Meg polled her customers on the site in 1999 to determine whether they'd be interested in fixed-price store-fronts. A number of them responded affirmatively. Already 20 percent of its sellers account for 80 percent of eBay's business, which indicates there are retailers doing business there already. The lesson: you never know who your customers are and how to please them until you reach out to them and ask.

Make It Easy for Your Customers to Do Business with You

Customer service comes in all shapes and sizes. Undoubtedly one of the safest routes to take is to make it easier for your customer to do business with you than the competition.

Whitman purchased iShip.com and Mail Boxes Etc. in April 1999. iShip provides up-front information to customers on eBay's Web site, including shipping costs and options, while Mail Boxes etc. provides real world support for packing and shipping. In this way, eBay has managed to avoid taking ownership of merchandise and yet is still able to provide convenient trade logistics for its customers.

One month later Whitman picked up Billpoint to enable eBay buyers and sellers to use credit cards—again, person-to-person. Prior to the acquisition, eBay saw more than \$2 billion in gross sales—all settled by check or money order. The acquisition of Billpoint spells more secure, more convenient trades for eBay users. Customer feedback and research told eBay that certain items people wished for trade were cumbersome or impractical to send long distance. To fill that need, Whitman launched Go Local! Through Go Local, eBay customers can trade items they would previously not expect to trade online, such as fragile items, large objects that are expensive to ship, as well as cars, which many people prefer to test drive before committing to a deal. Other locally oriented things listed for trade on Go Local! are concert tickets and vacation timeshare rentals.

Another issue that plagued members was that they were afraid to miss out on good deals if they were away from their computers. In October 1999 Whitman answered that call by making eBay's Web site available through the Palm VII personal digital assistant—the first Internet-enabled handheld device. Another offering, eBay a-go-go, enables customers to receive auction alerts on a pager.

Invent New Ways to Reach Out

Another tactic for interesting customers your business is to keep them informed through newsletters or regular publications. It not only keeps you and your company on their minds, but it also invites the customer to get more deeply involved and connected.

Taking that tack, Meg launched eBay magazine in August 1999. Through the magazine, members can keep up-to-date on news of collecting, pop culture, celebrities who collect stuff, and general information about the Internet. There are also two books available—*The Official eBay™ Guide to Buying, Selling, and Collecting Just About Anything* and *eBay for Dummies*—to get customers more entrenched within the eBay lifestyle.

Above all, Whitman's most successful strategy has been communicating with her customers to ensure a stronger, longer-lasting bond between them.

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Chapter Ten— Build a Mosaic of Ideas

David Wetherell
CMGI

There were eras when having one unique idea in a lifetime was a lot. Now, you can have a new idea every day.
—David Wetherell

Why limit yourself to one business plan? CMGI's chairman invested in a variety of early-stage Internet companies and benefits from their mutual relationships. Why choose? Build a mosaic of companies

The Man

The Warren Buffet of the Web, Kingmaker, Rainmaker, Internet Kingpin, or Internet conglomerateur extraordinaire. Choose your cliché. David S. Wetherell has been called them all. Credited with founding the concept of venture capitalist, startup incubator, and Internet-age conglomerate in one, David has surely developed a new and compelling business model for the postdigital age.

He was born in 1955, the youngest of six children, raised on a chicken farm in rural Connecticut. Today David, now settled in Massachusetts, couldn't be further from his agricultural roots. He traded incubating chicks for nurturing young startups. As would be expected from the chairman of an Internet conglomerate powerhouse, Wetherell's house is wired with five separate cable-modem lines: one each for himself, his wife, Celeste, and each of his three children.

A relative senior citizen by 'Net startup standards, Wetherell's middle-aged guy in a business largely populated by generation-Xers. He does the things their parents do: he plays piano, listens to jazz, likes bird watching, plays poker. Tie-less with dimples, a mustache, and an almost completely receded hairline, he looks deceptively like a pushover dad. But he's no easy sell—just ask the thousands of entrepreneurs who vie for his attention (and handouts) every month.

Wetherell discovered computer programming while studying to be a high school math teacher at Ohio Wesleyan. In his senior year, he decided wanted to be a computer programmer. He began as the management information systems (MIS) director at a medical center in Ohio, then moved on to be lead programmer with the Boston & Maine Railroad, where he designed a system to manage thousands of freight cars. He even tried technical recruiting for a firm called Source Services.

In 1982 he was bitten by the entrepreneurial bug. He founded Softrend, an integrator of desktop software that connected PCs to mainframes. He sold it for \$4 million four years later. With proceeds from the Softrend sale and other financial backing, Wetherell managed a leveraged buyout of CMG Information Services, or College Marketing Group. It sold lists of professors and their courses to textbook publishers. In the beginning the company flirted with bankruptcy, but over the next six years, business tripled, to \$9 million.

With CMG under control, Wetherell considered the idea of selling books to college professors through their PCs and a telephone line. He called the concept Booklink, and hired a team of software engineers to build a Web browser. Just four months later Netscape launched Navigator, and with the promise of comparable success, Microsoft and AOL courted Wetherell to buy his new company. After spending \$900,000 on the Booklink browser, Wetherell sold to AOL in mid-1994 for stock worth \$30 million, which later grew to \$75 million.

The thought of duplicating the veritable startup coup inspired David to start @Ventures, an arm of CMG that builds Internet companies for future sale. He started with Lycos, and quickly launched a wide range of companies that would become the infrastructure for emerging e-commerce. Some of his key properties today are Engage (targeted direct marketing for the Net), MyWay.com (customized content for Internet service providers), and NaviSite (sells materials to build and manage other businesses' Web sites).

With its speed and unprecedented wealth creation, David has said he thinks the Internet will be more transformational than the Industrial Revolution. Not so farfetched. He already looks like an old-fashioned baron, with 20 percent ownership of his now publicly traded company: In the 1999 Forbes 400 issue he was listed with a personal net worth of \$1.9 billion.

The Idea

This era of business is well suited to those executives with short attention spans and commitment issues. Like a management mantra the phrase you hear over and over nowadays is "diversify, diversify." Wetherell and his brethren (Internet Capital Group, Softbank, and Idealabs, as well as venture capitalists-cum-incubators such as Kleiner, Perkins, Caufield & Byers, Benchmark Capital et al.) have created a modern-day cross between a *zaibatsu* and a *keiretsu*, traditional Japanese terms to signify symbiotic business groups.

Think of an Internet fund with influence over its investments. To take it further, the fund manager invests solely in startup companies, rather than buying shares of expensive, yet proven companies. The manager gets involved in business plans, operational adjustments, and management changes. The fund provides infrastructure support, mentoring, and acts as a catalyst for strategic partnerships, as well.

Perhaps more valuable than a mutual fund model, David invests in companies with common interests and relationships so they can help each other flourish. The combined reach of CMGI companies totals more than half the World Wide Web universe in any given month. Critical mass allows CMGI to gather the troops to improve, refine, and expand business structures, create new opportunities, and fend off failure. What you're buying when you get in on the fund is a cross between promise, ether, faith in management, and belief in the profitability of the post-digital age.

The companies in which CMGI invests are chosen not only for their growth and financial return potential, but also for their ability to fit in the CMGI network. Here is David's business model, simplified: find a young Internet company with a vision, buy a chunk of the business, fund its growth, provide guidance, encourage and enable partnerships within the portfolio, take public or sell out, get rich.

Beyond that David wants to turn CMGI from its current state of a collection of Internet stocks into a conglomerate capable of supplying a wide array of Internet services to consumers and corporations alike. While David started as a guy who wanted to fund tiny startups, he wasn't about to turn his back on the opportunity of a lifetime. Buy into everything viable. Minimize risk of failure. Be an agent of change. Control the direction of business of the Internet.

The Company

In December 1998 shareholders of Andover, Mass.-based CMG Information Services voted to change the company's name to CMGI (the "I" is for Internet) in order to reflect the direction of its business strategy. It is a company constructed of companies. Companies are either majority-owned, and considered part of its operating group, or receive strategic investment capital from the company's @Ventures affiliate.

Wetherell invests in the following categories: advertising and marketing (AdForce), content (Lycos), community (GeoCities), commerce (Chemdex), and Internet infrastructure or enabling technologies (NaviSite).

He told *Business2.0* magazine in June 1999, "We look for a hard problem solved . . . first person advantage, good management and companies that are complementary to [our] other investments."

Since its initial public offering in January 1994, CMGI's stock has been up as much as 26,000 percent. Just as David's been compared to Warren Buffet, CMGI's been called the Berkshire Hathaway of Internet stocks. It owned 50 companies on the Internet as of the end of 1999, with another 60 planned for 2000. In the fourth quarter of 1999 he invested in 20 companies. Shares have rocketed from a split-adjusted 33 cents apiece since its initial public offering in February 1994, to a high of \$163.50 in January 2000. CMGI joined the Nasdaq-100 Index in March 1999.

Moreover by going public the company has put itself at an advantage to Silicon Valley, Sand Hill Road-type venture capitalists: its own shares are a valuable form of currency. No need to limit itself to, say, the \$300 million in cash that investors contributed to a particular fund, as in traditional venture capital.

Did I mention the company is profitable? In 1999 it reported \$745 million in net gains, including proceeds from sales of divested companies.

Investment Choices:

One Part Vision, One Part Prudent Analysis

David has built a reputation for his discerning, often critical analysis, as much as for his vision. These two ingredients are necessary to the building of a successful, forward-thinking conglomerate in an ultra-competitive, early-stage industry with so many risks and pitfalls. It isn't exactly a cakewalk to field the 2000 business plans his office receives in a month, taking care to avoid doomed investments while not missing any big scores.

Scott Kirsner at *Boston Magazine* wrote, "Securing an appointment to explain your Internet business plan to David Wetherell is like winning the chance to pitch your screenplay idea to the head of a major Hollywood studio." Further, Kirsner says, "If you've got something that fits into Wetherell's intricately detailed mind map of where the Internet is heading, you will be pummeled with questions, like tennis balls from a serving machine on overdrive."

After all that, he still manages to make about one acquisition a month, and start two or three new companies each year. He told *Business Week*, "The power of innovation, of entrepreneurial motivation, has never been greater because of the Internet."

Every Move Helps Some Other Aspect of Your Business

Entrepreneurs know going into a deal with David that they are getting more than just his expertise and his wallet—they are also benefiting from his portfolio. At the center of Wetherell's vision is a plan to create a network of inter-locking Internet-based companies. Each CMGI site should lead users to the other members of the group in a continuous, expanding cycle. In a word: synergy.

Wetherell introduces companies to each other like a marriage broker, and they go on to share technologies, management insights, and marketing. Many CMGI-backed firms have already built successful relationships with long-term potential. Stock site Raging Bull, for example, is hosted by NaviSite, uses AdSmart to serve ads, and provides e-mail through Critical Path.

Every time a new entrepreneur is inducted into the group, its dynamics change. Becoming part of the CMGI network not only improves the chances for success of the budding young company but also helps the success rate of all other CMGI companies, and CMGI as a whole.

Wetherell saw the potential for a long-term committed community in startup financial discussion site Raging Bull in late 1998. He bought half the company for just \$2 million. Less than a year later he picked up AltaVista, an Internet search engine and portal. The two became great partners, with AltaVista linking visitors to Raging Bull, creating more members of the financial community and increasing stickiness (length of stay, which translates into higher advertising revenues) at AltaVista. In November AltaVista bought the balance of the company.

Another example of CMGI's symbiotic partnerships is its direct marketing subsidiary Engage. In July 1999 Engage began selling its database of more than 35 million "anonymous user profiles" to 14 CMGI companies, including Lycos and AltaVista, as well as "outsider" companies. Engage builds profiles as web surfers move around the site. The company's technology tracks the direction of their clicks, where time is spent, and overall behavior. Today a site that uses Engage technology can sense when one of its profiled members logs on, and can automatically zap in ads tailored to the surfer's interests. A consumer who enters a section of a travel Web site on Caribbean islands may see an ad for scuba gear available through another online retailer.

***Get in Early:
Buy Cheap***

The deeper you are entrenched within the fabric of your industry the better you will be able to spot new opportunities before the competition. The sooner you find such gems in the rough, the cheaper you can pick them up, and the more you will be able to shape them in your own image.

David has shown an uncanny ability to find companies before they have attracted much attention, and has made himself and his investors a pretty penny because of it. In January 1996 he met with David Bohnet, founder of GeoCities, a build-your-own home page Web site. David saw a hot opportunity and wasted no time. As soon as Bohnet finished his demo at CMGI's office he had a handshake agreement to sell a third of his company to Wetherell for less than \$6 million. Two years later, Wetherell sold his stake to Yahoo! in a deal that brought him a net gain of more than \$1 billion.

Another big win was Reel.com, a Web-based video store. David kicked in about \$7 million, brought in some additional outside investors, helped select a new CEO, and held promotional events on its affiliated Web sites to beef up the business. He sold it for \$100 million to Hollywood Entertainment in less than a year.

Mark Your Territory

In what was arguably Wetherell's best move yet, he bought into search engine Lycos when it had only one full-time employee in 1995. He paid just \$2 million for 80 percent of the fledgling online information fetcher.

David pocketed \$138 million in capital gains by gradually selling down CMGI's stake. He was the company's largest shareholder with a 17.5 percent stake in February 1999 when Barry Diller proposed merging his television and Internet conglomerate, USA Networks, with Lycos. All but one on the Lycos board were thrilled with the idea. David dissented. He told *Boston Magazine* he thought "the media companies need a portal strategy a lot more than the portal companies need the media companies." He voted against the deal, and quit Lycos's board in March.

David's move sent a clear signal about the strength of Internet media businesses. Lycos's stock rebounded after the deal fell through; investors realized his point was valid; they were better off without the sluggish media company. (He was proven right again with AOL's masterful purchase of Time Warner in January 2000.)

David's 17.5 percent stake would now be worth more than \$1 billion. If he had not voiced his concerns about a merger, the results might not have been so positive. Lycos's stock could have fallen further, David would have lost money in his investment; moreover, the company would likely have changed tracks and business strategies, with the result that it would no longer provide the same sort of partnership capabilities for his portfolio as when he first invested.

Method to the Myriad Collection

Though David runs a conglomerate of seemingly myriad companies, he remains steadfast to his business plan of focusing on certain business models that he thinks will make sense within his portfolio.

Marketing and Advertising

The oldest investment advice still rings true: buy what you know. The counsel isn't lost on David. While running CMG he learned direct marketing tactics, and, as he told *Business2.0* "The Internet is the perfect channel for direct marketing." In a conference call in December 1999, David told investors, "CMGI is building an online marketing powerhouse." In that fourth quarter alone CMGI spent more than \$3 billion on acquisitions in advertising and marketing.

One such investment was Yesmail.com, which outsources direct marketing technology for e-mail. He bought the company in a \$500 million stock swap announced in December 1999. Shareholders of Yesmail.com, which went public at \$11 a share in September, received one-eighth of a share of CMGI for each share of Yesmail.com stock that they own.

CMGI also invested in Flycast Communications, a direct response advertising company; AdSmart, a branding and marketing company for businesses that want to combine Internet and real world marketing and advertising efforts; and AdForce, a direct marketing company that helps manage business Internet advertising accounts.

Community and Content

CMGI was among the first to realize the potential and importance of online content and community sites, knowing that the tighter the allegiance to the Web site, the more frequent and longer the visits by members, and the higher the site can charge for advertising.

Two of CMGI's most successful community-building sites are Lycos and GeoCities. Wetherell wants to take that concept another step further with deep personalization customization, multimedia, self-publishing, and new community platforms.

The Raging Bull investors' forum is a perfect example of an online place with which people will develop a relationship, and to which they will return often.

Other recent investments include Oncology.com, which provides comprehensive cancer content and community services, such as research, conferences, chat, and more. Ecircles enables visitors to create their own Web groups based on a common interest, such as their kid's soccer league, or a local group for people who enjoy hiking and want to organize trips to the trails. There's also Findlaw, for people in the legal profession or others who may be interested in litigious matter; MyFamily, a Web site where families can share photo albums and update each other on new developments for faraway relatives; and Ancestry.com, a genealogy site for families who want to re-create their family tree. Wetherell also invested in specific, or vertical, interest sites such as Boatscape.com and Craftshop.com.

E-commerce

An important component to a revenue-generating group of companies is commerce. After all, once you determine someone is interested in a certain subject you can guarantee they'll be interested in purchasing something in that category sometime.

So far CMGI has bought interests in e-merchants such as PlanetOutdoors, for gear for ice climbing; Furniture.com, for a nightstand; and MotherNature.com, for Echinacea and vitamins in the event you catch a cold on your trip.

If you are interested in the arts, you could log onto NextMonet to purchase a contemporary art painting and then look into Productopia for advice on which track lighting would properly accent your new painting. After that you could click over to BuyersEdge, where you could auction off your old couch, which no longer goes with your new décor.

Enabling Technology

CMGI describes the companies within its enabling technology category as the glue that holds the Internet together. They provide the strategies, designs, and technologies to help companies, both online and off, to exploit the full potential of the Internet.

In this group are investments such as Critical Path, which controls electronic messaging, and Activate.net, which makes streaming media technology for broadcasting, as well as 1stUp, an ad-supported Internet service, which provides the technology to target visitors' interests and provides the visitor with an ad to download.

With All Thy Getting, Get a Point of Entry

David knew that as good as his Internet companies may be, he would need a point of entry for visitors to attract customers and usher them through to the other sites. Through a partnership with Compaq he purchased 83 percent of the AltaVista search engine and portal in July 1999 for \$2 billion in stock. Now, when visitors enter AltaVista they are immediately linked to his vast portfolio of Web sites. More click-throughs equals more cash.

Since the acquisition David and AltaVista have begun testing a new model. AltaVista would offer free Internet access—with a catch, of course. Those who sign up must click on an ad periodically to maintain their Internet connection. AltaVista claims some 550,000 users have signed up for the service, but other attempts at so-called "free" advertising-supported Net access have failed.

Don't Be Afraid of Letting Go

The temptation of becoming so involved with his investments means David could possibly get too close to let go. Sometimes selling a portfolio company to someone else, whether shareholders or another company, would benefit CMGI's bottom line, but be a hard choice for him to make. It would mean his job is done, his vision for the company has been realized, and their dependence on him has ended. It can be like sending a child away to college. It should be especially for David, who places such a high degree of worth on potential, but you can't allow yourself to get attached. You're in this business to make a profit.

The Future

The big risk for Wetherell is that his model so far has depended on doing deals, yet the stock he relies on for currency could easily deflate before he creates a true conglomerate built for the long term and producing reliable profits.

The next stage in his conglomerate strategy? Perhaps like the Internet, which began by providing a breadth of products to a wide range of consumers and moved toward a more interest-focused model, he and other portfolio artists may become more vertical. If that happens, look for more advertising and marketing acquisitions by CMGI.

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Chapter Eleven— The Art of Remaining Neutral

Naveen Jain
Infospace.Com

In the information revolution somebody has to build the information operating system for the people fighting the battle. We partner with everybody; we supply the bullets and let them fight. It protects us because we're not dependent on one customer and we're not betting everything on somebody being a winner. That's how we're going to win.

—Naveen Jain

How the self-proclaimed "arms dealer of the Internet" came out on top by remaining neutral in the Web wars and supplying to competitive companies

The Man

Naveen Jain is a machine-gun-talking, self-promoting, bombastic, arrogant, entrepreneurial genius. He's so sincere about knowing he'll succeed that he makes you want to believe him. He fitfully laughs at his own jokes, at competitors, and the thought that he will ever fail. He'd like you to think that he's funny, but not a joke—and certainly not an easy target. He wants you to know at all times that he should be admired and revered. "I created this industry," he boasts, but deservedly so. "We absolutely pioneered the concept of cobranding and private labeling the Internet."

Born in India September 6, 1959, Naveen received his B.S. in engineering from the University of Roorkee and his M.B.A. from Xavier's School of Management. He emigrated to the United States in 1982, and held management positions with Tandon Computer Corp. and Unysis Corp. Jain then moved on to Microsoft, where he worked on Windows 95 (for which he holds two patents), MS-DOS, Windows NT, and OS/2. After seven years at Microsoft, Naveen quit his position as group manager for Microsoft's MSN online service. "I got tired of making billions for Bill," he recalls, "I wanted to make some for myself."

So he left to start a new Internet company, Microsoft shares in hand, forgoing venture capital cash infusions, Jain was able to maintain a significant ownership position in InfoSpace.com rather than falling into the trap of giving away equity for startup capital. "We had no vulture capitalists trying to make money off my blood and sweat," he says emphatically.

He learned his competitive drive from his last employer, Bill Gates. "What I learned from Microsoft is there is no room for a second player—you must dominate with a 90 percent ownership of the industry. Almost being there doesn't help. 'Market share' is for wimps—you need to dominate. Bill Gates never thought 90 percent ownership made his company a monopoly, why should we?" he asks. "My goal in life is to get sued by the Department of Justice. Then my shareholders would love me to death."

Naveen is already being rewarded for his less-than-modest goals. In 1999 Wall Street took InfoSpace's shares up 550 percent. The same year he was selected as Emerging Entrepreneur of the Year by Ernst & Young, and was honored as one of Red Herring's "Top 20 Entrepreneurs" in 1997.

"World domination is not going to happen without my being everywhere," he told *The Seattle Times*.

The Idea:

To Win in Business, Be Consumer Agnostic

While working on Microsoft's Internet business Naveen began to recognize a new business opportunity. "I noticed what every Internet company had in common—building a brand," he says. "New brands would continue to be created because it was still a new media. The formula back then was simple, 'I'll open my shop, promote my shop, and people will want to come to my shop.'" But with all those shops already out there competing against each other how could he fit in? Was it too late to enter with a new online business? He saw competing with them wasn't the answer.

"What if I built a store for all the Web sites to call their own?"

Since he worked in this burgeoning industry while at Microsoft he was able to see some of its flaws. In the mid-1990s the emerging Web companies, now called portals, were simply search engines. Web-surfers would come to the search engines looking for a piece of information, click a link, and move on to the next site. Jain saw a fundamental problem with that business model. "The better you get at your job as a search engine, the worse the business gets. In other words, the faster people get what they want from you the sooner they leave. How can you build a business where the price of success is failure?" Jain questioned.

If the ability to search would not retain Web users, what would? "If the Internet will ever become mainstream," he thought, "it will reflect what we do in real life." So what is it we do in real life? He found it was partly research, but mostly we look for friends, plumbers, attorneys—day-to-day business; looking for a job, an apartment, classified information, movies, buying things for the kids, getting coupons. He figured the next revolution would not be about people visiting Web sites to browse, but to stay. It would be about people finding their real world information needs at one place.

Other Web sites hadn't quite figured that out yet. "All the search engines were fighting for the same user to become the start page for people seeking things," Jain noticed. But there was no difference in the Web sites from a user's perspective other than the brand, and no reason for a user to prefer one search engine site to another, certainly no reason to stick around. No loyalty. "It didn't matter what the user was looking for, it was always the same shitty information. I knew that providing a service difference would never be what these guys would be about," says Jain, "Sure, they could build a strong brand but they didn't know how to deliver a service people actually needed once they got people to their site. It was only by the brand and the 'feel' that one site was unique from another." If the search engine was virtually the same, why not, then, the services they provide?

The question remained. What could you supply to companies trying to differentiate themselves in a battle for page views? What service does this business need that will make each Internet site appear to be a markedly different product? "My thought was these sites would have to be aggregated mini-online services in order to succeed," he remembers.

Naveen discovered he could offer a cornucopia of useful information that could be integrated into various search engine destinations. The more useful the Web user considered the information, the longer that user would stay on the host Web site. That would translate into more page views and, therefore, greater advertising revenue.

Jain began to pool together disparate, utilitarian services and content, which he would lease to individual Web sites. He didn't care who they were. Competitive Web sites would carry the same material as one another, but he would personalize the information with the look, feel, and style of the host site in order to create a feeling of uniqueness for the visitor. Each time InfoSpace's services were being used, an InfoSpace label would appear on the page in addition to the branding of the host Web site. Jain pioneered the concept of private labeling and cobranding the Internet.

The Company

Naveen Jain founded InfoSpace in March 1996 with the idea of supplying useful information to competitive Web sites. Today InfoSpace is a provider of private label content-driven infrastructure on the Internet. It leases services that draw viewers but are costly to build and maintain, such as horoscopes, yellow pages, weather, stock quotes, classifieds, buyer's product information, and user-modified search engines to marquis-name Web sites, such as AOL, Lycos, Netscape and *The Wall Street Journal*. Today these are services that Web users have grown to expect from most every Web portal. As users find the things they want on the site with which they most identify, they come to see the site as a reliable information destination. With that comes a sharp increase in traffic and time spent on the Web site.

InfoSpace.com customers pay a minimum startup fee, plus a monthly maintenance fee, for cobranded services. What visitors see is information in the format and style of the Web site with which they have become comfortable, along with an InfoSpace logo. The InfoSpace logo is becoming more and more prevalent on the Web.

Revolution, or Business as a Battlefield

"If you look at any revolution the arms dealers always come out ahead—every single time," says Jain. "In every industry, in every revolution, the companies that are ultimately successful are the sellers of the underlying infrastructure. It goes as far back as the 'gold rush' days. Everybody was digging for gold but the ones who made money were supplying picks and shovels."

He goes on to explain his theory by historic example. Take the PC, for instance. "Most successful companies in the PC revolution provided to people who competed with each other. Microsoft sold its software to hardware companies like Gateway and Compaq, and in that way acted as an arms dealer." With microchips, the same principle applied. Intel provided its versions of the microchip to the same computer manufacturers. "Together Microsoft and Intel were the leaders of the PC revolution, earning the name Wintel. In the information revolution on the Internet, somebody has to build the information operating system for the people fighting the battle," says Jain.

If You Want to Sell to Everyone, Have Something They All Need

Have what they want, no matter who they are, and make what they want before they know what it is. Sell something simple and useful that will save your customers money—something that's easier and cheaper for you to make and sell. For the Internet revolution, that something is information made easy.

More than the information, itself, the value of InfoSpace's product lies in the packaging, the delivery. Jain clarifies, "Content is a commodity. It's the distribution that makes it valuable, individually integrated to make it a new product." Similar to a pizza delivery service, InfoSpace's product can be made to order. Like ordering a mushroom pie without anchovies, a Web site can request from InfoSpace's extensive menu a shop bot (a Web shopping engine) with yellow pages and maps, hold the weather reports. Further, with simple touches, such as color, fonts, and design, InfoSpace's programmers can make the product appear as though it has been created in-house by the host Web site.

Customers get exactly what they need, without the expense of building capabilities or acquiring companies that already offer the service. By leasing instead of buying or building, the barriers to entry for new portal sites are getting smaller, and InfoSpace is benefiting by gaining new players.

Cater to Individual Customers

More than ever, the Internet is about personalization. Users are increasingly looking for Web sites that are designed to meet their needs. Getting something tailor-made in the world of virtual technology is much easier, faster, and cheaper than in the physical world. People are beginning to demand the ability to have products, pages, and entertainment customized for their personal tastes and preferences.

Naveen has shown an ability to recognize that end-user's experience. With InfoSpace's MyPage service, end-users can create their own customized pages, which contain only the information they want and carry the individual branding of the Web site. So now, not only can the Web site choose the preferences it wants to offer its visitors but also the visitors themselves can further filter the information they receive.

MyPage users can create their own Web pages composed of elements such as comics, news by category, realtime stock quotes, and lottery numbers in one location. The page each user creates is a highly customized and instantly updated center of information, all the while keeping the process invisible to customers.

"When we build a product we aren't always the first to market," admits Jain, "but we market our services well by creating greater user appeal, rather than just having the best technological aspects. You have to think of the end-user's experience first."

Avoid Exclusivity

The only time exclusivity makes a relationship stronger is in romance. In business, it's deadly. Never pin the success of your company to another. You can only grow as big as they, and only as fast. If they fail . . . "I see people who say they have exclusivity with someone else and I always say that's a big mistake," says Naveen, "Most entrepreneurs fall for the same thing in the beginning. They can end up being the next blue chip company if they don't fall for exclusive deals."

When Naveen Jain pitched his first account he could have been tempted to sign an exclusivity pact, but he knew better than that. He knew that no matter how successful the target company was at that time, he could only become a breakaway success if he remained a free agent.

He recalls that first meeting with Lycos. "Of course, in the beginning the first company always asks for exclusivity. But you can't fall for it." He didn't. What he did instead was discover a way to make Lycos feel it still had an advantage over its peers without causing himself to lose future opportunities. How? "You need them to feel like they're getting something without giving complete exclusivity," he says. If you make the deal sweet enough, they'll agree. "And once you sign the second partner, the third will never ask."

Setting the precedent is the most important move you can make in creating a new business in a new industry. Before you know it, the practice you implemented will be commonplace. "Now nobody ever asks" for sole distribution says Jain, "It's seen as foolish to ask for anything exclusively on the Internet at this point."

Give the Appearance of Exclusivity

You already know you don't want to sign any contracts that will preclude you from conducting business with whomever you choose. But making the potential business partner feel a sense of loyalty from you is important—particularly if you or your business are unproven. What you can do is offer the person something special for a limited time, or add on some sort of perks or privileges to the partnership.

"There's no formula on how to fall in love or get rich—sometimes you have to make someone feel like they have exclusivity without really having it," says Jain. "Try to be extremely creative in structuring the deal."

There are a number of ways to build an attractive deal when your product is going to be similar for all your customers. Jain recommends offering a small amount of exclusivity in the form of time. Say, for the next 30 days you will not offer anyone else this product, which gives your customer the first advantage. Think of it as "a head start, but without the exclusivity that would crush your business," says Jain.

Another option is to suggest a limited feature, or combination of features. In Jain's case, he would provide an exclusive combination of horoscopes with white pages, and in subsequent deals, would replace the white pages for weather reports. But, he points out, "when you have built credibility you can give them both the same thing."

Importantly, you can give favorite customers the first shot at new products, or product upgrades. In this part of InfoSpace's business, it is important for the company to acquire new businesses to integrate within its system. Customers should always feel like there is something new and enticing in your inventory.

Failing all the above, volume discounts are always welcome.

Play up Your Role as Supplier to the Competition

Now that you've established yourself as the provider in your industry, you have the upper hand. You've got what they want, and you can use your position as a neutral arms dealer to your advantage. Are two of your biggest customers always trying to one-up each other? Great! With upgrades and extras you can appear as though you're playing favorites when you're really just maximizing your power position.

Navven puts it this way, "If you're fighting the Arabs, and they have F-15s, you're going to need the F-16s. The anti-missile technology is next." In a very competitive business where customers can click a business in and out of favor, it's war. Naveen says when new products become available his sales team is armed with sales pitches like this one, "Lycos just launched this great service, don't you want your customers to have the same thing?"

Obviously it's important for InfoSpace to continually revamp its selection of goods. Features can be added to existing packages, such as the desktop portal, a downloadable toolbar that can be set up to notify the end user to news alerts, stock quotes, and auction bids. Another add-on: a comparative shopping service, called ActiveShopper. This enables the user to go to one Web site to post an item for sale and make it available on InfoSpace's auction, classified, and shopping sections. All postings are instantly available through InfoSpace's entire affiliate network. The service will also find prices from web retailers, offline catalogs, auctions, and classifieds, and obtain product ratings from online reviews and message boards. It will then send out promotional coupons.

Always keep inventory fresh, and try to make it unique.

To Work with Many Countries, Be Multilingual

In technology as in international weapons dealing, the more languages you speak the greater your reach. What that translates into is this: keep your product flexible, malleable, and scalable. If you remain a step ahead of the next new platform you can offer it to your customers before someone else does. Just as you should not put all of your eggs in one customer's basket, you should not make your product reliant upon one operating system or type of hardware.

Naveen says one mistake Microsoft made was focusing on a single platform—the PC. "As the market developed Microsoft had a hard time getting into other markets (for platforms like set top boxes) because its operating system was never designed to be a multiplatform application. Sure, Microsoft turned hardware into a useful appliance but today, PCs are doorstoppers. Why not turn the Internet into a useful appliance in the same way?" Naveen Jain took that train of thought one stop further: "We should work with every device."

From as early as the founding of the company Naveen was careful to avoid being reliant upon any one technology, which another could soon phase out. "We said from the beginning that we were going to make InfoSpace completely transparent for the underlying platforms. It's all coming back to the same idea: We'll be completely agnostic."

Part of being prepared for battle is foresight. "In 1996 we were able to think about what would come down the pipe," recalls Jain. "We knew there would be some device to supply information and store the information, and that if we could keep the two apart from each other we could make it work for anything. The information should have no idea how it will be displayed, and the display can change again if tomorrow there is some new gadget. We can change it to a new protocol. The future doesn't matter because we will be independent."

Jain's modus operandi has always been "Any Device, Anywhere." As a result, InfoSpace's aggregated information was written in a hardware device markup language so that it could be easily translated into the next platform, whether it be PCs, palm devices, smart phones, pagers, or something that doesn't even exist yet.

The important thing, notes Naveen, is that you get the right information onto those devices. "Appliances without information are nothing but gadgets," he says.

One partner who realized that early on was AT&T. They began talking in 1996 about ways to work together to carry information that would be displayed on different portable gadgets. Today InfoSpace's wireless portal platform is provided to AT&T PocketNet subscribers. InfoSpace integrated services enable AT&T's PocketNet customers one place to get real-time stock quotes and directions, price-comparison shopping, person-to person, device-independent instant messaging and e-mail, as well as an address book and calendar.

Microsoft has teamed up with InfoSpace in information delivery as well. InfoSpace.com was the first company to extend Microsoft's MSN Instant Messenger from the PC to cellular phones, pagers, personal digital assistants, and fax machines. The combined message service is available through InfoSpace.com's desktop portal.

InfoSpace provides this example of the product in use: A sales representative may be on the road and still be able to send and receive instant messages on wireless devices, including a cellular phone, pager, personal digital assistant (PDA), or fax machine. The salesperson may receive an instant message from a vendor for an urgent change to an order. She can then send that request to the office and reply with one instant message, regardless of what device the others are using. The technology provides secure, permission-based instant text messaging, instant file transfer and URL sharing, and is compliant with existing instant messaging protocols.

Maintain Your Position as Main Supplier

Do more than your competition by combining their services into yours. Be a one-stop shop. This concept has been proven with Naveen's business model. He built and acquired varied services to sell to consumers in bundles so his customers wouldn't have to shop anywhere else. Rather than use one supplier for yellow pages, another for map services, and another to provide news headlines, the customer can lease it all from InfoSpace. One contract, one simple bill, one relationship to maintain. The easier it is for your customers to use your services and supplies, the more they will see you as a necessary link to success.

Maintain Relationships with People in Power

Never cut what can be untied. Partners, friends, and business associates can all be called upon as allies in later wars if you maintain cordial relationships. Naveen was in a position when working at Microsoft where he was able to make a number of contacts in the Internet industry. When he left Microsoft he was sure not to sever those ties. "When I started InfoSpace we were able to work with all the people and companies I worked with while I was at Microsoft," he explains, "because I always did the right thing by them when I had the power of Microsoft behind me." He teaches the same principles to his employees. "I tell my team, 'Remember, people do business with people, not with companies. Take care of customers and always do a fair deal. Times will turn around when you will need them as much as they needed us.'"

Naveen also knows that the right relationship can not only seal a deal but also create one—even when there isn't an immediate opportunity. "One thing has been made clear to me time and time again," he says, "In every day life if I meet a person and I like them I will find a way we can work together. But if I meet a person I don't like there's no way we're going to work together—ever."

Naveen was able to sign many of his early deals and even shape the product he was offering because he kept business relationships strong and positive. If you're planning to supply something, you've got to have takers. And what better ally to have than the world's most powerful software company? Naveen Jain has worked on multiple deals with his last employer, Microsoft, including a recent deal to provide MSN Hotmail and WebTV users with access to its consumer services.

Make Allies Who Will Help You Supply More/Better/Different Ammunition

Allies and partners are important when looking to build a reputation as an honorable dealer, but they also come in handy when you are trying to build out your portfolio of offerings.

Microchip manufacturer Intel partnered with InfoSpace on a unique deal in creation of multibranded Web appliances. InfoSpace will provide consumer and commerce services to Intel's new Internet-enabled Web devices, including at-home appliances. Together the two companies can offer advanced consumer Web appliance products that Internet service providers (ISPs) can customize and brand as their own, and then resell to their customers. Moreover, Intel's use of the Internet-ready, malleable Linux operating system rather than Microsoft's OS and the PC, will help InfoSpace with increased distribution of its products and services.

Acquisitions can provide instant allies in the supply wars. When InfoSpace purchased PrivacyBank.com it extended one-click buying to wireless Internet devices. With one keystroke, mobile users can purchase any product from any Web site on any Internet-enabled wireless device. The technology provides an automated process for filling in payment forms, eliminating the need to enter in payment or shipping information, register, or enter passwords. Customers can also receive promotions on their wireless devices and use those promotions to make a purchase. In the future, this technology could possibly be applied to bill presentment and debit-style transactions with maximum purchase limits.

With all the opportunities for increased revenues InfoSpace was able to create for itself by maximizing just two partnerships, imagine what possibilities subsequent relationships could bring.

The "Arms Dealer" Strategy in Practice

Being an arms dealer simply means being a diversified supplier. As long as you continue to provide a worthwhile product and/or service and maximize relationships, you should have no problem dominating your field. For a non-Internet example of a successful supplier look to Dallas-based Sysco Corp. The company has been successful for 30 years as a one-stop shop for the ultra-competitive hotel/restaurant industry, selling everything from vacuum cleaners to giant jars of pickles to precut french fries.

"Almost every industry can use the same strategy," declares Jain, "they just have different terms for things. In hardware, it's OEMs [original equipment manufacturers]. They made money by building the same PC under other people's names. It happens in the textile industry between wholesalers and fashion retailers. The brands have already been created so they say, 'let's supply to these pre-existing brands.'"

Just remember: if you're going to be an arms dealer, never get caught up in the war. Don't compete with your customers. Just because you know how to make and sell bullets doesn't mean you have to know how to aim and fire.

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Chapter Twelve— Negotiating Your Way to the Top

Russell Horowitz
Go2NET

Every class has its "person most likely to succeed" but almost all of them haven't. In my case they were right—but for the wrong reasons. They saw I had some acute skills in business, but the things that made me successful are outside those areas. There are a lot of people who are as good or better than I at understanding principles of business, but I also understand complex interactions between people and their relationships.

It's one thing to open the door, but another to do something once you're in there."

—Russell Horowitz

How Horowitz's S.W.A.T. team acquisition strategy and keen negotiation skills won him a top-10 spot on the Internet in record time.

The Man

Russell C. Horowitz is an unequivocal leader. He stands tall, thinks fast and speaks with vigor about just about everything. His confidence is palatable. He speaks like an evangelist preacher about his vision—a necessary character trait for a technology leader these days. The word around Seattle is that he's one of the brightest students to ever walk through the doors of Lakeside School. That's no small feat; Lakeside also taught Bill Gates, Paul Allen, and cable magnate Craig McCaw (all three are in the top 25 of the *Forbes* 400 rich list).

Russell was born May 8, 1966, in Seattle, Washington, and graduated with a bachelor's degree in economics from Columbia University in 1988. He finished his degree a year ahead of schedule to save on tuition, which he paid for by unloading boxes in the flower district and playing the stock market. (Even as a student he showed prescience by placing index "puts" before the market crash on Black Monday in 1987.) After graduation he moved downtown to work at an investment bank on Wall Street. He cofounded Active Apparel Group in 1992 and acted as chief financial officer until its IPO in 1994. In early 1996 he moved back to Seattle and started Xanthus Capital, a merchant bank.

That year he discovered the Internet. He studied Web companies like Netscape as they went public and, he recalls, "I understood this better than they did." In 1996 he cofounded Go2Net with his high school soccer pal John Keister and \$1.5 million (\$1 million of which was from Xanthus).

Comfortable in jeans and a T-shirt, Horowitz speaks in sports analogies and plays soccer in on Go2Net's team in a local league on Sundays. He has unruly, curly blonde hair, occasional five o'clock shadow and a million dollar smile. Just a regular guy? Don't let him fool you. He knows his audience and what they want to hear. He senses your motive, and if you find yourself across the table from him, know that he's done his homework and he's in it to win.

"Ultimately it's a battle of wits," he says. "You have to challenge your own mind, find great minds to interact with and see what's possible to create with all of this.

"In the Internet space, if you can't make deals happen you're dead."

The Idea:

Why Build When You Can Acquire?

While knowledgeable about business and determined to succeed, Russell was admittedly late to the online game. Competitors already had billion dollar market capitalizations and household names. At the same time, Horowitz saw new Internet companies blowing up or fading out, burning through capital and losing visitors to other players.

He decided to analyze the business using a mathematical formula. "What's the probability of creating a successful company?" he asked himself. Russell looked at the spectrum of possibilities. On one end were companies with unlimited resources like Microsoft. Even software behemoth Microsoft was phasing out some of the Internet companies it made from scratch. Maybe one in four or five new Web sites would succeed there. At the other end were smart, creative, ambitious individuals just like him who wanted to launch a Web site. One in every few thousand might succeed there. He saw himself somewhere in the middle, "We had a one in a hundred chance."

He thought it would be easier to see what was already successful than take his chances on launching an untested business. The physics' law of inertia supported his idea. "We realized it was easier to keep a moving body in motion. Without risking inertia we decided to use the industry as our research and development lab," he says. "We would let the market tell us what products and businesses are working as they validated it by usage."

He and Keister decided to acquire successful, preexisting brands. Together they began to look for highly automated (inexpensive to operate, integrate, and upgrade), highly scalable (able to grow along with the community) Web sites that were lacking resources to commercialize themselves.

They launched Go2Net in December 1996, with Keister as president and Horowitz as chairman, chief executive, and chief financial officer.

The Company

Go2Net is based in Seattle, Washington. It manages and builds Internet communities that focus on discussion, interaction, and commerce. While most portals would like to be broad centers for information and services, Go2Net tries to get deeper to find a place that visitors will relate to and revisit often. Its main properties are Silicon Investor, a financial discussion community; MetaCrawler and Dogpile metasearch engines, which combine the services of multiple search engines; HyperMart free business hosting and small business applications and services; and Playsite, a multinational, multilingual, multiplayer game room.

The PC-based model of a Web portal is just the beginning for Russell, who sees a multigenerational cycle developing. The first generation consisted of horizontal, or broad-reaching, portals on the PC. The second were general services with vertical offerings (market-specific) on the PC, and the third will be general services with vertical offerings on multiple platforms. "It's not always the first generation who succeeds," Horowitz explains. "Usually, it's a bit of the second and third generation." That's where he decided to concentrate his efforts.

Understanding Micro and Macro Views

Macro- and microeconomic concepts are essential to comprehending the environment in which your partnership is going to operate. Russell clarifies, "You need to know what football stadium you're in, who else is on the field, and which goal line you're getting to."

First, determine your company's strengths, weaknesses, and those of your potential partner. "Have the discipline to know what you do well and what other people do better," advises Russell. "You need to understand the elements that will cause that business to be a success. That comes down to a lot of research and injecting yourself into the processes of the other company."

The macro view will require you to understand overall strategic trends within the industry. Awareness is key. Once you've determined the trend, you need to visualize your place within it. After that, your course of action will become clear.

Russell points to his deal with HyperMart as an example of using both macro and micro views of a business. "On a macro level it was very clear to me that major emerging growth on the Internet was an explosion of small business coming online," he says. He needed to determine the best service within that space that would help create a relationship with potential customers who would be receptive later to additional services and products.

Small businesses were just learning about the Internet but had no idea how to get online. Russell expected that once they adopted the Internet, small businesses would want to operate their own sites, conduct e-commerce, and eventually outsource activities such as human resources and payroll maintenance to the Internet.

On a micro level Russell saw an introduction point with free Web site hosting through HyperMart. The company already had an understanding of how to build and operate Web sites, and had begun to establish a community of small businesses. Russell conveyed to HyperMart founder Alan Graber that he had shown strong vision early on in founding the company, and that he foresaw HyperMart's next steps. He went on to say that without Go2Net, given HyperMart's limited financial resources, the company would have a difficult time securing a leadership position. "I told them that together, we could aggregate other key services to that community." Russell's understanding of micro and macro views of the industry and each company's place within it sealed the deal.

In another example, the team at Go2Net noticed that multiplayer games were shaping up to be the next big thing. At the time only "shoot-em up" games were widely available on the Internet. Russell wondered: If the Internet mimicked real life, why not mimic real-life games, too? We play Monopoly, Clue, and Battleship together on the living room floor, why not online? Russell did some thorough research on the industry and found Hasbro had a 90 percent share on the board game market. Someday Hasbro will eventually go online, he thought. They've got the classic, well-known game titles, we've got the technology and the Internet community, so why not do it together? Eighteen months of research and conversations later, the two signed a deal to collaborate on an online game site called games.com.

Do Your Homework

Preparation is critical. If you make an effort in advance to imagine all the contingent scenarios of a meeting in advance, you will be able to see the chain of events as they are unfolding in reality and influence them. "Take possible scenarios to the tenth level of all permutations that could happen," encourages Russell.

Learning whether your opponent is honorable is paramount. If you are in the same industry, chances are you have shared a business partner in one way or another. Talk to other people with whom the person has dealt to discern what kind of ethics the person has and whether that person has been forthright in previous deals. "You have to try and get people to be as straight as possible with you about what capabilities they have," says Russell. If the person says he can deliver something you know he is incapable of, you know the deal is not guaranteed.

Another tactic he shares: "If you have information about a situation with the person's business, ask him about it. You can specifically inject an opportunity for the other person to represent a lie." Ask a question you already know the answer to and if the person responds in a defensive way or shields the truth, you know you are being manipulated.

Aside from protecting yourself against deception, you need to understand your opponent's point of view. Russell knows there is no alternative to "tireless research." For his first meeting with Silicon Investor he had a last-minute flight booked for 6:00 a.m., and stayed at the office until 2:00 a.m. the night before pulling data and doing research with other members of his team. The most important, yet simplest, information he found was the company's mission statement on its home page, which was omitted from the background materials sent to him. It was that mission statement that allowed Russell to pinpoint what was essential to the company's strategy. It turned out to be a commitment to the subscribers who posted comments on the Web site. He used that information in the negotiation, and the executives recognized that he was as concerned about SI's goals as his own.

Another benefit to doing your homework is getting in early and finding the gems in the rough before valuations skyrocket and other investors own too many shares for you to buy a meaningful stake. Horowitz heard about MetaCrawler when it was still being financed, and was able to buy it for \$100,000 two years after Sequoia Capital paid \$1 million for a third of Yahoo! and CMGI paid \$4 million for an 80 percent stake in Lycos. His divergence from the beaten path also led him to HyperMart, which he bought for \$4 million in stock, or \$67 per member. Six months later, Yahoo! paid more than \$1000 a head to buy GeoCities, with 3.5 million members.

The Human Element (It's Not about the Money)

Russell places a high value on taking the time to understand people, as opposed to the specifics of business transactions and currencies in a two-dimensional view. "Studying economics will teach you that it's all about profit motive but people don't just go for the deals that mean the most money to them," explains Russell. "We are all pursuing fulfillment, which means different things to different people."

You need to identify what could potentially stall the negotiations, according to Russell. Agree to certain principles up front, which each of you has defined before approaching the table, and are points you are not willing to sacrifice. It establishes a foundation for the deal, as well as a starting place for dialogue. "Otherwise you're throwing out numbers and negotiating without context," he notes.

Russell recommends that your goal be to engage and educate each other as much as possible about your individual strengths, goals, and needs so you can each make a mutual decision about whether you should work together, and in what capacity. "I want them to be able to make the most highly qualified decision about whether this is the best deal for them," he says. "It builds trust and shows that you're not trying to hoodwink anybody. It takes the edge out so you're able to get to the substance sooner."

Many young Internet companies, including Go2Net, do not have the capital to spend on new endeavors. Under these conditions, Russell explains, you have to win deals on something other than the price. "A lot of it comes down to what people ascribe value to."

Go2Net's deal with Silicon Investor provides a good example. The company had offers by other companies to partner with them at higher prices but Jeff Dryer, cofounder, believed in Russell's vision. Further, Russell assured him that Go2Net would build upon the character of the brand and run the company with the same ideals of the founding management. He recognized what was valuable to management and offered them an opportunity to keep the promise they made to the community and themselves. He told them, "If you want to sell out, then go ahead, but if you want to maintain the integrity of the community you've built, we're an alternative." He aligned his priorities and goals to theirs, and successfully finished the deal.

If You Want the Deal, Be Creative

Sometimes the only thing standing between you and a signed contract is a creative solution. Russell gives Go2Net's agreement with payment authorization processor Authorize.net as an example. David Heaps had been approached by a number of suitors but feared getting a low valuation because it was selling too early in the game. Heaps wanted assurance that if he penned a deal and prices changed, he would not miss out on the profits. Russell was determined, and came up with a highly unusual deal structure. He provided a situation that gave Authorize.net shareholders financial benefits if the business improved and valuations increased. "That isn't something we do in every deal," insists Russell, "but we recognized that was a hump they needed to get over."

The initial deal was for \$90.5 million, and if Authorize.net reaches certain thresholds of sales and profits, its shareholders qualify for another \$55 million over two years.

You Can't Do Every Deal

"Some of the best deals have been a function of the deals that didn't happen," remarks Russell.

His serendipitous deal with MetaCrawler was a result of lost opportunity. An outside company with a buyout offer had approached MetaCrawler's founder, Oren Etzioni. Etzioni asked a friend for objective advice about how to handle the potential suitor, and his friend introduced him to Russell Horowitz. Russell suggested Etzioni take the offer, even though Russell wished he could have folded MetaCrawler into his own portfolio. Etzioni took his counsel and went forward. The deal eventually fell through but Etzioni remembered Russell's honesty, and his understanding of MetaCrawler's business. Etzioni called him to meet, this time about partnering together. Succeeding in business "is a function of building credibility and integrity and doing the thing that's right," Russell explains. "It can be a karmic element that comes back to you."

What Not to Do

Never give an ultimatum, recommends Russell. "When you form a relationship, once you've signed the contract, you should put it away in a drawer." If you feel the need at some point thereafter to reach back into that drawer and look over the terms again, you have already failed. The same applies to negotiations. If you reach a point when you feel the need to offer an ultimatum, the promise of adhering to the predetermined principles has been broken. "I'd rather walk away than give the ultimatum," he asserts. "You've got to have the stamina to make the commitment to compel them, and if you can't then you shouldn't give the ultimatum, just shake hands and walk away."

The Two Minutes That Count

The two minutes that count are not always the minutes that include the handshake and inking the bottom of a page. They can surprise you. Russell learned a valuable lesson from his friend Bill Russell, a celebrated basketball star with the Boston Celtics. Russell explained that most basketball games are won in the last two minutes of the game. Russell agrees that the game is won in two minutes, but clarified that he never knows whether that two minutes will be in the first quarter, the last quarter, the second, or the third.

In negotiations "I always try to recognize when those two minutes are about to happen," Russell says. The difference between success and failure is simply in that recognition of "when you need to step it up and take things to the next level." Chances are that's when your partner is looking to you for a sign to move forward.

Recognize and Accept When It Isn't Going to Happen

Some deals were never meant to happen. They seem like a great idea in early stages of dialogue but just don't make sense in the execution. If you force a deal based on earlier diagnosis, you will lose in the long run: overpaying for a deal or investing in something that counteracts your strategy.

"If there are twenty things that need to happen for a deal to move ahead, nineteen isn't good enough," he asserts. Once you've identified those things that really need to be addressed, you can't compromise. "If you're going to try to mitigate risk you've got to adhere to that methodology."

Russell has certain tactics for sensing when a deal is beginning to go the other way. For one, he looks to see whether the other person is giving something consistent with the level of priority that it merits. If you notice that isn't happening, you know it's going in the wrong direction. He also looks for changes in attitude and conversational balance. "If a person becomes unreasonable I start to question his true commitment to getting the deal done," he advises. "Then I throw that person into the category of irrational and move on."

Time is an issue, as well. "Like milk, it's got a date printed on it beyond which you just don't drink it. If it doesn't happen by then it's going to start to go sour. It can get to a point where making a deal happen is just going to be painful," he explains. If you expect a deal to take three weeks and issues still haven't been resolved after six, then something is gravely wrong.

Share Your Vision

As much confidence as Russell had in his ability to make deals happen with limited finances, he knew eventually he would need more capital to reach the goals he had set for Go2Net. He received unsolicited calls from different parties but knew there would be better opportunities down the road and held out. He feared losing control of the company by allying with a larger entity that would not fulfill his vision.

He remained independent, and received no other capital infusions other than the company's initial public offering in March 1997, which raised \$14 million. Horowitz had achieved profitability on his own, but was looking for strategic partners who believed in cautious execution and growth through acquisition. But at the time, many in the industry thought an Internet company should be focused on acquiring eyeballs, rather than developing solid business models. Earnings were considered failure; all revenue streams should be funneled into the growth of the viewer base. "I felt like people were waiting for me to apologize for being profitable," Horowitz says, "They said my priorities were all wrong." About that time he received a phone call from Seattle native and Microsoft cofounder Paul Allen.

Paul Allen's Vulcan Ventures and its president Bill Savoy began a dialog with Russell in March 1999 to explore relationship opportunities. "Initially they weren't necessarily looking at us as strategic but in the course of getting to know each other it took on that life." Russell explains, "We were just talking about Allen's portfolio. He needed an Internet-based interface to navigate [his wired world vision]." It would enable television set-top boxes, PDAs, and mobile phones to access the Internet on multiple platforms, using cable access available through cable properties. The question was whether Vulcan should buy the whole thing at once through Go2Net or build the Internet component of the plan by melding disparate entities.

Paul admired what Russell had built and Russell appreciated Paul's insight into the future. "Allen can visualize what the end-user's experience is going to be like and what pieces have to come together for this to happen," Russell says of his partner. "He has real perspective. He sees hundreds of companies supplying some component of his plan, and how to be a catalyst to allow it to happen."

With the realization of a common end goal and way to reach it, they needed to figure a way to make that happen while creating a partnership that ensured a certain degree of independence. Russell likens the negotiation process to Charles Dickens' *A Tale of Two Cities*, "It was the best of times, it was the worst of times," he quotes.

He says what made it a difficult deal was the complexity and depth of the mutual commitment that was being made. "We had to really make sure we had a mutual understanding of the vision," he says, "and how we were going to get there." Russell continues, "Meaningful relationships require that kind of investment and commitment." Most important is an acute understanding of expectations. He believes since they went through that process, the two have "developed a tremendous relationship."

As for terms of the deal, they struggled to agree for weeks. Horowitz wanted to maintain control, and Savoy wanted to ensure that Vulcan's investment would not be wasted. Ultimately Horowitz saw that an investment from Vulcan would be beneficial: they could share visions and strategies, while benefiting from Vulcan's collection of more than 140 companies in his space. They settled on a purchase of shares from the company by Vulcan. Russell wanted the public shareholders to have the same profit opportunity as management, so he initiated a related tender offer for the public marketplace. Management and directors agreed to personally sell shares to Allen as well. In exchange for the \$426 million total investment Vulcan received a 30 percent stake in Go2Net and two seats on the board.

In the end the partnership created a joint venture among Go2Net, Vulcan Ventures, Charter Communications, RCN, and High Speed Access Corp. called Broadband Partners (since renamed Digeo Broadband, Inc.). The group will provide Internet portal services to cable customers through a range of appliances. Go2Net owns a 20 percent stake.

Maintain Control

Even with a partner the size of Vulcan Ventures you have to maintain a sense of control. "You can't let how many zeros are on the transaction affect what you know is right," asserts Russell. "If you let those things define your behavior you're going to get chewed up and spit out. You don't let the circumstances define you."

He uses a gambling analogy to clarify: "It's like Las Vegas. Whether the chip you throw out is five dollars or a thousand dollars, you should still make the same decisions about which cards you take."

Beyond that, holding your ground and maintaining a sense of confidence and dignity will command respect. "If you roll over to somebody that simply has greater resources, how much respect can that person have for you?" asks Russell. If you remain firm and stay focused, you can emerge victorious. "It takes a lot of personal strength to not do things a lot of other people think you should do." Prove yourself as the leader and the people will begin to follow even if they don't immediately see your reasoning.

One Deal Leads to Another

Since the partnership agreement with Paul Allen, Russell has made a number of deals, which he attributes largely to a new awareness of his company and a sense of confidence in his abilities, if partly by proxy. "It's a matter of credibility," he explains. "People know that you're dealing with people who are as sophisticated as they come. It's a seal of approval."

CommTouch Software was the first deal the two invested in together, in a \$20 million shared purchase of the company, less than six months after Allen's investment in Go2Net. Together they will deliver customized cobranded e-mail over the Go2Net network.

Soon after, Go2Net aligned itself with Net2Phone to integrate each other's technology to create a messaging and communications center over the Go2Net network. Users and small businesses will be able to send and receive voicemail, faxes, e-mail, and phone calls from one Internet-based environment.

Alliance Telecom came on board in December 1999. The company was partly owned already by Vulcan, who introduced Russell to Alliance management and suggested they form a partnership. They are now developing a customized, private label portal, complete with customer care, e-mail, and news. It will also feature an online small business center with a Web-based platform to provide customers with applications such as Oracle or AG Edwards software, resources that are often found at large corporations.

A few months later the two companies inked a deal to co-invest \$30 million in National Discount Brokers, the online broker. It became a three-way deal in which Horowitz' Silicon Investor would borrow trading capabilities from NDB, and NDB would license the technology for SI's messenger room. In the future, NDB is ensured a role in the broadband initiatives of Vulcan and Horowitz. Moreover, with the deal Horowitz was invited to sit on NDB's board.

In late 1999, fewer than three years after its launch, Go2Net achieved top-10 status on the Web, according to MediaMetrix. Future deals are imminent, and Go2Net has far more opportunity for growth in its current form. You can easily borrow Horowitz' strategies for your own business. In fact, the Internet had very little to do with his decision to start Go2Net. He always knew his deal-making skills would help him achieve his goals of success; the Internet just happened to be the best area for deal making at the time. "If it weren't for the Internet," he jokes, "I'd be rolling up steel manufacturers or consolidating fish hatcheries in Alaska."