

## Getting to Yes

Broke. Craig sat staring at our checkbook. It was late. Everyone else had gone home. He felt completely alone. Calling this a problem would have been wildly optimistic. We were a week from being out of business. Sure, plenty of vendors had agreed to sponsor presentations, but that was not the same as saying, “Here’s a check to get you started.”

The first bold Masco visionaries had signed Presentation and Listing Agreements totalling \$340,000. Other companies, like West Bend, Amana, Zenith, Braun, Canon, Sanyo, Hoover, Iomega, Toshiba, Singer, and Philips Magnavox, had signed up for \$360,000 more. Their fifty percent deposits had kept the machine running—so far. But we were now a team of fifteen souls, all but two drawing salaries, all using expensive (by our parsimonious standards) computer equipment. When Craig and Rex had ponied up another \$150,000, the looks on their wives’ faces told them that was about it for the ol’ out-of-pocket.

So Craig sat there on a cold February evening, just staring at the checkbook—which for all intents and purposes comprised the company’s accounting system. He looked at the balance. He looked at the vendor projections from the merchandisers. He agonized over the upcoming payroll. And he started talking to himself. We’re not going to make it. We moved across the country and put four hundred grand into this thing, invested our heart and soul, and it’s about to go poof.

It did not go “poof,” at least not yet. The first break came when AT&T agreed to lease back all of the equipment we had bought. At first blush, it seemed to be an unbelievably good deal, considering that any computer bought today can be expected to be worth nothing moments after you’ve installed it. But the lease wasn’t really based on the market value of the equipment. Craig and Rex had agreed to guarantee it, making it tantamount to a personal loan. Still, it was a timely influx of capital.

That was the essence of capitalism, was it not? Intrepid entrepreneurs putting their resources at risk in hopes of reaping a commensurate reward. Craig and Rex knew our concept was sound. We’d be in fine shape if only we could get enough vendors signed up. That would make the finances work like a charm, never mind filling the store’s cyber-shelves with products, which was the whole idea.

As Craig looked at the numbers, he knew we were going to have to secure more brand participation, faster, or die in the attempt.

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“What we need here is a new strategy, Bill.” Craig was sitting on the corner of Bill Hunt’s desk the next morning, chewing thoughtfully on a bagel. Crystal eyed him expectantly. Her tail twitched, but nothing else moved. “These Hewlett-Packard guys sound like IBM. Their favorite word is ‘No.’”

Bill gritted his teeth. “What I keep hearing is, ‘We have no established policy for selling on the Internet, and therefore we have no way to evaluate you as a business

partner.’ It’s maddening. Trying to crack Hewlett-Packard is like driving a car into a brick wall.”

“Maybe we’re using the wrong vehicle.”

“A tank, perhaps?” Bill asked with a twinkle in his eye.

“I was thinking of an airplane. Let’s go over the wall.”

“Find somebody higher up.”

“Exactly. We need to find the person above the people saying ‘No.’ HP is too smart to opt out of the future.”

Crystal’s persistence was rewarded with the last little bite of Craig’s bagel. Maybe the same technique would work on HP.

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The bungalows looked like they ought to be rented by the hour. Craig suspected the last time this Las Vegas dump had been redecorated had been under the personal supervision of Bugsy Siegel. The rooms were small, smelly, and cheap. This was where the low rollers stayed.

Bill had at long last gotten through to the people above the people saying “No” at HP. One of these had magnanimously agreed to grant Value America an audience at the Consumer Electronics Show being held here in the gambling capital of the West. How appropriate.

HP’s retail account manager, his boss, and his boss, the potentate of all North American operations, were assembled in a conference room. If these guys couldn’t make a decision, nobody could. Pleasantries were exchanged, and Craig proceeded to demonstrate our store. He began and ended his presentation from a position of strategic weakness; call it enthusiastic humility. “Value America’s store,” he said, “was specifically designed to partner with great companies like HP—those that make better quality goods and strive to sell them on their merits. I believe HP is the world’s best brand.”

As he finished, he studied their expressions. The HP team seemed impressed, though he had the feeling these folks didn’t impress easily.

The senior suit declared, “You’ve built a new solution to a very old problem. You’re doing things we want done, keeping our line together, presenting us as a brand rather than a collection of unrelated products.”

The second-in-command added, “Forming a closer relationship with the consumer is one of our top goals.”

The third continued, “We’re committed to making better products. We want to sell our products based upon their actual value. Your tool enables us to do that. This is an outstanding value proposition!”

“I agree,” the senior exec stated. “We realize the Internet is going to lower the cost of going to market. Tell you what,” he said, “HP has never done business with an online company, but we’d like you to be the first. We’ll sponsor a test on our consumer printer line. We’ll call it TAP, for Target Account Program. If it works, we’ll add other products.”

In one breath, he had filled our sails and then run our boat aground. The concept didn't work that way. The idea was to present the whole company, not just one division, even if HP was the biggest manufacturer of consumer printers in the world.

Craig paused for a moment, looking down at the table and forcing himself to smile. "Thank you for your kind offer. It is an honor to have HP be willing to partner with such a young company as ours. But for our store to be of value to you, we need to present you—all of you—not just one product line."

The HP team glanced at each other, letting out a collective sigh. "We're not prepared to do everything. Not yet."

"That's a pity. We'd be good for each another."

The three Valuable Americans didn't say much as they left the meeting. Even the blistering Nevada sun couldn't dissipate the gloom.

"Listen," Craig finally said, "we're no worse off than we were before the meeting. We told our story to the right audience. Give it time to sink in. They're smart people. They'll come around. After all," Craig rationalized as the other two looked at him incredulously, "they didn't say 'No.' What I heard was, 'Not yet.' It's not over 'til it's over."

"Want to go over to the MGM Grand tonight, Craig?" Rex asked. "I hear the Fat Lady's singing...."

Meanwhile, back in HP's little conference room, the weight of Value America's concept still lingered. They flipped purposely through one of the brochures we had left behind, the one called It's About Time.

"It's about time," one said to the others. "It is about time!"

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Hewlett-Packard was replete with geniuses, and these three were as bright as they came. The next meeting took place in our tiny Attic conference room. It didn't get started until nine o'clock in the evening. After an hour of discussion, the leader of the delegation cleared off our whiteboard and proceeded to graph HP's complex business model. On the left, he listed their manufacturing divisions, their "silos." Down the right side, he listed their customers—businesses of various sizes, consumers, educational entities, and government agencies. And right in the middle were the intermediaries, a convoluted mass of boxes and arrows depicting the middlemen: distributors, retailers, and value-added resellers. It was the corpus callosum of their new world order. "This," he announced, "is what we're trying to achieve."

Craig got up and studied the board for a moment. "This may be what you want," he said, "but I don't believe it's what you need." The HP team traded glances. Craig walked around the table, which was two sizes too large for the room. He picked up an eraser and rubbed out the entire middle section of the diagram, leaving only HP on the left, and their customers on the right. Then Craig drew a line joining the two sides with an arrowhead on each end.

"This line is an electronic conduit between you and your customers," he said. "It's a direct link between your products and the minds, offices, and wallets of the people who buy and use what you make."

As the concept sunk in, heads began to nod. Their faces brightened with receptive smiles. They began taking copious notes.

“This line,” Craig concluded dramatically, “is Value America. We are what you need.”

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“It appears we’ve got even more good news from HP,” Bill said.

“What happened?” Craig was all ears.

“Well, you remember how many times we were told no because HP had no policy for online sales? Well, they’ve decided they need one.”

“Do tell.”

“More people are coming next week to assess the opportunity.”

They arrived like a mighty army. HP sent their Wholesale Business Products Manager, their new TAP Manager, and the managers for Marketing Development, Product Marketing, and Imaging Products.

Winn loved to play to a smart audience, and these folks all fit that description. Now a relative expert in HP corporate parlance, he was able to punctuate our story with humorous insider anecdotes. They ate it up.

One manager said, “What you’ve built here is compelling and forward-looking. We’ve come in here and overwhelmed your team with our people—heck, you’ve met more HP execs than I have. I promise, your patience will be rewarded. But,” he said, “there’s still one more thing we’re going to ask you to do. As you know, we have no policy for selling online. We’d like you to help us write one.”

The fox was being invited into the hen house. Not to eat the chickens, but to keep the weasels out. “I think we can accommodate your request,” Craig almost choked as he struggled to regain his composure.

What Craig and Bill would recommend looked suspiciously like our business plan. “You want companies that present your products so customers can learn what differentiates them from the competition; you want menu-driven shopping convenience; you want every division together. An online customer should be EDI-enabled; they should be willing to honor your MAP strategy, serve small and medium business as well as consumers....”

MAP, or “Minimum Advertised Price,” policy was a big issue for HP. (They operated under a variant called UMAP—Unilateral Minimum Advertised Price. The “U” meant that U couldn’t even discuss it.) It was kind of like a strong leash for a stupid dog. Retailers chafed at it, but it kept them from hurting themselves.

MAP had come about as the result of a series of events that had started decades back. Well into the fifties, fair trade laws in America were a fact of life. Brands routinely told retailers what they could charge consumers for their goods. If they didn’t agree, they simply weren’t allowed to sell their products. In the ’60s, the pendulum swung back. Legal action involving FedMart and others precipitated laws that made price-fixing illegal.

As a result, retail stores began structuring their promotional pricing around the most recognizable products and advertised them at cost, or even below, in hopes of attracting more shoppers. The idea was to charge a lot more on everything else to make up the

difference. The theory was that once lured into the store, consumers would assume that every price was as low as the advertised item. This is why the milk and eggs are always in the back of the store.

Since retailers have no way to differentiate between items on any basis other than price, Store A felt they had to lower the price of Product X to below their cost because Store B had done that a week before. Then Store A, realizing that they were losing money hand over fist, went to Brand X and said, “We’re going to have to drop you unless you lower your price; we can’t make any money with your products.” Meanwhile, Store B was telling them the same thing because Store A had matched their price. Eventually, Brand X went under. And Stores A and B went under as well. Everybody lost but the lawyers.

The brands came up with an answer. It wasn’t price-fixing, exactly, but it was its kissin’ cousin. The feds allowed brands to impose “Minimum Advertised Pricing.” It said, in effect, a retailer could sell products for whatever price they wanted to in their stores, because price-fixing was illegal, but they could not advertise them below the price the brands had set. If they did, brands had the right to refuse further shipments. (Ever wonder why every retailer seems to sell branded products at the same price? Now you know.)

In this way, the retailers were prevented from doing grievous bodily harm to themselves and the brands they carried. Retailers no longer duked it out in the Sunday circulars. Brands no longer looked like cheap floozies. Consumers paid fair, realistic prices. Everybody was happy, more or less.

But then somebody invented e-commerce, and it was a whole new ball game. As far as MAP policy was concerned, the new issue was what constituted an ad? Some held that an online store was just that, a store; hence, listing a price was not an ad per se. Others felt that because the price was viewable outside of the confines of a “store,” the website must be a form of advertising. That’s why we addressed the issue, recommending that HP’s online policy include a commitment to adhere to MAP. After all, not adhering to MAP would mean no “factory authorization,” and without authorization, there would be no legitimate sales.

But we had an ace up our sleeve. We had several ways to give our customers a better deal without violating MAP. Our customers earned a one percent credit they could deduct from the cost of future purchases. We donated another one percent to a charity of their choosing. We provided free shipping on MAP items, which saved the customer more. The real coup, though, was Bonus ValueDollars.

This is how they worked. Say our member bought a big-screen TV for \$1,500, and the margin was twenty percent, or \$300. If we needed \$150 to make our business model work, we could cover the \$50 freight and give another \$100 in discounts and still profit. But if we deducted the \$100 from the price, we’d be in violation of the MAP policy. So instead, we put the money into the member’s “ValueDollar” account, which they could spend on their next purchase.

This arrangement encouraged membership; we couldn’t track your ValueDollars if we didn’t know who you were. It encouraged repeat business. And we hadn’t violated MAP with our gift because it wasn’t deducted from the price of the item, but rather from the next purchase.

About a week after we'd given HP our recommendations, they got back to Bill and announced that they had formulated their policy. It's amazing how fast you can work when you've got the right tools.

"That's great," Bill said. "When can we get started?"

"Started? Oh, no. We have to evaluate our applicants first."

"Applicants?"

"Of course. You'll have to apply, and then we'll decide who qualifies."

"Oh," Bill suddenly felt as if he had somehow fallen through Alice's looking glass and was carrying on a conversation with the March Hare. "Okay. How does one do that?"

"Well," the exec said, "if you'd like to apply, I'll send you the forms."

Would we like to apply? "Yes, please."

The next day, Bill felt like a naughty schoolboy with stolen answers to the big test. HP's application looked like it had been lifted from our business plan. So it was no surprise when, a few days later, the HP exec called and gave him the good news. Craig listened in on his speakerphone.

"Congratulations," she said. "Value America is one of our finalists."

"Finalist? One of? Are you saying somebody else fits the profile?..."

"Yes. Well, not exactly," she said, "but you are one of two finalists."

"That's great," Bill lied. "Who's the other one?"

"Coincidentally, they're also located in Virginia."

"Virginia?" Oh, God, No!

"Yes. The other finalist is AOL."

America Online was only the biggest Internet company in the world. Ostensibly an ISP, they had their tentacles into every online endeavor—including e-commerce. This wasn't David versus Goliath. This was David's pet hamster versus Goliath's rogue elephant.

"Please," Craig tried to reason with the HP exec. "Long-term, we can do more for you than anyone. We're a pure-bred, value-oriented online retailer. We've got the systems and the desire to present everything HP does. But let's face it. AOL is a whole lot bigger than we are. This is hardly a fair contest. Why don't you choose both of us?"

"No," she replied firmly. "We've decided to choose only one. We're sending out an evaluation team on Monday, next week."

Craig and Bill looked around the Attic. The place was held together with duct tape. The cumulative value of every piece of second-hand furniture, underpowered PC, and antiquated network component wouldn't buy lunch for the executive team at AOL. We needed a miracle.

We were up first. Bill collected the Hewlett-Packard delegation at the airport. We were already one stroke behind, he figured. Maybe it was a little thing, but one annoying fact of life in C'ville was that most people couldn't fly here without changing planes. The biggest things that flew into town were cramped, noisy turbo-props, like the De Havilland Dash 8 on which the HP team would come—and leave.

We had reserved Commonwealth's big conference room downstairs, ostensibly because it was larger, but also because Ken Erickson was now using the upstairs conference room as his office during the day. The Attic was hummin'.

It was a milestone of sorts. For the first time, we delivered our pitch using the real store. We talked about how our product presentations brought brands like HP closer to their customers and how they elevated the perceived value of their products. We described how a customer could get anywhere they wanted with only a few clicks. We talked philosophy and concept, because HP loved that stuff as much as we did. We outlined our thoughts on the benefits of membership, charity donations, and special personal touches the likes of which no brick-and-mortar store had provided in half a century—if ever.

We explained that we weren't after individual sales so much as we were trying to build relationships—between HP and their customers. We shared our belief that Value America was destined to become the one place consumers and businesses could “go” to find most everything they needed for home or office. We talked about Electronic Data Interchange, the grease that kept the wheels of the inventory-less revolution moving.

The HP team was engaged and receptive, but we weren't over the hump yet. They still had to visit AOL, who had a huge building, the finest equipment, thousands of people, and a long-standing position of leadership—they had everything. Well, almost everything.

An HP exec, a few days later, told us what they lacked. “You know, Bill,” she explained, “when we came to Charlottesville, you guys treated us like we were important, respected, wanted. AOL didn't. It's as simple as that. To them, we were just another company.”

“Really?...” Bill's eyebrows were raised in amazement. Forget good manners. HP was, well, HP.

“Yep,” she replied. “I'm pleased to tell you, the deal is yours. Hewlett-Packard has selected Value America. Congratulations!”

And so it came about that the most significant vendor we had ever signed—the one we had worked so hard to impress with our unique business model, our elegant technological solutions, and our unparalleled grasp of the complex relationships between manufacturers and consumers—had in the end made us their exclusive online partner because we were nice to them.

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Every day it became clearer that the office products industry was ready for Value America. They were right in our power-alley. Product acquisition was not discretionary. If a business needed it, they bought it. No one let the wheels of commerce grind to a halt for lack of a ballpoint pen or a printer cartridge. The things every office needed were considered (as in the clever name of one of the big chains) staples. Every office used these things and never ran out of them.

Those that bought office supplies tended to be early adopters. This is where the first personal computers showed up. It's where the most active Web connections were. Consequently, this is where we could expect to find the greatest comfort level with online shopping.

Convenience was important. There was work to be done, and sending an employee to the office supply store was expensive. Our product presentations were particularly valuable in this space. Companies made more than one product for a reason: people's

needs varied. Businesses needed to be able to make smart buying decisions in order to stay competitive. Information was the key to better buying.

Selection was also important. Whereas all one company may have needed was a good pair of 9" editor's scissors, another couldn't get along without a 36" flat-bed paper cutter with a carbon steel blade and a full complement of Federally mandated safety features. The typical brick-and-mortar office store only stocked about 5,000 items. There wasn't room for any more. But with our virtual store and inventory-less model, "shelf space" was unlimited. In the end, we would offer over 30,000 business products to the professional community.

And then there was the question of product appropriateness. It was a little-recognized fact that the big office superstores like Staples were not authorized to sell business computers. If you wanted a room full of IBM business machines with full networking and remote administration capabilities, you'd have to go elsewhere. The closest thing to a business box that Office Depot carried was likely to come with Reader Rabbit software—it was a consumer PC in sheep's clothing. Value America understood the distinction, and we worked hard to gain factory-authorized status in both business and consumer computer lines. We were the first online company to accomplish this feat.

Sol Price had figured this one out years before: small businesses owners have homes, families, and money. By definition, they have jobs and thus paychecks. And they buy things that have absolutely nothing to do with business. If Value America could attract these people, we would have a ready-made audience for the other couple hundred thousand things we wanted to sell, including home computers with Reader Rabbit.

HP was the first major computer, and one of the first office-equipment brands, to recognize the efficacy of our model. But they weren't prepared to jettison their entire distribution system to accommodate it. Implementation of the factory-direct model would have to wait. In the meantime, we were instructed to choose one of their existing distribution partners. Bill Hunt turned this challenge into an opportunity.

HP authorized five distributors to work with us. Choosing among them was our prerogative. So we decided to select our distributor based upon which of them was most cooperative in introducing us to the other quality brands. The "winner," we decided, would be the distributor that helped arrange the most brand partnerships—the best "matchmaker."

United Stationers sent their senior team to Charlottesville. But they were an industry giant, and like most giants, they moved rather slowly. Azerty was the new kid on the block. A specialist in the technology side of the business, they were a young, energetic company, the most nimble of the lot. They were on us like a duck on a June bug, quickly arranging to hold our first business-products vendor day.

Azerty wasn't the only one who had to move quickly. We were not about to approach the major office-products brands without showing off our new—and exclusive—relationship with HP. That meant my crew and I had to drop everything else and concentrate on their presentations.

Our website was up, but downloading a page could take a while. The lack of online infrastructure was a problem. It was hardly a way to make a good impression on a room full of busy executives. The solution was a "store-in-a-box." Joe transferred our entire store onto the hard drive of a notebook computer. The only thing "fake" about it was the connectivity.

Azerty persuaded thirty vendors to meet with our team at their facilities in Buffalo, New York. There were about a hundred industry pros in attendance, from industry leaders like 3M, Sony, Polaroid, Avery, Belkin, Imation, Texas Instruments, Brother, Sanford, and Canon. Each brand came equipped with their sales materials and a healthy dose of curiosity.

Their training room served as an auditorium. Using our newly created store-in-a-box, Value America was projected onto a large screen, replicating the experience of shopping online. The presentation was smashing, and it was universally well received.

Upon its conclusion, the audience was divided into four groups, one for each member of our merchandising team, and the real work began—the categorization of their product lines. There were so many companies, each was allotted only thirty minutes. Within that time, an interview was conducted, the sales materials were examined, and the product line was dissected to determine the best way to present the brand’s wares in our store. For the most part, the company’s brochures told the tale: they had six of this, eight of that, and seven of the other thing; they were already separated into distinct categories.

The ability to publish category presentations that were neither anachronistic nor fleeting in their ability to communicate was something brands had never had before. If their product’s specs changed, we could update our presentation in minutes. Best of all, the presentation was made at the point of sale. Once impressed, the customer could actually buy something. This was a better mousetrap if ever there was one.

About twenty brands said, “Yes,” at the Azerty vendor’s day. Twenty brands, each signing up for an average of three \$5,000 Multimedia Presentations, made it a \$300,000 day. The experience also taught us something about group dynamics. Value America was, by anybody’s standards, a tiny company. We had about the same mass as navel lint. Normally, we could not possibly hope to command the attention of industry giants. But big brands are fiercely competitive. What one had, the others wanted. It was a law of nature; when a brand saw their competition sign on, they were suddenly put in the awkward position of “make dust or eat dust.” Peer pressure was a wonderful thing, we decided.

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John Motley knew everybody in his industry. The office-products business was good to him, and he was good to it. John was not only the industry’s leading manufacturer’s rep, he was its biggest fan.

It was surprising, then, that a question like this one could catch him flat-footed. The president of one of the companies John represented had just heard something that seemed too good to be true, so he called Motley.

“Azerty introduced some brands to a new Internet store called Value America. They’re leading with office products. I just wondered if you’d heard anything. I think they’re in your territory, down in Charlottesville.”

John thought for a moment. “You’ve got me. First I’ve heard of ’em. Value America, you say?”

“Yeah. The guy’s name is Winn. Greg Winn, something like that.”

“Give me twenty-four hours.” John promised, “I’ll tell you all there is to know about Value America.”

“Great. If what I heard is true, it could be good for us.”

Motley’s offices were near Washington. Charlottesville was in his back yard. He dialed directory information and got the number.

“Value America.” Commonwealth’s receptionist answered our phones as part of the lease arrangement. Nice voice.

“Greg Winn, please.”

“Yes sir. One moment.” A short pause.

“This is Craig.”

“Mr. Winn, my name is John Motley. We haven’t met. I’m a manufacturer’s rep in the office-products industry.”

Craig’s ears perked up at the mention of “rep” and “office products.” “Yes, sir,” he responded brightly. “I like reps—I was once a reptile myself. And your industry is important to us. In fact, just last week we met with a group of brands at Azerty. What can I do for you, John?”

“Actually, I’d like to invite you to the U.S. Open this weekend at Congressional here in Washington. I’m a member, and I thought you might welcome the opportunity to get away from the office. Of course,” he laughed, “I have an ulterior motive. I want to hear about your Internet store—apparently you’ve been causing some commotion.”

Get away from the office? Craig sighed. “I wish I could. It sounds great, and, yes, I’d love to tell you about Value America. But I’m afraid there just aren’t enough hours in the day for a diversion like that.” Craig had become the proverbial “blind dog in a meat market.” He didn’t know where to turn next. He felt like he had to make every minute count.

“I understand, Craig, but if you want, you can keep working. The top executives of the largest office products companies are going to be there. Oh, and the largest distributors too. They’ll all be attending a dinner I’m hosting, and then they’ll be spending the next two days at the tournament as my guests. I’d be pleased to introduce you.”

These were the very people he had been trying so hard to meet. “In that case,” a grateful Craig replied, “I accept.”

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I’ve seen Craig Winn behind a podium. He is a dynamic, forceful, and entertaining speaker. But he’s lying to you. He’s not actually like that at all. The real Craig can be painfully shy, especially in social situations or unfamiliar surroundings—especially at cocktail parties.

So as he pulled his Chevy Suburban into the parking lot at Morton’s Steakhouse, he wished he were somewhere else. Anywhere else. Inside were people who knew each other well, colleagues and friends. They had become comfortable with each other. Craig felt like a fish out of water.

He opened the door and looked around. The place was expensive, filled with beautiful people. Rich oak paneling and the faint, tantalizing odor of a perfectly cooked New York strip filled his senses. He didn’t know a soul, not even his host. Craig stood there for a minute as his eyes adjusted to the dim light, then caught the maitre d’s attention. He said he was looking for John Motley.

“Of course. Follow me, sir.” He led Craig to a large private room in the back of the restaurant.

There was a party going on. Craig’s shy nature begged him to run away. He stifled it, swallowed hard, and looked around the room. A short, dapper gentleman in an expensive custom suit and Hermes tie glanced in his direction. Donning a broad smile, he stepped forward.

“Craig Winn, I presume.”

“Yes. And you must be...”

“John Motley,” he said as he shook Craig’s hand. “I am so glad you could make it. Your company is the hot topic of conversation tonight.” Before Craig could comment, John turned toward his guests and announced in a loud voice, “Ladies and gentlemen, may I have your attention? I would like to introduce our very special guest, Mr. Craig Winn, founder and CEO of the new Internet store you’ve all been talking about, Value America!”

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United Stationers may not have landed HP’s core business, but that didn’t stop them from seeing our potential. They wanted in. Sure, the vendors who had signed listing agreements at Azerty would remain theirs, but there were other office-products brands we needed.

Recognizing the scope of the opportunity, United’s EVP of marketing and their VP of sales came to Charlottesville a second time. On a beautiful spring morning, the 30th of April, they played golf with Bill and Craig. After the round the four men gathered at the “19th Hole,” an intimate bar and grill at Glenmore, for a bite.

“Gentlemen,” Bill said, “little Azerty is eating your lunch. If you want to have any vendors in our program, you’ll need to act.”

“It takes time to arrange a vendor day with so many brands.”

Knowing that cash for a new company was like blood to a vampire, United volunteered something rather tasty. “What if we were to pay some presentation fees up front for the brands we want?”

“Which brands did you have in mind?” Craig asked.

“Well, I was thinking of Avery, Fellows, ACCO, GBC Quartet, 3M, Apollo, US Robotics, and APC,” he answered.

“Just how much support were you thinking about?”

“How much would it take?”

Craig thought out loud, “Eight brands times a minimum of three Multimedia plus three Basic Presentations each. They cost five thousand and twenty-five hundred respectively, so let’s see, that’s a hundred and twenty thousand plus sixty for a total of a hundred and eighty grand.

“Knowing these brands, they’ll most likely commit to twice that. I’m guessing three hundred and sixty thousand dollars—but to be fair, why don’t you guarantee a hundred grand toward whatever their actual commitments turn out to be.” They shook hands on it and confirmed the arrangement in writing that afternoon. It was a very profitable round of golf. (Craig missed guessing the actual combined commitments of these brands by only \$8,000: they would sign up for \$352,000.)

With United's commitment, our team set about making preparations for our biggest vendor day. The process began with a letter in which we said, "Our management team has owned manufacturing companies. As a result, we have created a store that works as well for you as it does for the consumer. Just imagine how much more you will sell when every customer has access to a world-class presentation on your products and can buy them in their homes and offices."

About 400 office-products execs responded to the invitation. Collectively, they represented over a hundred brands. For the occasion, United rented the grand ballroom of a Westin hotel near Chicago. Our team arrived early, set up the store-in-box computer, and hooked up our new 3M data projector. The hotel had a huge screen that came down from the ceiling. However, true to Murphy's Law, their sound system failed. Fortunately, Craig, knowing Murphy, had lugged his own speakers along.

"The room looks great," Craig said as the United team walked in. "How many people are we expecting?"

"At least four hundred."

"That's great." Craig turned to the hotel's representative. "Sir, can you get someone to remove about fifty of these chairs?"

"Yes sir," he said, scratching his head, "but I was told to set up chairs for four hundred guests."

"Yes, I know. So if we need them back, I assume you'll have someone here to accommodate our guests?"

"Yes sir, we can do that."

"The spirit of a meeting is dampened when the audience comes into a room that's set up for a bigger crowd. But if the room has too few places to sit, it looks like the event is exceeding expectations."

As predicted, the Grand Ballroom filled to overflowing. Craig gave the office products industry a guided tour of our virtual store. "You'll notice," he began, "that when you enter Value America, you're greeted by name." he turned toward the giant twelve by eighteen foot screen just behind his left shoulder, where in an attractive gold script the audience saw Welcome Member—Craig Winn. "That's pretty sociable, wouldn't you say? How many stores greet their customers by name?"

"We show a picture of the last product you purchased." The screen showed a Tiffany lamp. "We say thanks, and ask a question: 'Did this product exceed your expectations, merely meet them, or fail in some way?' If it failed to meet my expectations, I would be taken directly to customer service."

"By asking our customers' opinions, we have created the first real 'consumer reports.' Consumers who have bought a product can report on its performance. If a product is consistently rated poorly, we will remove it from the store. We attach our customers' ratings to the purchasing panel so our members can view the ratings prior to deciding which item to buy."

A new screen appeared. "Our store is telling me that my son's birthday is coming up and reminds me of my wedding anniversary too. We plan to add an automatic floral delivery service to send flowers to your wife the day before your anniversary, her birthday, Valentine's Day, and Mother's Day. Gentlemen, you'll never have to spend another day in the doghouse."

The crowd broke into laughter, sat up a little taller, and collectively seemed to wonder where this store had been all of their lives. Craig launched the main menu. “There are six ways to shop at Value America, and because this is a database-driven store, not a collection of static pages, our customers can shop any way they want. The technology that makes this happen is proprietary. We designed it.”

He explained. “Some folks like to shop by brand. Some like to shop by category, like office products. Some, like my wife, like to shop by what’s on sale. One of these days, she’s going to save us right into prosperity. Some like to shop by what’s new, and some by related product—they bought a printer from us, and now they need the right cartridge. We take them directly to the one that’s right for them.

“Can you imagine a retailer willing to rearrange their entire store for each customer, however they want to shop, whenever they want to shop, every time they enter the store? That’s exactly what we do.” The skeptics were starting to soften. This was not what they had expected.

“Say you want to shop by category. Click on the office icon, and our Office Products department instantly appears. It includes printers, copiers, faxes, phones, writing instruments, calculators, furnishings, and supplies, just as you’d expect.” Most everyone leaned forward, focused on their category, and then, almost in unison, sat back, recognizing they belonged.

“If I were to select ‘Phones,’ as you can see, I’m given a choice of types.” Craig reversed gears and with a single mouse click went back to the main menu. “But what if you wanted to shop by brand? Let’s return to the office products menu. Here you see some of our favorite brands, represented by their logos. We could choose 3M, Canon, Avery, Brother, or HP. Let’s click on HP.” Of course, Craig chose HP. They were well respected, and more to the point, their presentations had actually been completed. “Here we see eight Multimedia Presentations on Hewlett-Packard products. Let’s say we’re interested in their inkjet printers.”

Craig clicked his mouse and let the HP DeskJet presentation run. Now the store was doing the talking. The audience heard our voice-over talent explain what the products were all about. A man’s voice and a woman’s switched pages between them, using different words than the written copy, somehow chattier, more conversational. But it didn’t sound like a sales pitch. It was friendly advice. When the voice stopped, the page automatically advanced.

With the powerful projector, the store’s pages were huge. Craig was justifiably proud, enjoying himself. As the audience watched the presentation, he studied their faces. After five pages, he clicked on the “World-in-a-Box” icon at the bottom of the page, going directly to the purchasing panel.

“What you just experienced is a Multimedia presentation. The audio you heard is blind launched—you don’t have to do anything to start it. This feature exists only at Value America. It’s streamed in real time from one of our servers. Did you notice that the pages changed automatically? Again, only at Value America. We even delay the audio stream by three seconds so that our visuals don’t compete for bandwidth with the audio.”

Turning back to the screen, he said, “We are now in the product purchasing area. Here we can buy any HP DeskJet. Let’s say we’ve decided to buy this one.” He clicked on the product’s image.

He walked them through the buying process. “The store remembers who I am and it knows my favorite addresses. So now it’s giving me a choice of where I want my new DeskJet printer shipped. Do I want it shipped to my home, to my office, or maybe to my mother-in-law’s house in Bakersfield? All I have to do is choose and click.” By this time, Craig had transformed the audience from vendors whom we were trying to sell into consumers who were thinking, I can’t wait to go shopping.

“You’ll notice the store didn’t calculate a final delivered price. That’s because it needs to know where the product is going. We’ve built a freight calculator that instantly calculates the cost of shipping. I’ll click the ‘buy’ button and... sure enough, there’s the freight cost.

“It’s been said that there are only two things certain in this life, death and taxes. In our world, taxes are only a sure thing if you live in Virginia. You’ll notice that I’ve been charged 4.5 percent sales tax because I’m a Virginia resident. If I lived elsewhere, we wouldn’t have charged any tax.

“Okay. How do I want to pay? See my MasterCard, here? Watch. I’ll click here....” A swooshing sound was heard as the image of another credit card appeared. “I can choose my VISA card instead.” Winn clicked the “Purchase” button, and our animated “Good Buy Machine” filled the screen. It took about ten seconds to run, entertaining the audience while his credit card was being verified. “My order has now been processed, and my printer is winging its way to my home.”

There was spontaneous applause, not something you ordinarily experience after your average retail transaction. He smiled broadly. He couldn’t help but love this stuff. “Now, a moment ago, I shared that we offered some other ways to shop. More than half the people that grace the doors of Office Depot or Staples go there for one of two reasons: to buy an HP print cartridge...or to return the one they bought by mistake. How many of you have a printer at home or in your office?” Craig asked as he raised his hand. Most everyone raised theirs too. “Now, how many of you know the model number of your cartridge?”

Out of 450 in the audience, about four hands were still raised. They all belonged to the HP delegation, Craig noted, getting a laugh. “Okay. If you walked into a Staples or Office Depot and said, ‘I bought my printer here a year ago, but I don’t know the model number or what cartridge it takes,’ what do you think they’d say?” More laughter.

“We’ve all bought things like printers not knowing what supplies or accessories go with them. We look up and down the aisles, pick the wrong thing, take it home, and then return it to the store. Well, at Value America, we’ll find it for you. A moment ago, I bought an HP printer. So now it’s stored under my receipts and in the related products area.” Craig was navigating through his account-info page as he spoke. “If I click here,” he said as the cursor hovered above the HP printer, “we’ll go to its related products. Here are the results: a black cartridge, a color cartridge, and a printer cable. If I click my mouse on any of these, it’ll show up on my doorstep tomorrow.”

Excited murmurings exploded as they processed the implications.

“A lot of people have a drawer somewhere, or an old shoebox, where they keep their receipts and product warranties. We have a place like that too, and you can visit it any time you like. You’ll find information on everything you’ve ever bought in our store. We call it our ‘Shoebox.’ Here we attach an electronic version of the product’s warranty to your receipt.

“Anybody here like a good sale?” Twenty or thirty hands went up, mostly women, laughing. We’ve got you covered,” Craig said. He clicked again, and a dancing animated mouse appeared, wearing a sweatshirt that said “VA” on it. “Meet ‘Crazy Joe’—named after our Webmaster. He’s the mascot of our bargain basement. If we get special buys, closeouts, promotions, or the like, we pass the savings on to you.

“There’s another way to shop at Value America; you can check out ‘What’s New.’” Craig clicked his mouse. “As we add new brands, you’ll see their logos here, along with a funny line inviting you to take a closer look. For instance, beside Hoover’s logo, it says, ‘Now that Value America has Hoover, our store really sucks.’”

He continued through the laughter, “The lawyers at Hoover had a field day with our presentations. Early on, we encouraged our brand partners to review them for accuracy. So Hoover had their lawyers affirm our claims. They edited down our ten-minute presentations on the benefits of owning a Hoover to a minute of ‘some Hoover products may clean your floor under ideal, but not all, circumstances.’” The crowd continued to roar. “So we came to two conclusions. First, Hoover’s lawyers sucked—that is, they sucked all the vitality out of the presentations. And second,” he went on, hardly controlling his own laughter, “for the good of the cause, we’d never let another lawyer near our copy. These aren’t ads; they’re our opinions. That’s the whole idea of providing an endorsement.”

As they settled down, it was obvious that there wasn’t anybody in the room who wasn’t imagining what his or her company’s products might look like in our store. This was not turning out to be the boring pitch they had been expecting. It was looking like something that could fundamentally change the way they did business. That didn’t happen every day.

But he wasn’t done. “We believe that we should leave the world a little better than we found it. We donate one percent of every dollar a consumer spends in our store—that’s gross revenue, not profit—to charity. And here’s the good part. The customer gets to choose where our money goes, from a long list of worthy causes. If you’re having a bad day, just click here, and we’ll tell you how much we’ve donated to the charity of your choice.” Craig scrolled through the list. Everyone spotted something they had supported. Their expressions and their murmurings clearly revealed their thoughts: these guys had thought of everything.

“Of course, some of you may be saying, ‘My favorite charity is my hip pocket.’ Well, okay. Value America also gives one percent of everything you buy back to you. We call ‘em ‘ValueDollars,’ and they work like frequent-flyer miles. One day we’ll even have our own credit card,” he said as a picture of a Value America Visa card flashed on the screen. “An additional one percent of anything you buy anywhere in the world will be electronically transferred to your ValueDollar account. But we’re not limited to one percent. When selling MAP’d items, we offer ‘Bonus’ ValueDollars—larger awards so our customers get the right deal while we comply with your policies.”

Craig left the store presentation and articulated the reasons Value America had been created. He continued to speak extemporaneously but had a well-orchestrated complement of computer-generated visuals. He knew that visual imagery combined with his spoken words would enable his audience to grasp, and retain, our revolutionary message.

“Value America was created to do good things for two groups of people: the people who buy things and the people who make them,” Craig explained. “The existing retail environment serves itself quite nicely, but it does a poor job of serving these two groups, even though it relies on both for its very existence. We start by giving consumers the seven things they want most. First, quality products, things that actually do what they’re supposed to do—that meet, or better yet exceed, our expectations. That’s why we partner with reputable brands like you.” The audience’s reaction told him he was on target.

“The second thing you and I want as consumers is value. We want to get our money’s worth.

“Third, we want convenience. That’s why we embraced shopping malls. That’s why we spend billions each year on things we can buy at home with catalogs. Online shopping is the most convenient retail channel ever. No matter where you are, we’re down the hall, not down the street. Even the slowest modem is faster than the shortest drive.

“Those who write about such things tell us that convenience is the primary motivation for online shopping. Sure, a store that’s in your home and office is convenient. So is one that delivers products to your doorstep rather than requiring you and me, as consumers, to be our own delivery vehicle. But what could be more convenient than a store that brings it all together?

“The fourth thing consumers want is information. Access to good, reliable information is the number-two motivation for Web shopping. We produce thoroughly researched presentations about what we sell, because customers want their questions answered.

“Fifth, we want selection. One of the cornerstones of Value America is our desire to present and sell a brand’s whole line, not just a couple of hot products. If you make twenty-seven kinds of staplers, we see no reason why consumers should only be able to buy three of them.

“Sixth, we want great customer service. We’re frustrated when we can’t find someone to process a return or help us find a product. This is why we’ve integrated a customer-care call center.

“And seventh, as consumers, we have a conscience. That’s why Value America gives back one percent of every purchase to charity.”

Craig scanned the room. “If you think about it, the best way we can serve consumers is to serve brands like you, the folks who make and market the products that make the world work.

“The sad and painful truth is that your biggest customers have become your adversaries. Privately, hundreds of you have shared your horror stories with us.

“Everyone here makes his or her living in the office products business. That means that seventy-five percent of your retail sales are made to only two customers—Office Depot and Staples. You can’t afford to alienate either of them. You know it, and they know it. If you made products in a different category, the story would be the same. In the home improvement industry, seventy-five percent of your retail sales would be to Home Depot and Lowe’s. Can you imagine being a home electronics brand and losing Circuit City, or a sporting goods manufacturer without access to Sports Authority?

“Retailers routinely use their accounts payable, your accounts receivable, to exercise their clout. They justify their deductions by issuing hundred-page routing and compliance guides. I can tell from the looks on your faces that I’m hitting pretty close to home. The

good news is, we're different. We're here to serve brands, giving you the things you need most.

"Everyone wants to expand sales in the newest and fastest growing distribution channel. What could be better than harnessing the momentum of the Internet and partnering with us here today? You know what they say: 'If you're not the lead dog in the pack, the view never changes.'"

The audience was getting the picture, and they liked what they saw. "The second thing you want is to sell your products based upon their merits, rather than on price alone. So who ya gonna call... Office Depot? Your advertising agency?" Craig asked as the crowd chuckled.

"A few minutes ago, we saw an HP DeskJet presentation. All of you are in the office products biz, but I'll bet there's not one of you," Craig said as he raised his hand, "that didn't learn something new about HP."

A few hands went up, amidst laughter. "Oh, great. The folks from HP didn't learn a thing." He gestured toward the Hewlett-Packard team in the front. "Anybody else?" His point was made.

"The third thing brands want is the ability to bring your whole line together—to be able to sell everything you make—in one place. You want the consumer to think of you every time they're in the market for something you make. Existing retailers have no interest in putting your scissors near your paper clips just because you make both. Value America has changed that. We want you, all of you, everything that makes you great. We give each brand its own exclusive department.

"There's another thing brands want—to get closer to your customers. You want to know who they are, what they're thinking, why they bought this instead of that. You want to communicate directly with them and do business with them without all the inefficiencies of the existing channels. Value America provides a virtual link between you and your customers.

Wouldn't you like to know what percentage of customers come to you because of the power of your brand? Or was it just your category that brought them into our store? Are you interested in their demographics—male versus female, how much they earn, where they live? Wouldn't you like to know how the demographics of those people who bought your products differed from those who saw your presentation but elected not to buy? All of that data is kept by our company, and once a quarter, we'll share it with you in aggregate terms.

"We'll break down the physical barriers, too. Previously, inventory was managed like Sears manages it. Let's say you made red pencils. Sears would have you ship a truckload to their distribution center. From there they'd be shipped to the stores in hopes consumers would love them as much as the buyer did. Sam Walton came along and decided to put a handful of red pencils in each store, along with intelligent registers to keep track of them. His systems reported how many he had sold in each store, and an order would go out to you, via EDI, to replace them. Walton made the consumer, in effect, the buyer. Now, we've taken the next logical step. Rather than sending you orders by-store-by-week, we send them to you by customer, in real time.

"WalMart transfers all of the costs associated with distribution and inventory to you. In case you've grown used to jumping through hoops, let me recount the tale of your average order. It averages less than two hundred dollars. You receive them under some

EDI variant that doesn't sync with yours, so you have to manually enter it into your system. You send it to your distribution center, stage it on your shipping dock, and side mark each individual carton. Then you're required to put a bill of lading on one particular carton. You have to follow a convoluted routing guide that designates shipping times and carriers. Then you get to pay the freight to get it to their store. You have to invoice each store individually. And because the routing guide and the compliance agreement are purposely designed to be impossible, you can expect deductions."

As he reminded the brands of the abuse they routinely suffered, he was making them uncomfortable with the intolerable state of affairs they had been forced to endure. He was also demonstrating that he knew what made their industry tick, down to the smallest detail.

"Once you've done all this, you have to prove there were no concealed shortages or damage. If you don't, retailers will delay payment and make deductions. Ever wonder why they don't let you invoice them by EDI? Some of you know. EDI is too fast and accurate. If there are no mistakes, they can't make deductions. If there are no deductions, what excuse do they have to delay payment? By the time you get your money, you're beaten down. That, my friends, is abuse, pure and simple.

"We don't do business that way. We pay our invoices; we want to be invoiced electronically. We want to be billed accurately, of course, but we make this promise: even if there's a discrepancy, we'll pay the undisputed portion when it's due." For this, they gave him another ovation.

Craig wrapped up his remarks with one of his favorite comparisons. "Ladies and gentlemen, we believe what you have experienced here today is as innovative as the idea Fred Smith, founder of Federal Express, conceived in order to compress time and deliver value."

About forty vendors signed up on the spot, and soon thereafter virtually all of them elected to partner with us. Other meetings would follow, with other companies, but for sheer volume, there was never another gathering the likes of the United Stationers vendor day in Chicago.

Were it not for the office-products industry, Value America may not have survived its turbulent childhood. The confidence shown by so many brands in that industry became a critical factor in convincing top brands from other fields to partner with us.

The record books say Ernie Els won the '97 U.S. Open, taking home \$500,000 in prize money. But we believe the real winner was a company named Value America. The relationships formed that weekend brought in over \$1.4 million in listing agreements over the next six weeks, all because of one gentleman, short of stature but long on vision, Mr. John Motley.