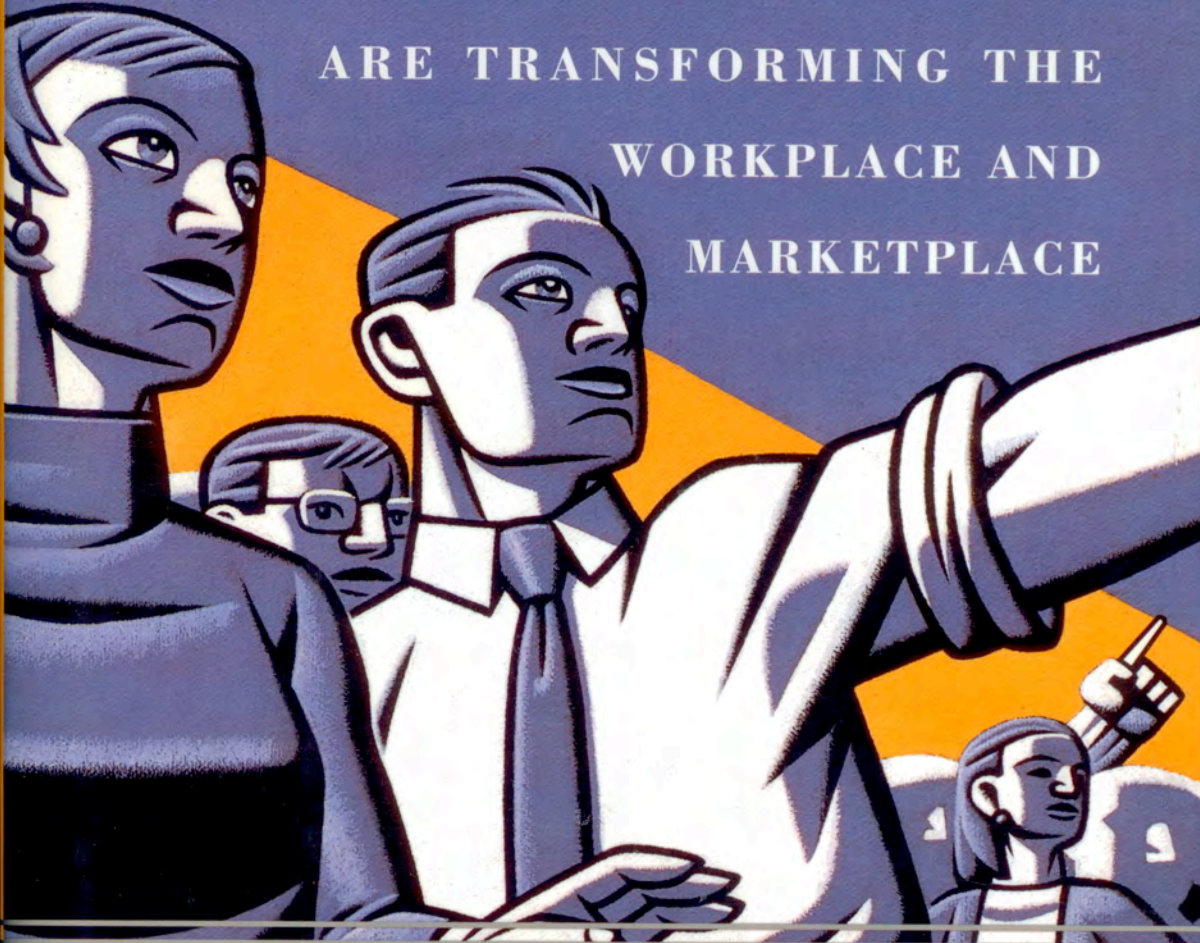
THE NEW PIONEERS

THE MEN AND WOMEN WHO ARE TRANSFORMING THE WORKPLACE AND MARKETPLACE



THOMAS PETZINGER, JR.

"Thomas Petzinger is our navigator, the storyteller of the new opportunity economy. *The New Pioneers* is a brilliant and energizing tour de force."

—JOHN NAISBITT, AUTHOR OF *MEGATRENDS*

"Every week, in his *Wall Street Journal* column, Tom Petzinger uncovers innovations at the frontiers of business and serves them to us as fresh, arresting stories; in *The New Pioneers,* he steps back to reveal the pattern of the new economy. Connecting the dots from Darwin to 'Chainsaw Al' Dunlap to Abraham Maslow, the book shows how individual businesses are evolving new ways to compete, collaborate, and create value in a connected world. Like Tom himself, *The New Pioneers* is grounded, graceful, human, and persuasive." —CHRISTOPHER MEYER, DIRECTOR, CENTER FOR BUSINESS INNOVATION, ERNST & YOUNG; AUTHOR OF *BLUR*

"For those would-be pioneers who are considering a venture into the tumultuous world of small business ownership, Thomas Petzinger's book should be required reading. For those who are defying the odds and currently are surviving—even thriving—in that world, this book provides an excellent midcourse check. Most important, however, are the plentiful lessons to be learned from *The New Pioneers* for those of us who find our companies near the top of the Fortune 500 list!"

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"Tom Petzinger's book is full of much-needed optimism—the right antidote to floating anxiety and economic fear. His wonderful storytelling and insight into trends will show entrepreneurs and corporate leaders a way to the future."

—JAMES A. CHAMPY, CHAIRMAN OF CONSULTING, PEROT SYSTEMS CORPORATION; COAUTHOR OF *REENGINEERING THE CORPORATION*

"Tom Petzinger understands everything important in business—how technology changes the world, how adaptive organizations work, how people do heroic things. And, instead of preaching about it, he tells stories that are instantly understandable and unforgettable."

—ROBERT SHAPIRO, CHAIRMAN AND CEO, MONSANTO COMPANY

"Petzinger has written a passionate account of the 'new order' in business—an order in which exciting technology goes hand-in-hand with a culture of compassion."

—ADAM BRANDENBURGER, PROFESSOR, HARVARD BUSINESS SCHOOL; COAUTHOR OF *CO-OPETITION*

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mance but for the performance of their teams and the output of the entire company. Boss-to-subordinate performance reviews were expanded to include the views of fellow teammates as well as the members of other teams. A "gain-sharing" program was instituted, in which teams were paid bonuses equal to 10 percent of whatever cost-saving maneuvers they identified. Employees stripped the Connecticut office of its "corporate headquarters" designation and gave it a new name that emphasized collaboration over control: the North American Support Center.

To top it off, a rotating sculpture, a glistening, avant-garde Möbius strip, was hung in the lobby, chosen because the look of it seemed to change continuously.

Indeed the principal outcome of the change process was to assure that the operation never stopped changing, particularly as market conditions shifted. Margaret Brayden, who had spent years as the company's records-retention coordinator, came up with new processes that eliminated her own job. After stepping down to a position called "group leader" of office services, she continued cutting costs, ultimately wiping out her entire department. Her direct reports were all reassigned, while Brayden herself was rewarded with an assignment on a team called "change management."

By 1998 the firm had swelled its assets to $23 billion. Mercedes-Benz Credit was ranked first in the industry for customer satisfaction by J.D. Powers & Associates. Thanks to the constant experimentation of his employees, the organization had diversified into aircraft, boat, and other financing. His employees had created the industry's first real-time financing product, in which a car buyer could apply for financing, receive a credit approval, and drive away with a car in the space of minutes. "That sort of thing is possible only when people stretch," he said, "only when they're willing to step out of their key functions and step into uncertainty."

If play is so important, of what use is that venerable document known as the "business plan"? Every banker and investor wants to see one, every college course in entrepreneurialism teaches how to write one, and most entrepreneurs are comforted to know they have one sitting in the top drawer. Business plans do have value. They can be fruitful as exercises in imagining the possibilities of a business. They act as a system for capturing and evaluating information. They are models—you might even say toys—for leaders to tinker with and constantly adjust, and sometimes abandon, as you may learn in the story of Dan Harple and his $160 million stock sale.

Harple grew up a teenage rock guitarist, and like any self-respecting garage rocker of the 1970s he was as accomplished with plugs and cables as with picks and capos. His fascination for hooking things together led him to study electrical engineering and psychology, an eminent combination, it would turn out, for the networked 1990s. Ultimately he wound up in Mechanicsburg, Pennsylvania, a small manufacturing town surrounded by dairy farms just east of Amish country, working for an electrical-parts manufacturer called AMP Incorporated.

Harple had a work buddy named Rich Pizzarro, also a guitarist. Pizzarro was a self-taught computer programmer, learning the craft, as so many did, in order to create his own computer games when he was a kid. At AMP he and Harple were involved in networking workstations so that any number of engineers could pass around a single set of electronic drawings. This work inspired Harple and Pizzarro to a vision that went way past their job assignment. What if all those design engineers could watch each other's scribblings at the same time, even while sitting at different desks, on different floors, or even in different buildings? Why stop there? What if they could discuss the drawing by speaking right through the computer network? Even more exciting, what if they could *look at each other* while working on a design? This was work, but it was also play.

The two men quit their jobs in 1992, not out of any disaffection for their employer but because their idea had awakened a deep-seated urge in each of them. Pizzarro's father was a Puerto Rican immigrant who had died young of cancer, expressing regret that he was not leaving behind a business with which to give his son a head start. Harple's in-laws were successful Italian-American entrepreneurs whose example he was eager to follow. In addition, Harple had four children (soon to be five) and nothing quite so concentrates one's ambitions as the thought of putting such a brood through college. Harple also fantasized about creating a legacy to hand over to his children. And both men loved the idea of advancing the connectedness of the workplace. "Computers weren't doing enough to help people," Harple would later comment. "Computers were just slowing people down."

There had been many attempts of varying success to marry voice and video through the years, but each attempt involved the use of ungainly and expensive hardware. Harple and Pizzarro imagined a real-time video network requiring only regular computers and cheap, desktop cameras. Using software alone they would accomplish everything that other teleconferencing systems did with big, expensive hardware. "The solution is in software," they kept saying, leading them to christen their new company InSoft Incorporated.

But not just any kind of software. Their frustrations as network engineers, vainly attempting to connect the hardware and software of many different manufacturers, motivated them to create a product that could integrate with anything. To that end they wrote their code according to the public-domain standard on which the Internet was created. At the time the Internet was still mainly a medium for academics, military, and techies, and Harple and Pizzarro had no intention of creating a product for use over the Internet itself. But using the Internet protocol assured their product a better chance of fitting in with other products—even if that meant making it easier for their customers ultimately to use products from any competitors who happened to follow InSoft into the marketplace. Sacrificing exclusivity, they decided, was better than compromising versatility. Connectedness was more valuable than control.

For months the two men worked in spare bedrooms, Pizzarro in his mother's place, Harple in his house full of preschoolers and preteens. They slept only three or four hours a night. In the summer their workrooms filled with hot air from the exhaust fans of their workstations. But before long they had raised $100,000 from family members. Later they took in another $500,000 from a wider circle of acquaintances. With capital came the trappings of respectability: six hundred square feet of rented space in a building on the edge of a highway cloverleaf near the Pennsylvania Turnpike, plus a board of directors to represent the interests of the outside investors. As they began racking up sales and as word of their success spread, venture capitalists leaped in with a $3 million investment. They began opening sales offices, racking up corporate orders at an average of roughly $20,000 a throw. They lured Russian and Indian engineers to central Pennsylvania to help enhance the product, holding out generous stock options that might prove quite valuable if ever the company succeeded in going public. Before long a Canadian networking company purchased $5 million worth of equity.

To this point all growth had occurred according to plan. Harple, who served as CEO, measured every major decision against a spreadsheet that projected sales, costs, and profits by quarter, a document formulated in conjunction with his directors. He plotted his figures according to the methodology outlined in a best-selling technology book called *Crossing the Chasm,* by Silicon Valley marketing guru Geoffrey Moore. Harple reverentially referred to "the plan" and made no secret of relying heavily on his board of directors for guidance.

But for all the button-down quality of these formal dealings, play was evident everywhere else. Callers waiting on hold had to listen to a recording by the Grateful Dead. Harple hung a poster of rock icon Todd Rundgren in his office. The demo version of the InSoft product was illustrated with a photo of rock guitarist Lenny Kravitz. When the system created a videoconferencing icon for each user, it cried "Smile!" and made the kind of "click" that Pizzarro remembered from the photo booth in a local dime store. Harple's teenage daughter went to work in the company's mailroom.

Nor was InSoft's adherence to plan so compulsive that it turned away from unexpected opportunities. When a sales rep from Sprint walked in one day, he was convinced to recommend InSoft to his own company, leading to a marketing alliance under which some four thousand Sprint salespeople began pitching the InSoft product. When Harple's people heard that the mighty Hewlett-Packard was considering a jump into videoconferencing, they persuaded the giant to adopt InSoft's product instead.

As the corporation's prospects grew, IBM and other suitors came calling. The owners could have sold the company at that moment for something on the order of $50 million, but Harple and Pizzarro would not have it. Although they were eager to one day sell some of their shares to the public, and to give their employees that same option, they had no interest in selling the entire company. InSoft was their identity. They could see a day when every home would have a picture phone and they wanted the InSoft logo affixed to that phone.

Wherein lay the greatest virtue of their business plan: as an expression of their fervent belief in the future of their business as an independent, stand-alone entity. It was like the mission statement that employees created at Mercedes-Benz Credit, or like the growth philosophy of Half Price Books: an articulation of a belief about the future, but not a restriction on the route to reach it. And by 1995 the InSoft dream was becoming a reality. With their staff reaching seventy people, Harple and Pizzarro proudly watched a crane raising giant white and blue letters to the top of the small office building where they worked. It was now the InSoft Building.

But it was just about then that Internet hysteria hit.

Though they had designed their product according to Internet protocols, Harple and Pizzarro had never considered the Internet a medium over which it would be employed. Video demands huge bandwidth (the numbers of "bits," or ones and zeros, that can be stuffed through a wire at once). InSoft video needed the kind of figuratively fat cables that major corporations laced through their ceilings and floors. The Internet by contrast had no more bandwidth than the phone system, which remained largely a network of nineteenth-century copper-wire technology. In the never-ending planning and strategizing intended to keep their dream alive, the principals of InSoft ranked the Internet ninth—dead last—as a potential market for their product. Even as Internet mania swept the software business, InSoft's board, including members of Dan Harple's own family, cautioned against wasting too much time worrying about the Internet. Selling a low-cost, mass-market version to run over the Internet—assuming that were technologically feasible—would cannibalize the corporate sales from which InSoft was recording more than $7 million in annual revenue. "Don't do it," the directors said. "It will kill our direct sales."

But Harple wanted at least to toy with the concept. He quietly convened a two-person skunk works to begin looking at possible new ways of compressing video for the narrow bandwidth of the Internet, and their early work was encouraging. By the fall of 1995 there were fifteen people on the project, by winter nearly the whole company. Meanwhile, the value of anything connected with the Internet was reaching nosebleed heights on Wall Street. InSoft engaged investment bankers to begin plotting the initial public offering that would make Harple, Pizzarro, and their employees potentially wealthy—while still preserving the company's much-prized independence.

One day when the new Internet product was near completion, Harple was conducting a demonstration at Bear, Stearns & Company, a Wall Street investment banking firm that had installed earlier InSoft products on its trading floors. Jeff Marshall, the chief technologist at Bear, Stearns, was eager to get a look at the new InSoft product. "This is unbelievable!" he kept saying. The idea of real-time, face-to-face communication over the Internet—he could scarcely believe it. "This is unbelievable!"

And then came the fateful words: "We've got to get Jim Clark on the phone right now!"

Clark was himself a walking case study in entrepreneurial genius, the creator of Silicon Graphics Corporation and later the business brains behind Netscape Navigation Corporation, whose "browser" software introduced the World Wide Web to millions of desktops worldwide. Clark was diving in the South Seas when the message reached him from Bear, Stearns that a small company in Mechanicsburg, Pennsylvania, had developed a possible picture phone for the Internet. Within hours Clark had climbed into his Falcon 50, charting the improbable course of Fiji to Mechanicsburg with a stop in New York to pick up his tipster at Bear, Stearns.

When Clark arrived Harple and his staff were in the throes of planning not only a public offering but a road show to promote the release of the newly completed Internet product. They were thrilled to have the Silicon Valley legend in their midst, just as he was awestruck by the demonstration of their product. On his way back to the airport in the Harple family van, Clark popped the question. "Would you consider a merger?" he asked.

Harple and everyone else agonized. Selling InSoft would be almost like losing a member of the family. But the world had changed in only a few months. The Internet—and the allied media of intranets, extranets, and the like—seemed at the moment to embody the future of everything. Thanks to his willingness to depart from plan (to the point of going against his board of directors), Harple had assured InSoft a niche in this new world. Yet although there were thousands of small companies developing software products, only a handful of huge ones actually distributed them—including the Microsoft juggernaut, which seemed to destroy everything in its path. InSoft could take a chance by going it alone, but failure meant the loss of a fortune in which all of InSoft's employees were vested. Paradoxically, the safest course, indeed the only safe course, was abandoning the business plan altogether.

A short time later Harple was in a conference room in Sunnyvale, California, accepting a deal for $161 million in Netscape stock on behalf of himself, his employees, and his investors. In the stress of the moment, Harple, then age thirty-six, broke down, weeping. "It's very emotional when you start something and it ends," he explained. "Our little baby grew up faster than we ever thought."