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Gray is Good

By Maryanne Murray Buechner

Henry Bar-Levav launched Oven Digital in 1996 with one contract: to design a website for New York City's Museum of Modern Art. His start-up was turning a profit within two weeks. Three months later he had four more big-name clients, and the money was rolling in. Only then did he realize that he was losing control. Important details--like filing the necessary paper work to incorporate the firm--were falling through the cracks. "We had stacks of checks piled up on our desk," Bar-Levav laughs, "and we couldn't cash them." It was his first clue that he needed more than just top-notch designers. He needed someone watching the store.

In the grand old days of the New Economy--say, the late '90s--it seemed all you needed was a good idea and some venture capital and you were on your way to Internet riches. The brave new world belonged to the young and brilliant 19-year-olds in jeans and sneakers who could see the future; everybody else was a suit. But at the end of the day, business is still business, whether you're selling data streaming or dirt bikes. An increasing number of Internet start-ups working to build sustainable enterprises are realizing that managing day-to-day operations and mushrooming staffs is a lot trickier--and more important--than they thought. They're finding that the good ideas and the VC money only get you so far, and that sound management is critical for long-term success. So welcome back, suits, though in this world, formal wear is optional.

Internet entrepreneurs have been left with the task of figuring out what sound management means, exactly, for unique companies in a burgeoning field and then hiring the manpower to carry it out--or standing aside while their backers do it for them. It's a daunting job, no matter who does it, considering that so many dotcoms are doing things that have never been done before while expanding at light speed.

With so much money flying around these days, there's no reason Internet companies should necessarily be cutting corners, experts say. The problem has more to do with attitude and lack of managerial awareness than available resources. Here's a look at some of the more common missteps and how to avoid them:

HOW HARD CAN IT BE?

Many start-up founders have assumed that management could be learned on the fly, or that somehow it would take care of itself. Big mistake. Dean Daniels, 42, president of Theglobe.com an online community, notes that management is a learned skill. "When you've got some of the most creative people on the planet," he says, "trying to get them all to move in the same direction takes expertise. I don't care how smart you are; unless you have done it before, you can't do it." Daniels is still cleaning up the management mess left behind by Theglobe.com's founders, whom industry insiders have criticized for paying more attention to their ad campaign than to building a solid management structure. Among other things, Daniels is working to separate company performance from an unnervingly low stock price.

Underneath the arrogance and naivete in the e-conomy, there's long been a bias against seasoned managers from traditional industries, a belief that experienced folks would clash with the culture and drag the operation down. "Dotcom people describe old-media people as if they were from another century," observes Paul Bernard, head of a New York City-based training and coaching firm, Paul Bernard & Associates.

The good news, experts say, is that the bias is beginning to fade. An increasing number of start-ups that may have previously shunned the "gray hairs" (anybody over 35 in Silicon Valley parlance) have learned that bringing in a high-level executive with a 15- or 20-year track record can be essential to getting the job done.

Take StreetFusion, a Web-based financial-information company in San Francisco, founded in August 1997. In October 1997, the two twentysomething founders and their first employee were holding business meetings in the backseat of a car and using credit cards to make payroll. They realized they needed a more experienced executive team if they were going to make their business work. "We were beating our heads against brick walls," says Blake Hayunga, that first employee, who's now vice president of content. "We'd have these meetings where we'd talk about how we were going to take Bloomberg out of business. Then we'd all run off in our separate directions."

Then Tom Gonzales, 55, founder of Commerce One, an e-commerce support-services firm, took over as CEO and immediately rejiggered the management structure. "I had to insist this wasn't a fraternity," Gonzales says. "It was a company." He called in a management consultant to do the company's strategic planning so employees could focus on their technical work. Today StreetFusion, with solid backing from venture-capital firm Iceberg Ventures, has 100 employees and revenues in the tens of millions.

Having a grownup at the helm inspires confidence where it counts, notes Jason McCabe Calacanis, 29, founder of Silicon Alley Reporter. Calacanis is considering hiring an experienced fiftysomething consultant to be his COO. "Having senior executives makes investors, Wall Street, the public, employees and customers more secure about the company and the services you are providing," Calacanis says. "It can mean the difference between getting a $1 million contract and no contract at all." Says e-coach Bernard: "No one cares how cool you are if you can't meet payroll."

Charles Rutstein, a senior analyst at Forrester Research, agrees. In the past, Internet start-ups might have brought in a few gray hairs as window dressing for the road show before a public offering, he notes, but these days, VCs are bringing in seasoned managers much earlier. "If I am committing $10 million to two guys and a plan, I am going to insist on adult supervision," Rutstein says.

And those supervisors are getting easier to enlist. When Heidi Miller, 46, one of the most powerful women on Wall Street, announced in late February that she would leave her CFO job at Citigroup to become CFO of Priceline.com it sent shock waves through more than a few oak-paneled boardrooms. That the dotcom wanted Miller wasn't so surprising; that Miller was willing to go to the dotcom was. Nobody expects a mass migration, but her move shows that dotcoms seeking top-notch talent have a good chance of getting it.

Bar-Levav of Oven Digital, now a company of more than 200 employees in seven countries, warns that it's important to remember that even with oldsters aboard, dotcoms cannot, and should not, operate by all the same old rules. Sure, experience counts, but so do flexibility and the willingness and ability to adapt to the new culture. He also warns against any traditional managers who might try to maintain a hierarchy that would only stifle talent. Instead he points to Bill Gates' practice of making himself accessible to anyone in the company via e-mail, which allows good ideas to bubble up.

Managers must be careful not to swing too far the other way though, warns Olivier Zitoun, CEO of Eveo.com an online digital-video broadcaster. A democratic approach can get messy, he says, and stall the decision-making process.

GOT VISION. WHAT'S THE PLAN?

One of the most glaring weaknesses among Internet companies has been poor follow-through. The trouble with "many dotcom people, as with many entrepreneurs," notes Bernard, is that "too often they are in love with the idea but not the implementation." By and large, they've done a great job marketing their sites and proving there's demand for what they do, but then they neglect the housekeeping chores necessary to run the business and fulfill their promises to their customers, such as hiring enough production managers, says Dale Kutnick, CEO of the Meta Group, a technology-research and advisory firm.

More attention must be paid to "plain old operations," Kutnick says. Even if a company outsources some of that, it will still need knowledgeable, experienced managers to coordinate those relationships. That will be even more important as dotcom competition deepens and any potential shake-out looms.

Where does the whiz kid who's not cut out to manage people fit into this picture? Carol Rozwell, research director of the GartnerGroup E-Business Intelligence Services, suggests that companies create positions such as chief technology officer to allow the "lone wolf" to excel.

WANTED: A HUMAN TOUCH

A lot of Internet entrepreneurs don't realize that all who end up working on their brilliant idea will not be invested body and soul in its success. They will have spouses, children, mortgages--responsibilities and a life outside the job. They won't have 20% of the company to motivate them, and they will be looking for 401(k) plans, disability benefits--things that entrepreneurs accustomed to working without a safety net are unlikely to be thinking about.

But they should think about that stuff or find someone who will. "A lot of CEOs are beginning to realize that the human-resources expert may be the most important person to hire when they grow from five people to 20," says Andrew Rasiej, founder and CEO of Digital Club Network, a music site that webcasts live concerts.

A good human-resources manager can also help fix problems like high employee turnover. In today's supertight labor market, where frequent job hopping no longer raises an eyebrow and stock options are passed around like punch, it's tough holding on to new hires, says Lorie Nevares, founder of StateScape, an online legislative and regulatory information service. Most people who come to work for StateScape are in their 20s. For them, Nevares says, "the job market is like Candyland." She adds, "They find out they can get big money somewhere else, and if a chance comes to jump, they're gone."

Nevares hired a human-resources manager when her staff had grown to 15, and she finds the position is essential to making sure everything possible is being done to keep employees happy. "My HR person is great, and the young workers really relate to her, like a housemother," Nevares says. "It's a big relief to me."

A competent HR person can also help establish some basic personnel policies and practices that are important but often missing at a dotcom, Bernard says. Everyone should have a clear job description, for example, and undergo routine evaluation so that there's no confusion (or surprise pink slips) and the company can make sure it's got all legal bases covered. Rewards should be doled out fairly. Handing out raises or shares "willy-nilly," Bernard says, creates resentment among the staff.

Does all this mean that the dotcom world is fated to dissolve back into the conventional business world, just dressed in chinos? Don't bet on it. But the new dogs will have to learn some old tricks, and some of the old dogs are just the ones to teach them.

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