

in VC holdings, we found that the average VC firm represented on a post-IPO board disposed of about a third of its equity in the first two to six months after the lockup period expired. In a few cases, the VC reduced its holdings by more than 80%. All told, during that period, VCs serving on boards distributed or sold shares equal to about 75% of the total equity volume offered to the public in the companies' IPOs.

Are we suggesting that venture capitalists should not serve on boards of public companies? Certainly not. Venture capitalists play enormously important roles in the success of start-ups. Few of these companies would even have made it to an IPO without their VCs' direction, oversight, and funding, and VCs' expertise and experience continue to be valuable after the IPO. Venture

capitalists have as much right to serve on these boards as any other significant equity holder. Nevertheless, the conflict of interest is real, and it must be addressed.

Consequently, we believe three steps need to be taken. First, companies preparing for an IPO should make sure that at least half of their board members are outside directors. High-caliber independent directors are the key to successful board oversight. Increasing their number would ensure that their voices don't get overwhelmed in the boardroom. Second, IPO registration statements should more explicitly disclose the VC directors' post-IPO conflict of interest and the time frames in which VCs intend to distribute their equity.

Finally, as a regulatory matter, no distinction should be made between

share distributions by VCs and outright sales for purposes of the SEC's rule 10b-5 (the rule that restricts insider use of material nonpublic information). That would effectively prohibit a venture capital firm represented on the board of a public company from making discretionary share distributions to its limited partners while it possesses such information.

We view these steps as matters of fundamental fairness to the millions of investors who purchase companies' shares in the public markets.

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best practice

Marketing Rules

What sets Web winners apart? More than anything else, it's lightning fast marketing.

by Nora Aufreiter, Pierre-Yves Ouillet, and Mary-Kate Scott

Despite all the media coverage of "dot-bombs," some e-businesses are doing quite well. To find out what distinguishes the winners, we surveyed 65 of the top 350 Web sites and conducted in-depth interviews at 30. We discovered that the top performers (based on both financial and nonfinancial criteria) get their edge not from superior business models but from superior marketing. They're the ones that have gone the furthest to use the Web to gain intimate knowledge of their customers, and they're reshaping their marketing processes, structures, and skills to capitalize on that knowledge.

Specifically, the e-commerce winners have set up processes that let them redirect their marketing efforts quickly in response to absolutely current feedback. What do we mean by "quick"? Imagine tracking the results of a marketing campaign by the hour and making adjustments continually. Staples.com does that, refining its marketing campaigns several times a day as it learns in real time what's working and what's not. It shifts marketing budgets weekly.

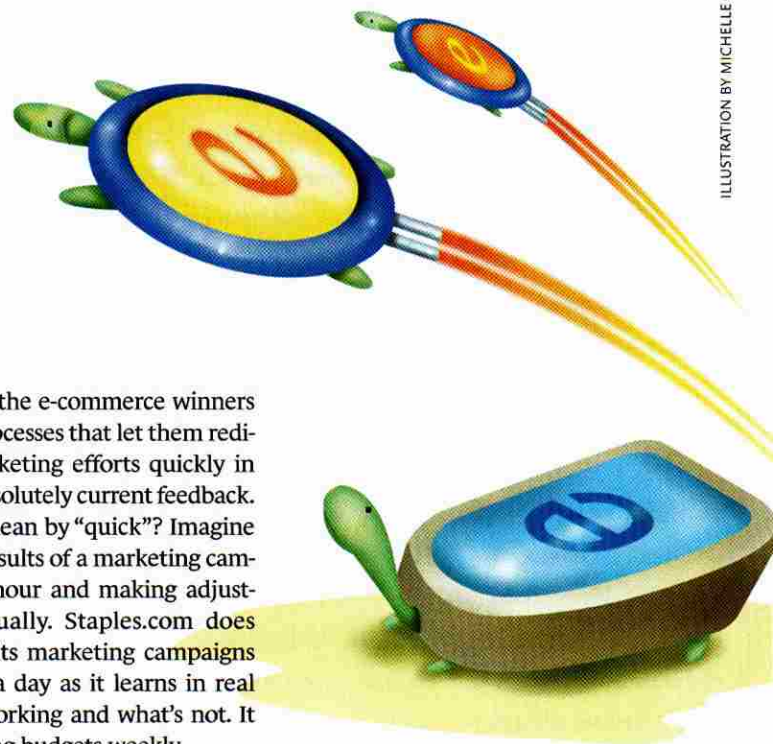


ILLUSTRATION BY MICHELLE BARBERA

Quick adjustments are only a good idea when they're based on the right performance measures. So it's probably

panies forming "superteams" of specialists in such areas as direct marketing, branding, and product management. Yet,

Imagine tracking the results of a marketing campaign by the hour and making adjustments continually.


no surprise to find that the winners were obsessed with certain customer metrics, particularly with the cost of customer acquisition but also with customer profitability, right down to individual customers' ROI.

One of the things holding back weak performers is the structure of their marketing organizations. A pet food e-tailer we studied was typical in that it organized its marketers according to sales channel. One group focused on on-line media, like banner ads and e-mail; another group pitched off-line, in traditional print and broadcast media. Campaigns weren't coordinated even though they were hitting the same customer segments. Between them, the two groups spent too much on building up brand awareness and acquiring new customers—resulting in plenty of trials but not enough repeat purchases.

Contrast this with the winners, who structure their marketing organizations to reflect the stages of the customer life cycle. One unit focuses on acquisition while others concentrate on retention and development. One practice highly correlated with success was the appointment of "customer life cycle managers." Their job is to segment customers according to the stage in the life cycle their relationship has reached with the company—from casual visitors to loyal buyers—and to predict which customers are likely to migrate profitably from one segment to another in response to marketing efforts targeted toward their particular needs.

As the Internet has opened up new opportunities for marketers, it has also changed the skills they need to succeed. "In an industry that's barely five years old," one top marketing executive told us, "it's almost impossible to find someone with the complete mix of relevant skills." Instead, we saw successful com-

panies also ensure that their marketers are the ones leading efforts to integrate functions across the company. At one on-line gift provider we studied, for instance, it was the marketing product managers—not the heads of IT or business development—that helped top management select the most promising innovations for the business and then led the cross-functional implementation.

With its power to touch customers directly and individually and its ability to relay feedback instantly to sellers, the Web holds out the promise of fast-cycle marketing to every business. The companies that succeed will do so with a combination of responsive processes, customer-focused organizations, and fresh skills—and will keep surviving the shakeouts. 

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"He invented the boomerade; it's half boomerang and half grenade."

