



Dow Jones & Reuters

BusinessWeek

Information Technology: PROFILES

The Neupert Treatment at drugstore.com How a former Microsoft hotshot plans to keep the No. 1 Web pharmacy out front

By Janet Rae-Dupree in San Mateo, Calif., with bureau reports

2,286 words

14 February 2000

Business Week

83

Number 3668

English

(c) 2000 McGraw-Hill, Inc.

Three times Peter Neupert told venture capitalist John Doerr that he absolutely, positively was not interested in leaving Microsoft Corp. to take the helm of online pharmacy drugstore.com Inc. But then Doerr--unaccustomed to taking no for an answer and eager to harness Neupert's legendary intensity--took a friend's advice. He asked to meet with Neupert's wife, Sheryl, formerly Microsoft's chief recruiter. ``Recruiting Peter meant recruiting her as well," says Doerr, a partner with Kleiner Perkins Caufield & Byers. ``She wanted to make sure that this Kleiner crowd were honorable characters. Somehow, I passed muster." Neupert accepted Doerr's fourth job offer.

So far, Doerr's tenacity has paid off. More than building yet another e-commerce store, Neupert is trying to unravel one of the most complex markets in all of retail--prescription pharmaceuticals. Through an obsessive attention to detail, carefully crafted strategic partnerships--including a pivotal \$105 million co-branding deal with Amazon.com announced on Jan. 24--he has powered the company into a formidable lead in the online health and beauty products market. That sector is expected to swell from \$440 million at the end of 1999 to \$22 billion in 2004. From a business plan with \$3 million in venture backing just 18 months ago, Neupert has created the No. 1 online drugstore with \$200 million in financing, 430 employees, and 700,000 customers.

Good news, right? Not really. Neupert is under more pressure than ever--so much so that he sometimes clenches his jaw tight enough to crack fillings, even teeth. Last summer it appeared that he had overcome one of the biggest roadblocks to building an online drugstore: the ability to fill prescriptions covered by insurance. He sold a 25% chunk of his company to drugstore-chain Rite Aid Corp., giving the online upstart access to Rite Aid's insurance business. But as Rite Aid's finances turned sour in the fall, the drugstore chain put its insurance unit up for sale--casting a cloud over drugstore.com's deal. Neupert says there is no need to worry, but analysts fret that he could lose access to the 50 million insured customers that Rite Aid handles. That could take a big toll on drugstore.com's prescription business, which represents roughly half the company's revenues. INSTANT LEAD. That's why Neupert is working to grow other parts of his business. On Jan. 11, he shelled out \$34 million in stock to buy cosmetics site Beauty.com, giving his Bellevue (Wash.) company an instant lead in the pricey department-store cosmetics market. That's an important move to continue attracting its most loyal customers--working women--and to head off competitors PlanetRx, CVS, and Wal-Mart Stores, who also are broadening their online selections beyond drugs. The plan: integrate the two companies' shopping baskets. Then, by creating a ``health and beauty" tab on Amazon's opening screen, drugstore.com gets access to the Web retailer's 16 million customers and \$30 million, boosting Amazon's stake in the company to 28%.

You'd think the dual deals would add some helium to drugstore.com's stock. But the company's share price has been acting as if it's on the wrong medication. At 30, it's trading near an all-time low of 27 after tumbling from a high of 70 last July. With 1999 revenues of \$35 million and losses of \$116 million, Neupert isn't expecting the company to turn a profit for three to six years. ``The reason there is such huge opportunity in this market is that it's so complex nobody's been able to tame it," says Evie Black Dykema, online retail analyst for Forrester Research Inc.

Not that Neupert has to grapple with this alone. His wife, Sheryl, 42, is simultaneously an alter ego and business

partner--not to mention sounding board, chief adviser, and personal cheerleader. Even Doerr, who says that Neupert was ``an inspired choice" for the job, didn't realize how much of a twofer he was getting. Once on board, the Neuperts set up shop above the garage of the sprawling 1929 mansion they purchased half a mile from the estate of Microsoft founder William H. Gates III. Sheryl immediately shifted gears from remodeling the house to building drugstore.com's workforce. When the fledgling company needed a whole team of pharmacists for its Texas distribution center, she spent days grilling pharmacy students at the University of Texas. Earlier this month, an exhausted Neupert asked her where she wanted to go on vacation during their daughters' winter break from school. Sheryl suggested a visit to drugstore.com's new 290,000-square-foot distribution center in New Jersey. ``I was thinking something a bit more tropical," Neupert dryly replied. They still haven't decided where to go. TURNING PURPLE. Neupert is turning drugstore.com into a family affair. Once purple was selected as the corporate color, Neupert's wardrobe filled with purple shirts, purple ties, and purple socks. He had custom leather logo jackets made for the whole family, including six-year-old Kelly and 10-year-old Katie. The old vanity plates on his 1996 Land Rover were replaced by new plates that said DRGSTR. And when he buys a new Land Rover this year, he'll have it painted purple. Neupert and Sheryl also can be seen riding their purple tandem bicycle through Seattle. He even persuaded Doerr to wear a purple shirt and tie one day a week for 10 months.

Doerr wasn't a bit surprised by this. Neupert is legendary for being gung-ho, no matter the challenge. It was Neupert who headed Microsoft's development efforts to build the OS/2 operating system with IBM. And it was Neupert who guided the software giant into the deal with NBC. His nickname, Captain NeupKirk, given by Star Trek fans on the OS/2 development team, even followed him to MSNBC because his office had a command chair surrounded by TV consoles.

That Captain Kirk cool-under-fire trait comes directly from his late father--who graduated at the top of his U.S. Naval Academy class in 1933. Karl Neupert commanded a ship during World War II that survived a run-in with five kamikaze pilots. After the war, he built a plumbing-supply business, Consolidated Supply, into one of the Pacific Northwest's largest.

When his father became terminally ill with cancer, Neupert dropped out of school for one year to work in the family business. It was then that he got his first taste of what computers could do. When Neupert realized the company's complex inventory lists were stored entirely in his father's head, he used what he had learned in some basic computer-science classes to design a database on Hewlett-Packard mainframes capable of instantly tracking hundreds of thousands of plumbing supplies and parts.

But Neupert didn't take to the family biz. He stuck to plumbing for only 18 months after he earned an MBA from Dartmouth's Amos Tuck School of Business. Neupert says his ideas didn't mesh with the if-it-ain't-broke-don't-fix-it mentality of his siblings. So he struck out on his own, first as a bond financier for a local bank, then as a chief financial officer at two small software firms. When Neupert joined Microsoft in 1987, CEO Steven A. Ballmer and Gates immediately threw him into supervising development of the ill-fated OS/2. That could have been a career killer. Instead, serious and analytical, Neupert was just the right fit for both the rambunctious software developers he was supervising and for the more staid environment at IBM.

It wasn't until he married Sheryl in 1988 that Neupert began to loosen up. Friends say that Sheryl has helped him see where gut instinct and risk-taking sometimes make more sense than living strictly by the numbers. (Still, she always calls him by the more formal name of Neupert, because ``he doesn't look like a Peter," she says.) Says Sheryl of their different styles: ``I tend to be intense, passionate, high-energy, and impatient. He's more calm and cool and analytical." Amazon.com CEO Jeffrey P. Bezos says Neupert is tops at asking questions and getting to the nut of a problem. ``He's a good driller," he says, ``Lather, rinse, repeat."

Neupert needs all the answers he can get. The deal with Amazon will eat up nearly half his marketing budget for the next three years. While drugstore.com has ridden Amazon's technology coattails from the beginning, it now has bound itself--for better or worse--to Amazon's ultimate fate. Indeed, many analysts believe that drugstore.com ultimately will be taken over by Amazon, even though Neupert insists he's building a big, independent business. BIG NAMES. A lot also is riding on the success of the Beauty.com deal. Drugstore already had low- to mid-range beauty products in its lineup, but it had hit serious resistance from Estee Lauder and Lancome, the biggest names in the cosmetics that drugstore.com's key customers buy. Prestige cosmetics makers want to keep a short leash on their brands. But Beauty.com's founders came from inside the cosmetics trade and had managed to land exclusive deals with leading-edge cosmetics makers such as Lagerfeld and Elizabeth Arden. Neupert is gambling that maintaining Beauty.com as a distinctly upscale second site--but melding its online shopping basket with drugstore's--will woo the big names like Estee Lauder and Lancome into the drugstore fold.

Neupert believes the Amazon and Beauty.com deals will put some zip back into drugstore.com's stock. A big part of the problem for drugstore.com and other online pharmacies has been the resistance of prescription-drug insurance claims administrators--called pharmacy benefits managers, or PBMs. Hoping to keep the lucrative online world to themselves but failing to move at Internet speed to lasso it, PBMs have refused to cover prescriptions at most online pharmacies. Rite Aid's PCS Health Systems division, however, happens to be one of the largest PBMs. When Neupert secured his cross-marketing deal with Rite Aid, he also bought a decade of access to PCS insurance claims. He is nonchalant about Rite Aid's troubles. ``Our contracts stay in place if they sell [PCS] to a new owner," he insists. But with the PCS unit up for sale, analysts says it's unclear how the relationship will fare.

For Neupert, the race is just starting. Naturally, he refuses to slow down. But the reason may surprise some. It's because of his children. ``They already know they're not getting any of the money," he says. ``They need to earn their own way in life, so what logic is there in letting them see me sitting back?" Neupert believes that his wealth--Microsoft made him and his wife millionaires many times over--is best used as a way to buy time with his family. That's why sometimes he pays thousands of dollars from his own pocket to charter jets for business trips so he can get home in time to have dinner with the kids. He and Sheryl believe that there is no line where work life stops and family life begins. ``We'll be working until we die. It's who we are," Sheryl says. ``It's the way we want our children to see us. Find your passion and do something good with it." And don't ever take no for an answer.

Peter Matthew Neupert

BORN

Mar. 6, 1956 in Portland, Ore.

EDUCATION

Colorado College, BA Philosophy, 1978; Amos Tuck School of Business, Dartmouth College, MBA, 1980.

JOB

President and CEO, drugstore.com.

CAREER HIGHLIGHTS

Built inventory control database for family plumbing supply business in 1981. Joined Microsoft in 1987, heading up the OS/2 development team. Three years later he took over Microsoft's operations in the Far East, including establishing the first Asian R&D laboratory. Negotiated Microsoft's deal with NBC, creating MSNBC. In 1998, he took drugstore.com from concept to launch in seven months.

FAMILY

Youngest of six children. Divorced once. Met his current wife, Sheryl, a former Microsoft chief recruiter, in 1987. She refused to date anyone at work, but Neupert coaxed her into making an exception, and six months later they were married. ``We're very good complements," she says. ``He likes to think. I like to make things happen.'" Father of three daughters and a son.

FAVORITE PHILOSOPHERS

Plato, Martin Heidegger, and Ludwig Wittgenstein.

PEOPLE WHO HAVE MOST INFLUENCED HIM

His late father, Karl Neupert, Bill Gates, Steve Ballmer.

FAVORITE SAYINGS

``Time is the enemy'" and ``Do it, try it, fix it'" (admittedly stolen from Microsoft CEO Ballmer).

NICKNAME

Captain NeupKirk, given to him by Star Trek fans on the OS/2 development team and resurrected when his MSNBC office featured a command chair surrounded by TV consoles.

FAVORITE COLOR

Once purple was selected as the corporate color, his wardrobe filled with purple shirts, purple ties, and purple socks.

Photograph: NEUPERT'S COOLNESS UNDER FIRE COMES FROM HIS FATHER Photograph: TWOFER Says Neupert's wife, Sheryl: ``We'll be working until we die. It's who we are" PHOTOGRAPH BY RICH FRISHMAN Photograph: NEUPERT: A relentless focus on detail is paying off PHOTOGRAPH BY REX RYSTEDT

Document bw00000020010804dw2e000hv

© 2003 Dow Jones Reuters Business Interactive LLC (trading as Factiva). All rights reserved.