

**Week 3: Entrepreneurial Mindset.**

**Q1:** Paradox in Theory. There are two well-known theories of entrepreneurship. Schumpeter postulated that entrepreneurs strive to “creatively destroy” the status quo; any company that does not continually innovate will eventually be destroyed by someone who is more “entrepreneurial”. Kirzner, on the other hand, claims that there are always disequilibria in markets. Entrepreneurs are good at uncovering and exploiting these. Did Neoforma fit one of these theories better than the other – or can both be invoked when trying to understand this company.

**Q2:** Entrepreneurship is sometimes discussed as the ability to deal with fundamental paradoxes:

- **Ambiguity—Planning.** Start-up companies are usually exploring new opportunities where data, details, and the environment may be largely unknown. Yet without a plan, managers do not have a basis on which to make decisions. The discipline of a business plan is required, yet is rarely followed.
- **Creativity—Discipline.** Many, not all, start-up companies are based on a new idea, or an innovative solution to an existing need. However, if everyone is creating new things all the time, then nothing will actually get done.
- **Urgency—Patience.** Entrepreneurs are driven people. Yet real advances take longer than planned – always.
- **Flexibility—Organization.** The need to respond rapidly to changing circumstances, new ideas, opportunities and threats with limited resources requires a great deal of flexibility and the ability to change direction quickly. But as the start-up grows, it is impossible for the founders to control everything and make all the decisions; an organizational structure must be put in place, which inevitably begins to prevent just the flexibility that is needed for success.
- **Responsiveness—Systems.** Allied to the previous paradox. Information technology should enable a company to be more responsive; somehow the opposite seems to be true. Yet management systems are required to monitor and control an enterprise.
- **Risk Taking--Risk Management.** Entrepreneurs are usually risk takers, yet too much risk does not create a successful organization and certainly may turn away investors.
- **Short Term--Long Term.** Every day a new challenge and possible change of direction, yet you must not lose sight of the ultimate goal.

How did the managers at Neoforma resolve these paradoxes?

**Q3:** Managing a start-up requires a broad range of personal attributes, different from and more diverse than in a larger, more structured company. An entrepreneur must balance these, often conflicting skills. Pick eight from the list and show how they were exhibited by Wayne and Jeff.

- |                          |                                   |
|--------------------------|-----------------------------------|
| • Creativity             | • Initiative Taking               |
| • Analytical Ability     | • Commitment and tenacity         |
| • Imagination            | • Tolerance for ambiguity         |
| • Networking             | • Unconventional                  |
| • Risk Taking            | • Optimistic                      |
| • Achievement Motivation | • Intuitive                       |
| • High Autonomy          | • Passionate in enjoyment of life |
| • Leadership             | • High energy people              |
| • Persuasiveness         |                                   |

#### **Week 4: Networking.**

**Q1:** Paradox: some argue that entrepreneurship is largely based on chance and many people do not become entrepreneurs because they are never lucky enough to be at the right place and at the right time. Alternatively, entrepreneurs are believed to *create* their opportunities by engineering situations which heighten the chance that they find an opportunity. Often they do this by using networks to extend their “opportunity space”. Map the networks that Wayne and Jeff had, starting from how they met, found investors, grew the company, and started again. How does your personal network link to them? Could you use this network?

**Q2:** You never know when and how a network will be valuable, or what sort of network you might need. Paradox: valuable networks can only be created when you are not looking for value. How can you develop your own network BEFORE it may be useful?

**Q3:** Despite the Internet, networks seem to require proximity and an entrepreneurial infrastructure. Why do you think this is so? Why are places like Buck’s found in entrepreneurial infrastructures. Do you know places like this? How would you uncover them?

## **Week 5: Bootstrapping.**

**Q1:** Paradox: Bootstrapping allows founders to have more control and give up less of their company to investors. Yet in a rapidly changing world, living on limited resources, and continually worrying about money can slow the growth of a company. What are the pros and cons of bootstrapping generally – include control issues, lifestyle questions, dilution in ownership, speed to market, habit forming, personal risk taking, etc.?

**Q2:** List the range of bootstrapping methods used by Wayne & Jeff. What were the pros and cons for each of these?

**Q3:** Linda chose to retain control of her company for personal reasons, whereas Jeff and Wayne were willing to give up control. Who do you most identify with and why?

## **Week 6: Angels.**

**Q1.** Paradox: money and/or advice, is there a trade-off? Angels provide funding AND mentoring. Is one fine without the other? What are the most important factors that you should take into account when a) finding, b) working with angel investors? Include networking, champions, deep pockets etc. in your discussions.

**Q2.** Paradox: VC's need deal flow which comes from Angel investors. Yet, they often abuse the very people that are providing them with opportunities. Discuss the reasons for potential conflicts between angel investors and institutional VC firms? How can these impact a) the start-up investment field and b) the operations of a start-up company.

**Q3.** Paradox: "I regret I had to write you a long letter, I did not have time to write a short one". Describe and elevator pitch and explain why it is extremely important. Why is it so difficult to accomplish?

## **Week 7: Partners.**

**Q1:** Paradox: Bad partners can destroy your company, yet good partners are invaluable. Taking a partner as an equal when you start a company immediately halves your potential upside; is this initial dilution worth it? You are considering starting a company; how would you find the ideal partner and what would their experience and personality be like?

**Q2:** Dennis and Wally have opposing views on whether they would invest in a start-up with a pair of equal founders. Discuss both sides of this issue; what do you prefer?

**Q3:** Paradox: divide and conquer is a well-known battle strategy, it can work in a start-up too. Employees and investors can manipulate partners more easily than a single founder. Referring to Anil's interview and the book chapters (especially East Meets West, Make-up and Hair, Bluescreen, Walla and The Coup), describe how Jeff and Wayne dealt with conflicts and attempts to drive them apart. What do these events tell you about their partnership?

## Week 8: Corporate Culture.

The following table lists ten cultural attributes that are witnessed in successful innovative companies. The factors are chosen to be, as near as possible, orthogonal – i.e. each can be encouraged without disturbing the others. Use this table for the questions where appropriate.

### Cultural Attributes of Successful Innovative Enterprises

Attribute	Definition	Example Statements
<b>Honesty</b>	The degree to which each employee has total confidence in the integrity, ability and good character of other employees and the organization, regardless of their role	"I trust the people I work with; I find it easy to be open and honest with people from other departments"
<b>Alignment</b>	The degree to which the interests and actions of each employee support the clearly stated and communicated key goals of the organization	"We have clear aims and objectives which everyone understands; we build consensus around key objectives; we recognize and reward loyalty"
<b>Risk</b>	The degree to which the organization, employees and managers take risk	"I am encouraged to experiment; we take calculated risks; we encourage trial and error"
<b>Teams</b>	The degree to which team performance is emphasized over individual performance	"We promote teamwork and make it the center of everything that we do; there are usually people from other departments in my team; we have both problem-solvers and 'out-of-the-box' thinkers in our teams"
<b>Empowerment</b>	The degree to which each employee feels empowered by managers and the organization	"As a manager, I am expected to delegate; we have a 'no-blame' culture; we allow staff to make decisions"
<b>Freedom</b>	The degree to which self-initiated and unofficial activities are tolerated and approved throughout the organization	"I am allowed to do my own thing; we encourage people to take initiatives; we recognize the individual"
<b>Support</b>	The degree to which new ideas are encouraged from all sources and responded to promptly and appropriately	"We encourage fresh ideas and new approaches; we reward innovative individuals; we reward innovative teams"
<b>Engagement</b>	The degree to which all levels of the organization are engaged with the customer and the operations of the organization	"Management understands the operations of the company; I can share problems with my managers; I know why my job is important"
<b>Stimuli</b>	The degree to which it is understood that unrelated knowledge can impact product, service and operations improvements	"I am encouraged to search externally for information; I obtain data from many different sources; we listen to suggestions from suppliers; we use consultants in focused roles"
<b>Communication</b>	The degree to which there is planned and random interaction between functions and divisions at all levels of the organization	"I am kept in the picture on how we are performing; we have excellent formal channels of communications; we use best practice knowledge transfer between departments; we actively manage our intellectual assets".

**Comment [DC1]:** Isn't this a bit in conflict with the Team concept above?

**Q 1:** Paradox: how do you maintain a vibrant and successful culture as the company grows rapidly and the founders have no time to engender new employees with the value systems that they consider important. Consider the following attributes often referred to by the managers in Neoforma: honesty, freedom, and empowerment - which attributes were most prevalent earlier in the company and later?

**Q2:** Paradox – a great corporate culture seems to just happen – forcing it is counterproductive. How was the unique culture of Neoforma developed. Despite coming under stress due to fast growth, mistakes in hiring, Jeff and Wayne getting stretched thin and stressed, and when the new managers came in, it seemed to survive and be almost indestructible. Why do you think this is? What other culture threats that can name. Put them in the order of most potential culture damage and argue why you chose this order. If you were a manager what would you do to embed a great culture and mitigate against its erosion?

**Q3:** Paradox: companies use acquisitions to accelerate growth and gain skills. Yet acquisitions rarely meet their expectations because of “culture clash”. Was Linda right in not selling her company to Neoforma? After all Neoforma survived, Galatia did not. Why did she choose to remain separate? Did Neoforma make the right decisions regarding GAR and Pharos? Why?

**Q4:** Using the culture table compare Varian and Neoforma?

## **Week 9: Hiring and Firing.**

**Q 1:** Paradox: is it better to hire someone you know than a total stranger? How do you avoid the “Cassandra Problem” when you are under pressure to hire quickly?

**Q 2:** Imagine you are Jeff and Wayne. Create an interview guideline for EACH founder separately for hiring key people – what will each explore – how will you cross-check – how do you test for tenacity, honesty, values, and innovativeness?

**Q 3:** Paradox: you hired all good people, so how do you choose which to fire? Do you think Wayne did the right thing regarding the firing of Thalia over Sheila? Give your reasons.

## **Week 10: Change Management.**

**Q1:** Paradox: Jeff and Wayne hired their own replacements yet they still had difficulty in giving up control. Why was this? Illustrate this in particular with Dave's conflict with Wayne.

**Q2:** Paradox: Despite the fact that the departures were agreed and supposedly friendly, once Jeff and Wayne had decided to spin-out and start a new firm, they were rejected first by Varian and second by their own company, Neoforma. To what do you attribute this? What actions would you take to mitigate against this rejection as a leaver and as a remaining manager?

**Q3:** The original dream and mission of a start-up usually changes significantly over time; it certainly was the case in Neoforma. How do you think this paradox can be resolved by founders?

## **Week 11: VC's and Investment Bankers.**

**Q1:** Paradox: VC's benefit by creating the highest value for the companies they invest in. However, they often act as if they are willing to destroy the company. Was Venrock working in its best interests in driving a wedge between Wayne and Jeff? State your reasons.

**Q2:** Paradox: Business or Friends? Do you think Linda was badly treated by Neoforma – or was it “just business”?

**Q3:** Do you consider Bret's behavior reasonable? Ethical? Defensible? Argue for your position.

**Q4:** Paradox: an IPO is often priced low by the underwriters so that there is an immediate rise in value even though this hurts the company. When Neoforma went public, the stock price went from \$13 to \$52 on the first day of trading. Why did Merrill Lynch price the offering so far below the market demand price? This resulted in less money going into the company and the internal shareholders suffering more dilution. Discuss the ethical issues concerning this “bounce” in the first day of trading.

## **Week12: Dealing with Big Corporations.**

**Q1:** Large companies have difficulty in innovating, yet they have the resources, reputation, and funds to take a new idea to the market effectively. Small companies have complementary attributes. Partnerships between the two should be a “marriage made in Heaven”. What are the advantages and disadvantages for large and small companies to cooperate within some formal partnership agreement? Why is it so difficult to achieve?

**Q2:** Why is it difficult for large companies to embrace change? Relate this to the reaction by the majors to Neoforma’s rise and the increasing power of the GPO’s.

**Q3:** If you were the founder of the small company, what procedures would you use to develop and manage partnerships with larger companies?

**Q4:** This press release was issued after Wayne had completed the book.

### **Global Healthcare Exchange to Acquire Neoforma**

*Combined company to offer cost-effective supply chain products and services to improve efficiencies for both healthcare providers and suppliers*

**Westminster, CO and San Jose, CA - October 11, 2005** - Global Healthcare Exchange, LLC (GHX), and Neoforma, Inc. (Nasdaq: [NEOF](#)) have entered into a definitive merger agreement for GHX to acquire Neoforma. Under the terms of the merger agreement, Neoforma’s stockholders, with the exception of VHA Inc. and the University HealthSystem Consortium (UHC), will receive \$10 per share, payable in cash, representing a 20.5 percent premium to the average closing price of Neoforma’s shares for the one month preceding this announcement and a 43.5 percent premium to the closing price on January 11, 2005, the date on which Neoforma announced its decision to evaluate strategic alternatives. Neoforma’s stockholder VHA, which owns approximately 8.6 million shares, or 41.6 percent, of Neoforma, will receive \$10 per share, payable in cash, for approximately 2.0 million of its shares, and will exchange the remainder of its shares for an 11.6 percent equity ownership position in GHX. Neoforma’s stockholder UHC, which owns approximately 2.1 million shares, or 10.3 percent, of Neoforma, will receive \$10 per share, payable in cash, for approximately 496,000 of its shares, and will exchange the remainder of its shares for a 2.9 percent equity ownership position in GHX.

GHX provides an open and neutral electronic trading exchange, along with complementary products and services, through which buyers and sellers can collaborate to improve efficiencies in the healthcare supply chain. Neoforma provides supply chain management solutions for the healthcare industry, through a unique combination of technology, information and services. The combination of the two companies is expected to increase efficiency in the healthcare supply chain by increasing process automation, improving data accuracy and providing business intelligence that can improve decision-making and planning. As a result of the merger, more healthcare supply chain participants will be able to conduct business with one another electronically, which can generate significant savings for both buyers and sellers.

“The merger of GHX and Neoforma provides the opportunity to continue improving efficiencies and lowering costs in the healthcare supply chain,” says Michael Mahoney, chief executive officer of GHX. “GHX will continue to build and enhance products and services that help all members of the healthcare supply chain improve and streamline their business processes. By combining these two organizations, GHX can offer new services to a broader range of both buyer and seller participants, and enable greater efficiencies across the supply chain.”

Bob Zollars, chairman and chief executive officer of Neoforma, states, “Earlier this year, Neoforma committed to evaluating our strategic alternatives in order to provide greater value to our stockholders. After a lengthy and thorough evaluation process, Neoforma’s management and our board of directors concluded that this outcome is in the best interests of our minority stockholders. Additionally, this combination with GHX will provide our customers with more cost-effective solutions at an accelerated pace.”

Separately, GHX and VHA, UHC and Novation have entered into a new outsourcing agreement, under which GHX will provide supply chain management products and services for VHA and UHC members. Novation is the contracting arm of VHA and UHC. The new outsourcing agreement will become effective upon the close of the merger between GHX and Neoforma.

GHX will continue to be led by its current chief executive officer Michael Mahoney. GHX will be headquartered in Westminster, Colo., with North American operations in Nashville, Tenn., San Jose, Calif., Ambler, Pa. and Toronto, Canada. Representatives of the entire healthcare supply chain, including hospitals, manufacturers, distributors and group purchasing organizations (GPOs), will continue to own and govern GHX, and its board of directors will include balanced representation by buyers and suppliers, as well as the participation of independent supply chain experts. Supply chain management services from GHX will be open to all participants in the healthcare supply chain, regardless of size, GPO affiliation or for-profit status.

The transaction, which is expected to close in early 2006, is subject to approval by stockholders representing a majority of Neoforma’s shares that are not held by VHA and UHC and that vote on the transaction. In addition, the transaction is subject to the expiration of the applicable Hart-Scott-Rodino waiting period, GHX’s receipt of anticipated debt financing and other customary conditions. GHX has received a commitment letter, containing customary conditions, for the debt financing required for the transaction.

A meeting of Neoforma’s stockholders will be scheduled as soon as is practicable following the preparation and filing of proxy materials with the Securities and Exchange Commission. VHA and UHC, which collectively own the majority of Neoforma’s outstanding shares, have agreed to vote their shares in favor of the proposed transaction, as have the directors and officers of Neoforma. Based on the recommendation of the special committee of Neoforma’s board of directors, Neoforma’s board of directors has determined that the transaction with GHX is advisable, fair to and in the best interests of Neoforma’s stockholders other than VHA and UHC. Accordingly, Neoforma’s board of directors has unanimously approved the merger agreement and has recommended that Neoforma’s stockholders vote in favor of the merger agreement.

Merrill Lynch & Co. is serving as financial advisor to Neoforma and has rendered an opinion to the special committee of Neoforma's board of directors that the cash consideration to be received by Neoforma's stockholders other than VHA and UHC, pursuant to the merger agreement, is fair from a financial point of view to those stockholders. Fenwick & West LLP is serving as outside legal counsel to Neoforma. Wachtell, Lipton, Rosen & Katz is serving as outside legal counsel to the special committee of Neoforma's board of directors. Innisfree M&A Incorporated is serving as Neoforma's solicitation agent. William Blair & Company is acting as financial advisor and Sidley Austin Brown & Wood LLP as outside legal counsel to GHX. Lazard is acting as investment banker to both VHA and UHC, and Skadden, Arps, Slate, Meagher & Flom LLP and McDermott Will & Emery are acting as outside legal counsel to VHA and UHC, respectively.

### **Investment Community Information**

Neoforma will discuss the combination with GHX on its previously announced third quarter 2005 financial results conference call, which is scheduled for Monday, October 24, 2005, at 5:00 p.m. (EDT). The conference call will be simultaneously broadcast live over the Internet on Neoforma's Web site.

### **About Global Healthcare Exchange**

Global Healthcare Exchange, LLC (GHX) provides an open and neutral electronic trading exchange, along with complementary products and services, through which buyers and sellers can collaborate to improve efficiencies in the healthcare supply chain. GHX's catalog and content services improve the accuracy of purchasing transactions, reducing many of the most common and costly problems in healthcare procurement, while the privately held company's revenue neutral business model is designed to lower costs for all involved. GHX's owners, strategic partners, and trading exchange participants are representative of the entire healthcare supply chain, including manufacturers and distributors, integrated delivery networks (IDNs), hospitals and ancillary healthcare facilities, group purchasing organizations and their proprietary healthcare trading exchanges, and supply chain technology companies. Equity owners of GHX are Johnson & Johnson Health Care Systems Inc.; GE Healthcare; Baxter Healthcare Corp.; Medtronic USA, Inc.; Abbott Exchange, Inc.; Siemens; Becton, Dickinson & Co.; Boston Scientific Corp.; Tyco Healthcare Group, LP; Guidant Corp.; C.R. Bard, Inc.; AmerisourceBergen Corp.; Cardinal Health, Inc.; Fisher Scientific International, Inc.; McKesson Corp.; B Braun Medical Inc.; Premier, Inc. and HCA. For more information visit [www.ghx.com](http://www.ghx.com).

### **About Neoforma**

Neoforma is a leading supply chain management solutions provider for the healthcare industry. Through a unique combination of technology, information, and services, Neoforma provides innovative solutions to over 1,600 hospitals and suppliers, supporting more than \$13 billion in annualized transaction volume. By bringing together contract information and order data, Neoforma's integrated solution set delivers a comprehensive view of an organization's supply chain, driving cost savings and better decision-making for both hospitals and suppliers. For more information, point your browser to [www.neoforma.com](http://www.neoforma.com).

In connection with the proposed transaction, Neoforma intends to file a proxy statement and other relevant materials with the Securities and Exchange Commission (SEC). BEFORE MAKING ANY VOTING DECISION WITH RESPECT TO THE PROPOSED MERGER, INVESTORS AND STOCKHOLDERS OF NEOFORMA ARE STRONGLY ADVISED TO READ THE PROXY STATEMENT AND OTHER RELEVANT MATERIALS, INCLUDING ANY OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED WITH THE SEC, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED MERGER. The proxy statement and other relevant materials, and any other documents filed by Neoforma with the SEC, may be obtained free of charge at the SEC's Web site at [www.sec.gov](http://www.sec.gov). In addition, investors and stockholders of Neoforma may obtain free copies of the documents filed with the SEC by contacting Neoforma Investor Relations at (866) 636-6755 or Neoforma, Inc. 3061 Zanker Road, San Jose, CA 95134, attention Neoforma Investor Relations. You may also read and copy any reports, statements and other information filed by Neoforma with the SEC at the SEC public reference room at 100 F Street, N.E., Room 1580, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 or visit the SEC's Web site for further information on its public reference room.

Neoforma and its executive officers and directors may be deemed to be participants in the solicitation of proxies from the Neoforma stockholders in favor of the proposed merger. Information regarding Neoforma's directors and executive officers is contained in Neoforma's Form 10-K for the year ended December 31, 2004, which is filed with the SEC. As of October 10, 2005, Neoforma's directors and executive officers beneficially owned approximately 858,000 shares of Neoforma's common stock. Certain executive officers and directors of Neoforma have interests in the merger that may differ from the interests of stockholders generally, including acceleration of vesting of stock options and continuation of director and officer insurance and indemnification. A more complete description will be available in the Proxy Statement.

Why do you think this consortium was formed? Several of the companies were involved with Neoforma in the early stages but did not establish a working partnership at that time, yet eventually purchased Neoforma when it was a public company. Would it have been better to have absorbed Neoforma earlier? Would this have been possible? Examine this topic taking into account many of the issues in earlier weeks.

### **Week 13: Balance.**

**Q1:** Paradox: This was an extremely stressful and risky period for Wayne and Jeff as well as the other key members of Neoforma. Why would you go through this again? Would you classify Wayne, Jeff and Denis as “serial entrepreneurs.” Why do you think such persons repeatedly subject themselves to the uncertainties and stress of starting companies? (Refer to William Baumol’s article on the Small Business Administration Web-site).

**Q2:** Paradox: many successful entrepreneurs succeed only after several attempts. Does optimism prevent you learning from your own mistakes? What did Wayne and Jeff learn regarding balance for the second attempt?

**Q3:** Anni and Wayne started out with a dream that nearly became a nightmare for their family. Chart the key events in the story of Neoforma that threatened their relationship. What lessons can be learned from these events regarding how to balance work passion and personal lives?

