

The CEO Forum

The Quarterly Publication of "The CEO Show with Robert Reiss"



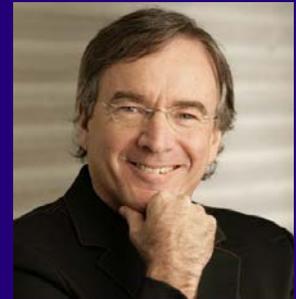
Bill McDermott
Co-CEO
SAP



Charlie Lanktree
President & CEO
Egland's Best



George Halvorson
Chairman & CEO
Kaiser Permanente



Daniel Lamarre
President & CEO
Cirque du Soleil



Lynn Tilton
Founder & CEO
Patriarch Partners

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Murray Martin
Chairman & CEO
Pitney Bowes



Finbarr O'Neill
President
J.D. Power & Associates



Randy Papadellis
President & CEO
Ocean Spray



Kendall Powell
Chairman & CEO
General Mills



Michael Thaman
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Bill McDermott

Co-CEO

SAP



From Street Smarts to Global Intelligence

Bill McDermott was appointed co-CEO of SAP with Jim Hagemann Snabe on February 7, 2010. In this capacity, he oversees SAP's strategic business activities concerning all customer operations, sales, marketing, communications, consulting, corporate development, and ecosystem activities. McDermott was first named to the SAP Executive Board in 2008 to manage global field operations, a responsibility he continues as co-CEO. Previously he led SAP's operations in the Americas and Asia Pacific Japan regions. McDermott is based at the company's North American headquarters in Newtown Square, PA.

Before joining SAP, McDermott was executive vice president of Worldwide Sales & Operations at Siebel Systems, and president of Gartner, Inc. He spent 17 years at Xerox Corporation, where he progressively rose through the ranks to become the company's youngest division president.

McDermott is a member of several boards, including ANSYS, PAETEC Communications, and Under Armour. He is a member of the National Advisory Board for KIPP (Knowledge Is Power Program) and the Advisory Board for Villanova University. He is also an active community leader. In 2008, he was named Idealist of the Year by City Year Greater Philadelphia, and in 2006, he received the Yitzhak Rabin Public Services Award for his contributions to Israel for technological innovation.

McDermott received an MBA degree from the J.L. Kellogg Graduate School of Management at Northwestern University, and he completed the Executive Development Program at the University of Pennsylvania's Wharton Graduate School of Management. He received his B.S. degree in business administration from Dowling College.



Robert Reiss: What does SAP really do differently?

Bill McDermott: When you want to link your business strategy to the way you run your company, either more efficiently or more effectively, SAP integrates all the departments of a company. We drive business outcomes whether you're going to drastically reduce your overall cost or you're going to establish new routes to market, or you're going to manufacture products differently, or leverage a business network.

SAP is the company that does this all the way from the supply chain and manufacturing to your employees, your customers and your suppliers. We run it all. That's why CEOs love SAP and that's why SAP is in a certain sense the "CEOs' software company".

From your 102,000 customers, give an example.

Well, there are so many great examples I could pick from but I'll take one of our early customers, the company Colgate-Palmolive. They basically run all their company's operations on a global basis in 130 countries around the world on our SAP system. So everything from optimizing the supply chain, making their products, delivering their products, controlling all of their finances, their human capital, their customer relationships, their business and extended supplier networks, it all runs on SAP. And what they would tell you is that this is the machine that they use to constantly expand their margins so they continue to run their business more efficiently and effectively for their shareholders.

How does it expand their margins?

It's simple: They do more with less. The more you optimize information technology, particularly a common platform as you run your company, the more revenue you get at a lower cost. For example, in their industry, trade promotions and actually running promotions for their products, is a very big investment. It's nice to know which promotions were actually working and which ones weren't. So when you do invest a dollar,

you know that you're going to get a return on that invested capital. You can see the buying behaviors of customers. You can predict what's working in Mexico may or may not work in China, based upon certain customer attributes and market segmentation techniques.

All of these technologies are being applied in real time, so they study their customers. They get closer and closer to them and therefore can make investments where they can expect returns and give more back to their shareholders.

What is your perspective on global growth?

We try to focus beyond the G8. Obviously, the mature markets in the world are bellwethers to large companies like SAP. You have to do well in those markets. But we also recognize that they're going to grow slower than the fast-growing markets such as Brazil, Russia, India and China, or even the tier two fast-growth markets such as Turkey, Indonesia and Chile.

So what we try to do is establish our "go-to-market", focusing on mature and fast-growth markets; also we expand our footprint in 25 distinctly different industry verticals. We market to small, medium, and large customers, so you're never locked into one paradigm. When you manage the portfolio and you continuously build innovation into the deliverables for your customer, you can weather the bad times and optimize in the good times.

Where is the future of software going?

Our vision is that there will be on-premise business applications that will run companies as they integrate their operations. There will also be on-demand or cloud-based applications where clients want to integrate what they're doing on premise with what they do in the cloud. And clearly, the big wave that we see is on-device. The mobile worker becomes more pervasive and CEOs want to connect to the virtual boardroom with their mobile device. Consequently, execu-

“The virtual boardroom will be mobile because executives shouldn't be tethered to a meeting room”

- Bill McDermott

tives shouldn't be tethered to a meeting room anymore. They should be able to look at information and run their business in real time. They should be operating globally in real time.

As they more and more get used to that, CEOs will want to manage their business by exception, which means there are standard thresholds by which things are deemed under control. When they get out of control, there's an exception that pops and the executive then has a decision to make. The magic is connecting the executive in the virtual boardroom to the shop floor.

Do you know what the beauty of it is, Robert? As you think about on-premise, on-demand, and on-device, you're going to orchestrate on all three layers of technology when you run your company. What we have to do is synchronize the data and the business processes, so the core processes and the data integrity, the compliance of the company, and the risk profile of the company are rock solid. When the CEO goes to bed at night, she or he can feel very comfortable knowing that they have a rock solid, fully integrated platform that operates on-premise, on-demand, on-device, with risk management at the forefront of their thinking.



What is the relationship between strategy and technology?

In my view, strategy has to drive technology because the application of technology is to enable the strategy. Most companies actually have very good strategies. In fact, many CEOs pay the same consulting firms to help them put together their strategy.

In my mind the more important question is executing on this strategy flawlessly. More and more, CEOs are learning that you can't execute your strategy until you have the information technology infrastructure in your enterprise to enable that strategy to happen. That's where companies like SAP come in: we help to link the strategy to the information technology roadmap to drive the business outcome. All of these things have to come together in an ironclad plan.

How do you see business changing?

Things will become, by definition, more complex because business models will constantly evolve. For example, many companies I talk to used to have one way of going to market. Some might have an indirect model with a market that has good services and products through channel partners. Some might have a direct sales force. Some might have broken through on the web. But if you're truly optimizing on all layers, you need a multi-channel strategy. You need to optimize your supply network. You need to optimize your routes to market. You need to optimize the internet. You need to extend the business network.

That's why you're right on target with the CEO because they're looking at the enterprise model.

Absolutely. And what I really admire is CEOs who are strong-willed. In the 1990s, there were many technologies out there. They called them "best of breed". And in their own right, they were really good or really best at one thing. The problem is they didn't breed. Then, what companies had were a lot of complex technologies that were disparate, not well-integrated, and the CEO had a company that didn't optimize at the enterprise level.

One function or one department might do really well. However, the CEO didn't because data wasn't integrated successfully and processes were broken. More and more, this is the CEO of the future.

Having said that, the company that's right for the CEO of the future understands the importance of building relationship plans with all the C-level executives. So while the plan has to tie at the CEO level, it also has to come together in pieces because one company will not generally integrate everything all at once. So start with a vision, start with a strategy and the technology roadmap, and piece it together, one department at a time. At the end, you have an integrated, connected enterprise that's ready to run better.

How do you align and focus the culture to achieve this strategy at SAP?

First things first. The first thing I and my co-CEO

“The CEO of the future is saying, “I need to optimize on the business process. I need to have the integrated enterprise and I need to be able to navigate through the things that are on premise, on demand, on device.”

- Bill McDermott

partner, Jim, did was focus on the strategy of the company. We basically said, “How are we going to take the number one business software company in the world, that’s been doing this successfully for 38 years, and double its size in the next five years?” We didn’t do that on pure financial ambitions but rather because of the responsibility towards our customers. We know our customers’ issues are real and by addressing them, we would, as a byproduct, grow the company substantially. Putting the customer first is what we focused on.

They actually either outsourced it to an external party or they delegated it. We wanted to own and role model the strategy.

The second thing we did was we met with our top 200 leaders around the world and discussed our strategy with them. Instead of a boring town hall meeting, we shared it with our customers and partners.

As we broke through, we said, “What’s different about our strategy this time is you will communicate it to people in coffee corners all over the world in this company. You will bring in our ecosystem partners and we will tell the same story to them. Then, we’ll host 50,000 of our closest friends at Sapphire and tell the world our story.” And that’s what we did.

Talk about growing up and your first jobs.

Well, I was always a hard worker. I come from a working class family, which probably many of your readers do. I always had jobs and I always wanted to make money and be self-sufficient. I traded in three jobs for one business in Amityville, Long Island. I basically bought it for \$7,000 plus interest. The deal with the owner was: If I did well, I’d pay off my loan; if I do badly, then he would get his store back. Consequently, I *really* focused on customers, just as I continue to do today. In that first business, I competed against 7-11, so I had to segment my market. I knew it was the blue collar workers who were going to spend money, not the guys with ties. I also knew they were rich on Friday nights and broke by Saturday morning. This is why I gave them credit.

I also knew the high school kids walked past a 7-11

to get to my store. This is why I had the video games Asteroids and Pac Man in my store, and I even built a game room for them. I also let them in 40 at a time versus only 4 because I trusted them. They loved it.

Then there were senior citizens.... I knew that they didn’t want to leave the house, so we also offered home delivery. I tried to figure out all the things that I could do for the customer that my big competitor couldn’t and that’s how I undermined their value proposition and beat them.

My focus on customers carried over, of course, in other ways when I went to work at Xerox. I graduated from college after I put myself through school and I realized that I did not want to slice bologna or franchise a deli. Instead I wanted to go to work for a big company with a great training program. I wanted to wear a suit and tie, and I wanted to be successful.

I had the drive. I remember the interview at Xerox after meeting with six or seven senior executives. I met with the branch manager, who was overlooking Central Park late at night. That day before I left Long Island, I had promised my dad that I would come home with a Xerox employee badge in my pocket. My father said, “Hey Bill, just do the best you can. I’ll be proud of you no matter how it turns out.” But I was so sure of myself I said, “Dad, I guarantee it!”

When I got to the final interview that day, Emerson Fullwood said, “Okay Bill, it’s been a very good interview. The HR Department will be in touch with you.” I said “Mr. Fullwood, I don’t think you completely understand the situation. I’m 21 years old. I’ve never broken a promise to my father and I guaranteed him that I’m going to have my employee badge in my pocket tonight.” He was surprised about this, but after pausing a little bit, he laughed and said, “As long as you haven’t committed any crimes, you’re hired.” That was how I started at Xerox.

I believe the ultimate prescription for success is a good work ethic, passion for what you do, and a complete and total commitment to customer success.

What was it like when you first came to SAP?

I came in to SAP in 2002 and there had been a tre-

“The magic is connecting the executive in the virtual boardroom to the shop floor.” - Bill McDermott

mendous change. We brought customer focus back to SAP and took this great engineering culture, this tremendous brand, and tied business outcome for the customer to our overall value proposition. We focused on making every customer a best-run business.

And you do that as co-CEO?

Yes, I do that as co-CEO because the common element is that the customer comes first in every single thing we do in this company. I'm sure that if the primary unit of measure in any company is customer success, you've got a great company on your hands.

Basketball runs in your family; what lessons can you learn from basketball that apply to business and life?

My grandfather, Bobby McDermott, was inducted into the basketball hall of fame with Wes Unseld in 1988. As I was growing up, my dad taught me the lessons of my grandfather—to commit yourself to excellence in everything that you do, and to recognize that it's not about you. It's always about the team, and

it's always about the team coming out with the win. So whatever you have to do to help that team win, you have to be selfless in the pursuit of that victory. Everything you do in your life is about continuously getting better.

I took those early lessons to heart and I still try to live up to the great example set by my grandfather, mother and father.

We still have about 30 seconds left. I know you have a prediction to make and you're willing to make it on the air in front half a million people.

Oh, absolutely! Robert, you and I talked as guys that come originally from New York. I'm a big New York Jets fan, and this is the Jets' year. So I say to Woody and to Rex, this is your year. Sanchez is your man. You've got the receivers, you've got the backs, and you've got the defense. Let's take it to where Joe Willy took it in 1969 - all the way to Super Bowl.*

*Editor's note: Although the Jets did have their best winning season since 1998, and made it to the AFC Championship game, they lost against Pittsburgh by the score of 24-19. Maybe 2011....



Bill McDermott and Robert Reiss
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