Companies&Industries

The Recession Is Gone, and The CEO Could Be Next

▶ More boards are cleaning out the corner office, looking for different kinds of leadership

▶ "We're going into a 24-month cycle of CEO volatility," predicts an executive recruiter

During a series of meetings of directors of Minneapolis-based **Medtronic** in recent weeks, board members have mulled potential successors to outgoing Chief Executive Officer William A. Hawkins. Although the 56-year-old Hawkins had been in charge for just three and a half years, he announced in late December that he would retire in April. During his tenure, the medical equipment maker's stock has dropped 30 percent amid waning growth for core products such as pacemakers. Medtronic now says it's looking outside its ranks for a new leader-a big change for a company that usually fills the top spot from within, but one that may be needed in its fast-changing industry.

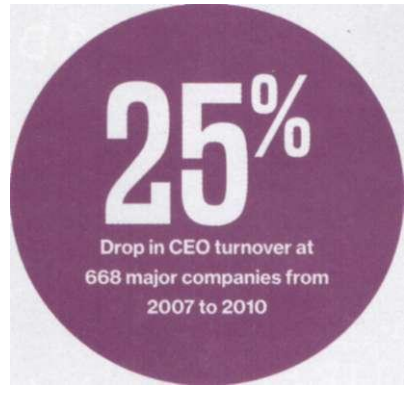
"It requires that you keep taking a good look," says Medtronic director Robert C. Pozen, who lectures on corporate governance at Harvard Business School and is chairman emeritus of **MFS Investment Management.** Pozen declined to talk about Medtronic's CEO search but acknowledges that boards are under increasing pressure to maintain management performance. "You can make the right choice for CEO, [and] then if the regulatory environment or the business has shifted, he may no longer be the right person."

After three years of declining turnover among CEOs, churn at the top is back. As the economy improves, the rate of corner-office shakeups has picked up as more boards replace veteran CEOs with younger leaders with very different resumes. Many new CEOs have international experience and a track record in marketing or sales rather than finance or manufacturing, the specialties of CEOs two or three decades ago. They also haven't necessarily spent their careers at one company or in a single industry.

A case in point is **Campbell Soup** Chief Operating Officer Denise Morrison. She will become Campbell's CEO in August, after zigzagging from **Procter & Gamble** and **PepsiCo** to **Nestle, Nabisco,** and **Kraft Foods** before joining the soupmaker eight years ago.

Among other changes: new **Pfizer** CEO Ian Read, who formerly was group president of its global biopharmaceutical business and earlier worked in Europe and Latin America, replaced Jeffrey B. Kindler, a lawyer with no operations or overseas experience; **Google** co-founder Larry Page, a software developer who is 38, replaced veteran executive Eric Schmidt, with the mandate to restore innovation to the Internet giant; and **Advanced Micro Devices** CEO Dirk Meyer resigned after splitting with directors over the No. 2 chipmaker's strategy.

More reshuffling is imminent. **Newell Rubbermaid** CEO Mark D. Ketchum, 61, plans to retire as soon as a successor is found. Ketchum sold off and restructured businesses during his five years at the helm of the Atlanta-based consumer-products maker. Now directors are seeking a CEO to expand the company, especially overseas. **3M** is evaluating several managers at the company to succeed CEO George Buckley, who plans to retire next year at 65.



Meanwhile, **Sony** is conducting a search for a president who would be a successor to CEO Howard Stringer, who turns 69 in February. And a succession horse race among several **IBM** executives is under way at that company. In July, CEO Samuel J. Palmisano will turn 60, the age at which IBM CEOs have typically retired.

The rush to change corporate leadership is a turnabout from the management standstill that set in during the financial crisis. CEO turnover declined from 12.7 percent in 2007 to 9.4 percent last year, according to a study of Standard & Poor's 500-stock index and Fortune 500 companies by executive search firm **Crist/Kolder Associates** in Chicago. One likely reason: Boards were reluctant to change leadership during the recession, concerned that if a CEO left, investors might think the company was coming unglued.

With the economy recovering, Crist/Kolder is predicting a return to double-digit corner-office turnover at big companies in 2011 and 2012, says Chairman Peter Crist. "We're going into a 24-month cycle of CEO volatility," he says. "Since companies are now compared to competitors on proxy statements, there's heat on boards to change leaders who aren't getting results."

New CEOs have fewer gray hairs; recruiters say executives approaching 60 are today often bypassed in favor of younger candidates. And they expect to serve shorter tenures: six to eight years, vs. 10 to 15 years a generation ago, according to a **Booz & Co.** study of CEO succession from 2000 to 2009.

Boards today also want CEOs who have run an international business, traveled extensively overseas, and have connections with executives and gov-

ILLUSTRATION BY GILBERT FORD & ALEX EBEN MEYER

ernment leaders around the world-experiences they need to oversee big companies that often can derive up to half, or even more, of their revenues from foreign markets. Being a director of a public company also counts in an era of heightened corporate governance when CEOs must work more closely with their boards-and often report to a nonexecutive chairman.

"CEOs of big global companies today understand that they need to respond to consumer groups and [nongovernmental organizations] and work closely with governments around the world," says Rakesh Khurana, a Harvard Business School professor who studies leadership. "They aren't going to do what former **General Electric** CEO Jack Welch did a decade ago when he tried [unsuccessfully] to gain approval to acquire **Honeywell International** and lectured the EU about economic policy. There's more modesty now."

Boards itching to change leaders often are starting from scratch. Only 35 percent of 1,318 executives surveyed by **Korn/Ferry International** in December said their companies had a succession plan. A 2010 survey of 140 North American CEOs and directors found the respondents' boards averaged only two hours a year on CEO succession. Some 39 percent of respondents to the survey, conducted by executive search firm **Heidrick & Struggles** and Stanford University's Rock Center for Corporate Governance, said their companies had no viable internal CEO candidates.

A smooth corner-office transition often depends on a CEO who has groomed subordinates to replace him or her. Four years before he turned 65, Richard T. Clark, **Merck**'s chairman and former CEO, began grooming Kenneth C. Frazier for the corner office. Frazier, a lawyer by training who was named Merck's new president and CEO in January, made his reputation defending Merck against Vioxx lawsuits. In the last three years, Clark made Frazier the company's global sales and marketing chief and then president, to build his leadership experience. Frazier also is a director of **ExxonMobil.**

Some recruiters see a limited pool of CEO candidates, especially since private equity firms have siphoned off talent from public companies'

management. Tom Tiller, for one, left snowmobile maker **Polaris Industries** in December 2009 to become CEO of **Abound Solar,** a solar module manufacturer that's raised more than $250 million from several private equity investors. Ari Bousbib, formerly president of **United Technologies'** commercial businesses and an executive considered a likely UT chief, left in September to become CEO of **IMS Health,** which provides research to pharmaceutical companies and is owned by **TPG Capital** and other investment firms.

"Ari was being chased by numerous public companies," says search executive Crist. "Every time we're doing a CEO search now, the candidate is also talking with TPG, **Blackstone,** or another private equity firm," he says. It's difficult to lure executives back to public companies, since those who head private equity-owned firms typically must spend two to five years restructuring or building a business before "it's taken public and they get a big return," says Crist.

—*John Helyar with Carol Hymowitz*

The bottom line *Now that the recession is over, turnover in CEO suites is picking up. Boards today are often seeking leaders with new skills.*

Gaming

For Macau's Stanley Ho, A Family Feud

- **With 16 kids from four "wives," the billionaire fights to retain control**
- **"You can't find another city where a single family" has such reach**

From the moment you step on a plane or ferry to get to Macau, check into a new luxury hotel on the gaming mecca's waterfront, or dine at the city's three-Michelin-star restaurant, you will likely put money into the pocket of billionaire Stanley Ho. And that's before you hit the casino tables.

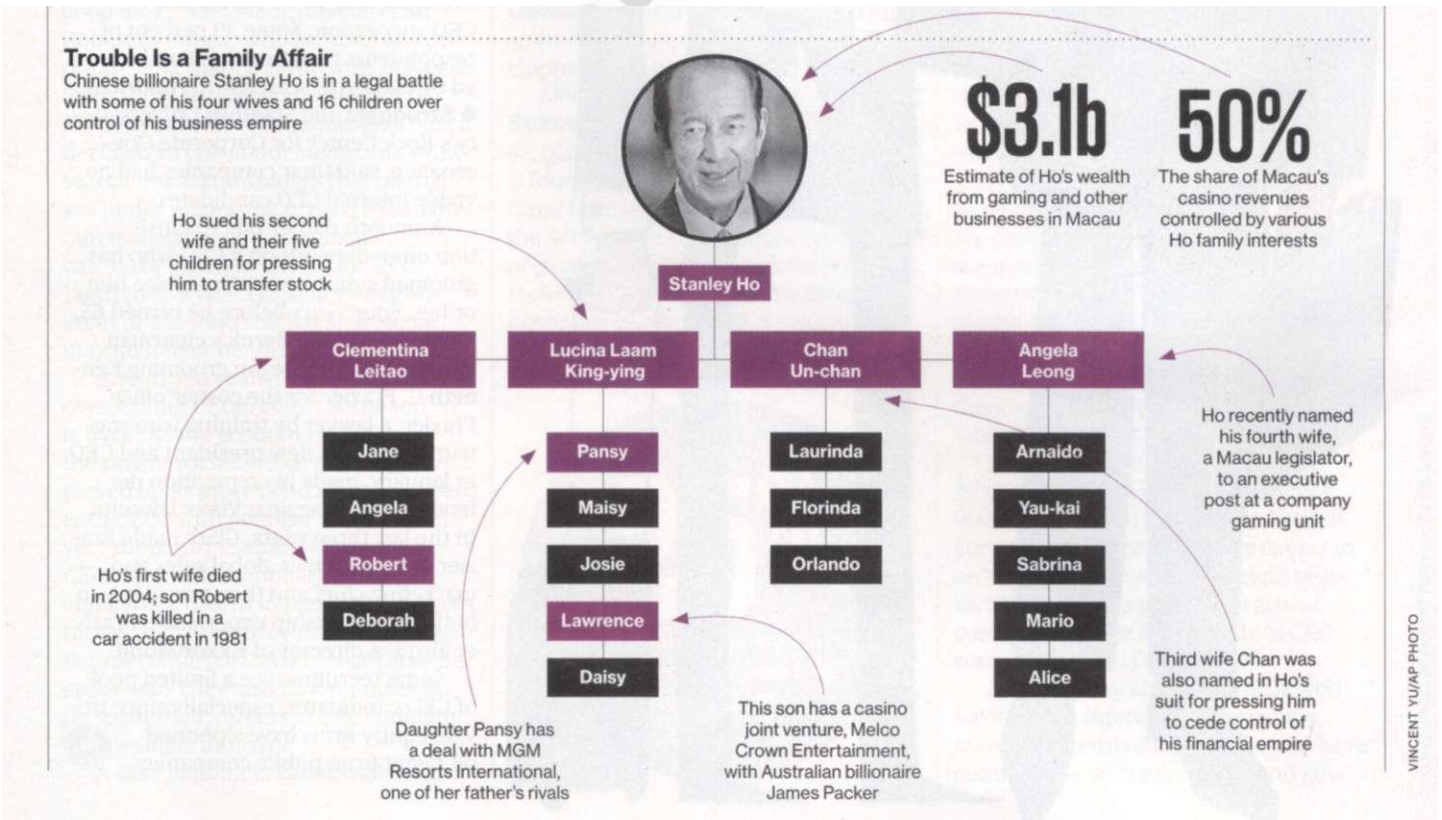
Ho's four-decade gambling monopoly, which ended in 2002, allowed him to build an empire that covers virtually every facet of the former Portuguese colony's economy. Even with recent competition from U.S. rivals such as **Las Vegas Sands** and **Wynn Resorts,** the Ho family takes more than 50 (c of every dollar bet in the enclave-the only part of China where casino gaming is legal.

"You can't find another city where a single family has such a high concentration in an industry that accounts for 40 percent of GDP," says Credit Suisse Group analyst Gabriel Chan. "And you can find their footprint in the other 60 percent as well."

Now a battle is being waged over the empire by two of Ho's four "wives" and some of their 16 children. At stake is control of Ho's 31.7 percent holding in privately held **Sociedade de Turismo e Diversões de Macau,** or STDM, which has stakes in casinos, construction, luxury hotels, and Macau's airline.

The family feud became public on Jan. 24 after Ho, 89 and ailing, accused two of the women he calls his "wives" (his one legal wife died in 2004) and some of his children of trying to seize control of **Lanceford,** the family company that holds his STDM stake. He said the power grab went against his wishes that his fortune be shared among his four families.

Named in a suit Ho filed in Hong Kong are third "wife" Chan Un-chan, second "wife" Lucina Laam King-ying, and her five children including Pansy and Lawrence, who have gambling interests of their own in the city. Pansy, 48, has a joint venture with **MGM Resorts International** that has



From envoy to Presidential candidate? page 38 ▶

about a 15 percent market share, estimates Credit Suisse's Chan. Her 34-year-old brother, Lawrence, has a 50-50 partnership with Australian billionaire James Packer in **Melco Crown Entertainment,** which controls an additional 10 percent of the market. Also named in the suit are their sisters Maisy and Daisy, both executives of another publicly traded part of their father's empire, **Shun Tak Holdings.**

Ho said in a video interview with his lawyer on Jan. 25 that the relatives named in the suit had bullied him into signing a document transferring Lanceford shares to them in what amounted to "something like robbery." His stake in the family company was diluted from 100 percent to just 0.02 percent, according to Hong Kong records. The suit seeks a court order to bar the relatives from dealing in Lanceford shares.

Gaming is Macau's sweet spot; the city's $23.5 billion in gambling revenues last year was four times that of the Las Vegas Strip, according to government data. Ho built **SJM Holdings,** 56 percent owned by STDM, into Asia's biggest publicly traded gaming company. It operates 20 of Macau's 33 casinos, with a 32 percent market share, according to Chan.

STDM is the city's largest private employer, providing jobs to everyone from stable boys at the city's horse-race track to sommeliers at the Michelin three-star Robuchon a Galera restaurant, where a plate of sautéed veal with black truffle jelly costs HK$1,480 ($190).

STDM's less glamorous holdings include a 33 percent stake in Macau International Airport and 14 percent of **Air Macau,** which brings gamblers from cities such as Beijing and Taipei. Shun Tak dominates the ferry and helicopter services that link the city to Hong Kong, and operates the buses to the Chinese mainland that brought more than half of Macau's 25 million tourists in 2010.

Ho, whose net worth is estimated by *Forbes* magazine at $3.1 billion, also earns money from Shun Tak's 50 percent stake in One Central, a complex of seven 40-story luxury apartment buildings and the Mandarin Oriental Macau hotel that dominates the waterfront on the Macau peninsula. Gambling revenue also flows to Ho through his ownership of the horse-racing track, run by the Macau Jockey Club, and the Canidrome greyhound-racing arena. Thrill seekers can ascend the city's tallest building, Shun Tak's 1,109-foot Macau Tower, which sits on land reclaimed by STDM, and then launch themselves off the world's highest urban bungee plunge.

Even in death, there's no escape from the reach of Ho's empire: Shun Tak says it is building a columbarium for the cremated remains of people from China and land-scarce Hong Kong and Macau on an island south of the city. —*Frederik Balfour with Debra Mao*

The bottom line *Stanley Ho is battling some of his four "wives" and 16 children for control of an empire that touches almost everything in Macau's economy.*

HUNTSMAN; CHARLES DHARAPAK/AP PHOTO

Foto

Retailing

Gap's High-Risk Housecleaning

▶ The retailer gets new management and an ad agency for its U.S. brand

▶ Looking for an Antidote

Change in same-store sales for Gap Inc.

DATA: GAP INC.

"Who am I?" That's how Art Peck began his first blog post as the new president of **Gap**'s long-troubled North America retail store unit. "If you Google me, you won't find much." Yes, there's the MBA from Harvard, two decades spent at **Boston Consulting Group,** and his tenure as a Gap executive since 2005 helping craft international strategy and leading its small outlet division. However, there's a surprising hole in his vita: He's not a style guru. "That's right. I'm not a merchant," he wrote in his debut blog.

Those aren't exactly words that inspire confidence in retailing. "That's not the first thing I want to hear," says Christine Chen, a retail analyst at Needham & Co. In the apparel business, the merchants translate the ephemera of fashion into must-have commercial products. Unfortunately for Gap, it hasn't had a successful merchant since Mickey Drexler, now chairman of **J. Crew Group,** left the company in 2002. That's led to years of disappointing sales for its U.S. unit.

Yet when Gap Chief Executive Officer Glenn K. Murphy announced on Feb. 2 that Peck would replace Gap North America President Marka Hansen, a 24-year veteran, it was obvious he was rolling the dice. In addition to Peck, Murphy appointed a new head of global marketing, Seth Farbman, who had been worldwide managing director at advertising agency **Ogilvy & Mather.** He also promoted another relatively unknown executive from within Gap's ranks. Pam Wallack, who had been the creative director for Gap's kids and adult clothing at its San Francisco headquarters, will move to New York to run what the company is calling a Global Creative Center. It will bring together for the first time the design, production, and marketing teams for the brand.

"This is a great opportunity for Wallack," says Richard E. Jaffe, managing director of Stifel Financial. "She's the chorus girl who got pulled out of the line to take the leading role." Will Murphy's gamble on untested talent work? "Who knows?" says Jaffe. "But if a tree is growing

Incoming President Peck: "I'm not a merchant"

in the wrong direction, you have to cut off a limb. I think that's what's happening here. It's not a bad thing."

Peck says his first priority is "to understand what's keeping us from being more consistent. We have to put clothes in our stores that our customers emotionally connect to. That's ... a statement of the profoundly obvious. If we don't do that, nothing else matters."

Murphy needed to think boldly after years of distracted management, aggressive expansion, and uninspired merchandise that have left the biggest apparel retailer in the U.S. weakened. It's been six years since Gap North America has posted an annual increase in sales at stores open at least a year, a prime measure of a retailer's health. During December, the height of the holiday selling season, Gap North America same-store sales dropped 8 percent. That's in sharp contrast to the average 3.2 percent gain at all U.S. retailers. Sales at the U.S. unit are down almost a third from where they were in 2004.

For the past year, Murphy has been expressing concern. In May he told investors on a conference call that Gap has been "on the longest slippery slope of all our brands." (The parent company also operates Old Navy, Banana Republic, Piperlime, and Athleta stores.) And in another investor call in August, he noted: "My patience is not indefinite."

Then in October, Hansen, who had led Gap North America for the past three years, unveiled a logo that had been selected in part by voting among consumers on the Web. It was criticized for being ugly, outdated, and unnecessary. A week later, Hansen said Gap would go back to its old logo.

With both a new management team and ad agency for the U.S. brand-Ogilvy & Mather will take over the Gap account, replacing **Laird + Partners,** which was involved in the logo mishap-Murphy has put in place changes more sweeping than many expected. Yet analysts say the changes need to kick in quickly. Explains Janet Kloppenburg, the founder of JJK Research, which specializes in retailers: "Their competitors are making inroads, developing loyal customers, and getting better and better, while Gap is starting over." —*Susan Berfield*

The bottom line *After years of sluggish sales and a flap over a logo switch, retailer Gap is changing management in an attempt to revive the brand.*

House parties help make guests receptive to brands

Marketing

House Parties With a Commercial Twist

▸ Big companies try in-home parties to generate buzz for their brands

▸ "If I give you a personal recommendation ... you don't argue"

On Jan. 29 six women converged on a brick, single-story home in Franklin Park, 111, a working-class town about 14 miles northwest of downtown Chicago. As the temperature outside dipped below freezing, hostess Melanie Lindsey, 28, urged her guests to sample the Moscato white wine, savor the chocolate-dipped macaroons and bowls of candy hearts, and enjoy the party favors: an array of Durex condoms and lubricants.

That night, Durex sponsored some 5,000 condom bashes across the U.S. called "Durex Girl Talk House Party: Valentine's Day Edition." They were actually organized by the marketing firm **House Party,** which specializes in home product shindigs, a tried-and-true marketing strategy that dates back generations. At the Franklin Park gathering, Durex may have won a convert. Although "Trojan seems to be the go-to brand," said attendee Sarah Harper, the array of coupons, free samples, and customized beverage can sleeves trumpeting the condom maker's brand might tempt her to switch to Durex, a unit of Britain's **Reckitt Benckiser Group.** Reckitt declined comment for this story.

House Party's services are in demand these days. While the Irvington (N.Y.)-based outfit declined to provide specific figures, Chief Executive Officer Kitty Kolding says the number of gatherings it planned doubled in both 2007 and 2008. And over the past 18 months, she says, House Party has added **Anheuser-Busch InBev, Hasbro,** and **McDonald's** to a client roster that already included big consumer-focused marketers **Kraft Foods, Procter & Gamble, Ford Motor, Mattel,** and **Sony.**

Kolding says House Party has a database of about 900,000 potential hosts, who fill out online demographic profiles and compete to throw the product parties. Other than getting to share in the evening's array of corporate swag, they're not compensated. "Hosts feel like they've won," she says, "like they've got a backstage pass to the brand."

Corporate clients are willing to pay House Party an average of $250,000 for 2,000 parties because the company's staff uses such criteria as age, ethnicity, and breed of family dog to select the hosts best suited to talking up a certain product or brand, according to Kolding. That level of targeting is nirvana for those pitching consumer products-but often tough to achieve using conventional marketing.

Big brands are eager to reconnect with consumers after losing ground to private labels, which as of October had grabbed 22.3 percent of the U.S. market, according to market researcher Nielsen, up from 20 percent before the recession.

While companies such as Kraft, P&G, and **Kimberly-Clark** continue to pour money into TV and Web advertising, they're mindful that consumers are programmed to "resist the sales push," says Ronald C. Goodstein, a marketing professor at Georgetown University. "The advantage of word-of-mouth is if I'm giving you a personal recommendation because we're friends, you don't counterargue that." The downside, he says, is that partygoers may find brand-sponsored fetes a turn-off and wonder if their friends have sold out for the sake of some coupons and freebies.

Although the efficacy of this kind of bottom-up, buzz marketing is difficult to measure, companies will spend an estimated $2.2 billion on word of-mouth marketing this year in the U.S., according to researcher PQ Media. That's 43 percent more than in 2008.

Kraft, which in November attracted more than 20,000 people to parties celebrating the company's Nabisco Nilla wafers cookies, plans to hold at least 25,000 brand bashes this year. The parties are "more cost-efficient" than television commercials, says Kelley Woodland, who runs consumer relationship marketing for Kraft's North American division.

House Party's Kolding is looking forward to the company's next string of branded festivities, including a gathering celebrating **Schwan Food**'s Freschetta pizza, timed to coincide with the Academy Awards broadcast on Feb. 27. Then it's diapers and dancing for Kimberly-Clark's Huggies brand. The company is already touting the Pull-Ups "Potty Dance Day" House Party on Mar. 5, where hosts will get dance mats and a DVD, coupons, and coloring sheets. The evening's entertainment: Toddlers and parents alike will groove to a streamed concert of *The Potty Dance* by the children's rock band Ralph's World. © —*Leslie Patton*

The bottom line *To combat growing interest in lower-priced house brands, consumer-products makers are using in-home parties to build buzz for their goods.*

OPPOSITE PAGE: PHOTOGRAPHS BY BRIAN ULRICH FOR BLOOMBERG BUSINESSWEEK; THIS PAGE, CLOCKWISE FROM LEFT: DANIEL ACKER/BLOOMBERG NEWS; JOHN ZICH/BLOOMBERG NEWS; CHRIS RATCLIFFE/BLOOMBERG; PRNEWSFOTO/NOKIA CORPORATION/NEWSCOM

Matéria

Fonte: Bloomberg Businessweek, New York, p. 24-31, 7 a 13 February 2011.