



## **CEO EXCHANGE PROGRAM #403 TRANSCRIPT**

**“MULTIMEDIA IN THE DIGITAL AGE”**

**FEATURING BRIAN L. ROBERTS & HAROLD W. (TERRY) McGraw, III**

**TAPED ON NOVEMBER 22, 2005 AT THE WHARTON SCHOOL AT THE  
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### **OPEN**

One world, many ideas, inspiring the next generation, shaping trends and forging the future, ideas that change the way we live. CEO Exchange. And now your host, Jeff Greenfield.

### **JEFF GREENFIELD**

Hi. There's a Woody Allen short story where one character says to his friend, "I have to get back to Italy now, the renaissance is starting." There is a self-awareness of this sort, every time we talk about a communications revolution. From the Gothenburg printing press to the telegraph, to the first days of radio and TV and lord knows now, in this age of satellites and cell phones and the internet, we assume the next great leap forward is always just around the corner, and usually is.

The two CEOs we have as our guests today have already turned this corner, and how we'll be talking with and listening to and learning and diverting ourselves. They're also linked in two other ways. First, they both had the unique advantage and the unique challenge of taking over a family company, and not so incidentally, considering where we're are, they're both alumni of the Wharton School.

Terry McGraw may have the same last name as his Great Grandfather, who founded the company that bears the family name, back in the 19<sup>th</sup> century, but he's 21<sup>st</sup> century CEO in every respect. He's transformed the business from a rather sleepy publishing arm, to a global powerhouse in the fields of education and financial services. We'll be chatting with Terry McGraw, Chairman, President and CEO of the McGraw-Hill Companies in just a few minutes, but first a Philadelphia success story.

Back in the 70s, Brian Roberts spent summers working for his dad, Ralph, the founder of Comcast, by hoisting cable wires up on telephone poles. Now he runs the largest cable TV operation in the country.

But if you call Comcast a cable company, you miss what Brian Roberts is up to. He has expanded Comcast into digital TV, into original TV programming, into video on demand, into high speed internet access, and telephone service. So you better get used to it, this cable guy is in your homes and offices to stay.

#### BRIAN ROBERTS BACKGROUND PACKAGE

“Well I've been to fraternity parties there ....”

On the Penn campus, Brian Roberts is reminiscing.

“Probably my best memory was beating Harvard in Squash and it came down to my match and I was fortunate enough to win.”

These days, Roberts is squashing the competition again. This time as President and CEO of Comcast.

#### PETER GRANT, DEPUTY TECHNICAL EDITOR, WALL STREET JOURNAL

He is trying to change it from the stodgy cable company into a technology company and one of the ways he's doing that is, he is taking his network, his cable network and making it so, not only TV can go over these wires, but telephone and high speed data can go over these wires too.

After earning his undergraduate degree here at Wharton, young Brian knew there was only one thing that he really wanted to do next. Work alongside his dad, Ralph, at Comcast.

“When I was a little boy, like 10, 12 years old, I always wanted to go work with my father, and tag along with him and he allowed me to tag along.”

Brian joined the cable TV firm, founded by his father, Ralph, who bought a single cable TV system in Tupelo, Mississippi. Brian got his first taste of working in cable TV before graduating Wharton.

“The summer before I got out, I was a door-to-door salesman at night and then installer during the day, and I was climbing poles and I didn’t do so well. The ladders weighed a lot and I was about 140 lbs. It was a lot of hard work.”

**RALPH ROBERTS, COMCAST FOUNDER AND ROBERT’S FATHER**

“There is one thing we have in this company that’s different from some others. It’s called Nepotism.”

Ralph jokes about turning over the company’s reins to his son.

“Not yet, I got a few more things to say about you.”

But there can be no quarreling with Brian’s record of success, since he became Comcast’s President in 1990.

**PETER GRANT**

Brian Roberts has a reputation for being one of the top CEOs in the country, and I think it’s well deserved. He gives the whole notion of a son inheriting a company from his father, a very good rap.

**NARRATOR**

Comcast’s first big splash outside of cable came in 2001, when it acquired AT&T’s broadband, internet and phone service, in a \$50 billion dollar deal.

“I think it’s the deal that changed the company forever AT&T. We tripled in size. We became a national company...”

Yet some questioned whether Comcast can continue to grow as in years past. Telephone companies, like Verizon are now getting into cable TV.

**CRAIG MOFFETT, CABLE/SATELLITE ANALYST, SANFORD C. BERNSTEIN**

The Telecom’s are making big investments to get into the video business and there’s no question that the video business will get more competitive.

“On demand is Comcast’s huge collection of hit shows and movies you can watch any time, any way.”

**BRIAN ROBERTS**

“Viewer controlled television, I believe, is absolutely the future and we want to take a leadership role, not a passive role. And part of that is going to be wireless.”

**NARRATOR**

And in late 2005, Comcast signed a deal with Sprint/Nextel to bring video to wireless devices like cell phones.

“Before you know it, the PC, TV and the telephone will all connect.”

CRAIG MOFFETT

The average American family is now consuming 57 hours a week of television. And nobody is better positioned than Comcast to give customers what they want in the television viewing experience.

NARRATOR

By making Comcast a leader in all of these communications businesses, Brian Roberts is betting the company will stay well connected with its customers for many years to come. In Philadelphia, I'm Kevin Smith, for CEO Exchange.

JEFF GREENFIELD

Welcome.

BRIAN ROBERTS

Thanks Jeff.

JEFF GREENFIELD

Careful with the steps and you take that chair. Thanks for being here.

BRIAN ROBERTS

Fun to be back at Penn.

JEFF GREENFIELD

Were you aware when you began working with your dad, I got something I have to prove here? Was that part of...

BRIAN ROBERTS

I think, you know, without a doubt, you're the boss's kid and if you can't some day in your life, come to grips with that issue, then you should go pursue something else with your life and that's perfectly okay. And that became very clear to me when I was 16. My first – very first job was actually not stringing cable, it was Comcast at that time owned a supermarket merchandising company, and the job was to go to the stores and make sure that certain people who had contracted with us, had their products on the shelves. And I went in to sign the papers, to fill out the tax papers, to be a summer employee, and the lady closed the door, looked me dead in the eye, and said, "I don't give a goddamn whose son you are. You come and work for me, you're going to work." And that was the first day on the job. And I practically burst out in tears. I was wearing a nice tie and I thought I did everything just right. And it was my very first job, and it – she gave me the greatest lesson and the greatest gift that I've ever been given, cause I had to work harder, prove myself, and even if I did all that, I was still going to be the boss's kid. That's okay.

JEFF GREENFIELD

When you were growing up, as a kid, was business and specifically the business that your dad founded, always something that was in the forefront of what you were going to do?

BRIAN ROBERTS

The honest answer is yes. I was – I sometimes am embarrassed to admit you know, that I didn't want to be a movie star or do something different with my life. I wanted to work for my dad. It was more about wanting to follow your father to work, than it was what exactly he did every day, and at some point, the fantasy ended and reality began. But for me, it was just a chance to hang out with my father.

JEFF GREENFIELD

So was it that, that it was – like if your dad had done something completely different, you think it would have been that business you followed him to?

BRIAN ROBERTS

I've always joked, he sold his men's belt business in 1961 and went into cable TV in 1962 and that was the best thing that ever happened in my life. Not his life, my life. Because I would have followed right on in and I would be selling belts today and not being interviewed by the great Jeff Greenfield.

JEFF GREENFIELD

Well the digital issue about men's belts, I grant you, is somewhat thin. (laughter) If this were a movie, and I'm not asking to know who would play you, you know, Clooney, Pitt, I don't know.

BRIAN ROBERTS

Ask my wife.

JEFF GREENFIELD

Okay. There would be an epiphany. There would be a moment when you would prove to the other folks that you made it on merit. Now this is real life. Was there such a moment? Or a slow, steady series of them, or –

BRIAN ROBERTS

Well, for most people, they would answer that question, I would obviously like to think that I did a good job all along the way, and everyone was okay with me at all times. But the real world? I think was when Bill Gates invested a billion dollars in Comcast, and I had kind of asked him that at a dinner with several cable executives, on a technology visit to Microsoft. My dad wasn't there. Bill and I, we're sort of the same age. Cable stocks were at an all-time low, and after trying to sell us lots of Microsoft products, he said, "how can I help you guys? And I joked and said, "Well why don't you buy 10% of every company in the room tonight?" And 30 days later, he invested a billion dollars in Comcast, Microsoft did, for a non-voting position, and the stocks all rocketed. And I think a lot of people in the industry said, okay Brian

made a big contribution to the capital financial stability of the technological vision of where cable could go, but the first person I called that night, when I got home before Bill said he'd do it, I woke my dad up, and said, "I may have embarrassed myself here tonight, but I asked for Bill to get involved in sending a message to Wall Street, that data was a great new business."

**JEFF GREENFIELD**

Verizon says they're going into the content provision business in a very big way. You got these two start up companies called Google and Yahoo, that seem to be interested in going into the content provider. You've got CBS saying, "we're going to put our late evening -- our evening news on-line and we call that cable bypass. Maybe we don't need cable to get our information out in this new age. Are we in a situation now where all you guys essentially are -- is that everything is doing everything? And if so, how are we going to sort this out? We, the consumer.

**BRIAN ROBERTS**

Well, I think you're going to just take it all from Comcast and you won't have any issues. But there's interesting to that point, just to make the point, our cash flow grew 14% this year, our free cash flow, some would say our earnings, after capital spending and everything else grew 30% and our stock is down 20. And, the stock market is worried, and many others are, that this free-for-all that you're describing will somehow destabilize what we know as the business today, possible. My view is, it is a bit of a race. Whoever makes it easiest for the consumer, gives them what they want. And the best example is On Demand. So we've taken 4,000 shows and made them available to our customers, 95% of them for free, including 750 movies. And you get them any time you want with an On Demand order. We had a billion orders out of 8 million homes. I do think that personalization of television is upon us. I think you can easily look to the internet and say that's what people want. They want customized, personalized access. But I think they want to do business with somebody who can come and make it work, make it simple, and I think in the end, we have \$40 billion dollars of new fiber optics in your neighborhood, that we spent the last ten years building. It's not going to be so easy to replicate.

**JEFF GREENFIELD**

Before meeting our second guest, we're going to take a couple of questions, as I mentioned, and not just from students, but from the faculty in our audience. And first, we have a question from Kenneth Shropshire. He is the David W. Hauck Professor of Legal Studies and Business Ethics here at the Wharton School. Professor, your question.

**FROM THE AUDIENCE**

Good evening. Thank you. I wanted to ask you about this On Demand issue you raised, as it relates to sports. With PDAs and cell phones and all these other methods of delivering product now, can you tell us something about the business model?

BRIAN ROBERTS

Absolutely and I think it touches sports, it'll touch entertainment, it'll touch news, and it'll touch many, many areas. When you digitize a signal, why restrict it to just a TV set? Why not allow it to go to a PDA or iPod, in the end, the content companies, the sports team, in this case, is looking to find a new revenue source, and I think we all will say yeah, I would be interested in Sport Center On Demand, or NFL replay, or if I liked to sit and watch the game three hours later, I'm not sure you watch the whole game over, three hours later, but you might.

JEFF GREENFIELD

Now I think we have a question from one of the Wharton students, Mr. Roberts, is that correct? Come on up and tell us your name please and your question.

FROM THE AUDIENCE

Hi, my name is Amanda [...]. You mentioned that you took over your father's business. Well I'm sure there was a transition period there, and I was wondering if there were any times where maybe you had different visions on where you wanted the business to go?

BRIAN ROBERTS

My dad has said and he said today in an interview, "Brian's never had a bad idea." And we know I've had lots of bad ideas, right? I'm human. So what Professor mentors you, or what parent encourages you, you're going to do better. If somebody is telling you what you did wrong, you're going to bristle. And it's like that in everything. Well if you're following your parent into business, it's that times 100.

JEFF GREENFIELD

Brian, thanks. We'll be bringing you back out here in a few minutes for more conversation after we meet our second guest. For now, stick around.

BRIAN ROBERTS

Thank you. Okay.

JEFF GREENFIELD

All right. Brian Roberts. Now unlike Brian Roberts, our next guest chose not to join the family business right away. In fact, before earning his MBA, he briefly worked in cable television. Even showed up in front of the camera as a sportscaster and weatherman. After Wharton, he joined GTE for a few years. When Terry McGraw finally came home to McGraw-Hill in 1980, the company was still known primarily as a publishing house.

Many of its trade magazines had their roots back in the industrial revolution, back in the 19<sup>th</sup> century. Terry McGraw wanted more consistent performance than the company was getting from magazines depending on advertising. This is a theme you're going to be hearing a lot more of.

So once he became President and then CEO, he trimmed 15 divisions down to three and he closed or sold off many of the old publications, and he positioned the company as a world leader in education and financial services. It is not his Great Grandfather's company any more.

#### TERRY MCGRAW BACKGROUND PACKAGE

It was over a century ago when McGraw-Hill launched its first magazine, *The Journal of Railway Appliances*. But the engine that drives today's CEO, Terry McGraw, is his passion for education.

"Social studies? Really? I love it."

These kids are part of McGraw-Hill's Urban Education Initiative. They go to Morris High School in one of the poorest neighborhoods in the nation, the Bronx. The dropout rate here is nearly 40%. At McGraw-Hill, they get mentors, encouragement and inspiration from the CEO to find their life's work.

"It's about learning and it's about the passion of wanting to do more and it's finding a subject. If you hadn't found the subject, and you know, that - keep looking."

"The problem is today; things are changing so rapidly and are moving so quickly that if you're leaving 40% of your young people behind, you know, you're just going to be behind."

Terry's plans didn't always include McGraw-Hill. After college, he was a weatherman, briefly, then got his MBA and a job in the Pension Department at GTE. Finally, he came home to the family business, founded by his great grandfather.

"That's my father right there..."

His father needed help to fight off a hostile takeover. That was more than 25 years ago.

#### BILL HOLSTEIN, CHIEF EXECUTIVE MAGAZINE

"American Express decided they wanted to take it over and they were going to make a hostile bid on McGraw-Hill and so that was a moment of great truth to them. Do we rally our forces and beat this back, or do we succumb? Do we give in? And they were able to rally."

#### CECI RODGERS

Terry worked in various jobs throughout the company before being named President in 1993 and then CEO in 1998. The company has flourished.

STEPHEN SHEPARD, FORMER EDITOR, BUSINESSWEEK

No one comes close to McGraw-Hill at financial performance. They have just outperformed everybody. And if that happens, it's not accident. And the man who is in charge deserves a lot of the credit.

CECI RODGERS

It wasn't always that way. When Terry McGraw first took the helm, skeptics questioned his abilities and said he was just another in a long line of McGraw's whose only qualification for the job was their name. But the skeptics were wrong. Some of McGraw's early moves like shutting down older languishing magazines were controversial. He kept the flagship *BusinessWeek*, that freed up cash, which he used to invest in education publishing and the Standard & Poor's Division.

A global explosion in capital markets led to huge demand for Standard & Poor's debt rating services in places like China and India.

MICHAEL CORTY, ANALYST, MORNINGSTAR, INC.

It's very hard to argue with their performance. The company does a good job of reinvesting in its business, and it really sticks to its knitting.

CECI RODGERS

Under efforts like the No Child Left Behind Act, education publishing is booming.

"Work is fine, absolutely it is. Otherwise, don't do it!"

McGraw's other passion, his family and golf. You could call him the anti-celebrity CEO.

STEPHEN SHEPARD

He doesn't go to, you know, these bigger treats in Sun Valley, which I'm sure he could do. He doesn't you know, mix in that world, by choice. I just think he would prefer to be a little below the radar and let the performance speak for itself.

CECI RODGERS

And speak it does, of a careful and committed CEO, whose name happens to be on the door. In New York, I'm Ceci Rodgers, for CEO Exchange.

JEFF GREENFIELD

Ladies and gentlemen, the Chairman, President and CEO of the McGraw-Hill Companies, Terry McGraw.

JEFF GREENFIELD

Have a seat. Now when you heard Brian tell us that all his life, I mean from the time he was a kid, he was going to follow his father into business. I mean we know that you didn't. But was there a period as a kid, particularly maybe as an adolescent, when

a lot of young men are looking to separate and find their own identity, that you actually said “uh-uh, three generations, that’s fine. I’m not going there.”

TERRY MC GRAW

I think there were times when you said yes, I’d like to do that, and there were times when you said, no I don’t. And you know, as you get older, you start developing your own interests and your own likes and you decide what’s important to ya, and so forth. I, you know, had gotten to a point where I had no intention you know, when I got out of school, to make that transition and go to the company. I didn’t want to do it for a number of reasons. One, I think I needed to do some things to build my capabilities and to see what I was capable of doing. And I don’t think that’s a place to be in a learning sort of mode. If you’re not bringing something, you know, to the company, then go figure out, you know, the skill set or capability that you think you can.

JEFF GREENFIELD

Was there at all, at that point, pressure from your family or at least –

TERRY MCGRAW

None. No pressure that way. And I guess you can read it two ways, you know? One is, (laughter) please –

JEFF GREENFIELD

If the story is true, what brought you into the company was really a matter of the company’s survival, at least as it was. I mean American Express launched a very aggressive takeover company. This was very tough – I’m not sure if the word ugly is too strong, but it certainly was pretty, it looked pretty –

TERRY MC GRAW

Ugly is a good word.

JEFF GREENFIELD

And you came back to help.

TERRY MC GRAW

I was working at the time at GTE, and I left Wharton and had joined them on the corporate finance side, and we were doing a lot of neat things. When I first started with GTE, financing was pretty tough. It was 30/30. Thirty days or 30 years, take a pick. Then you had the explosion of instrumentation and all of the things that allowed you to do different things. But we did a lot in the pension/investment area and all of those kinds of things and mid-stream in 1979, this came about, and I did take a leave of absence, and I did come and join the company and spent about three months. It took about three months before it was pretty clear that we had thank goodness won it.

JEFF GREENFIELD

In your bio, the bio that McGraw-Hill puts out, it says you would have been CEO of this company even if your name hadn't been McGraw. I'm sure that that – there would be people who would be skeptical about that. Not that you hadn't earned the CEO thing on your own, but that that family name obviously, was what brought you to the company.

TERRY MC GRAW

I had grown up in a fabulous family. With a fabulous name and in a life of privilege on that one. So, you know you can't, you can't disguise that or you can't, you know, do something different to that. All right, it gives you I believe a higher standard that you must find ways to give back and you must do more.

JEFF GREENFIELD

You do a lot of servicing of educational districts and sell textbooks and the like.

TERRY MC GRAW

Correct.

JEFF GREENFIELD

When an issue like *Intelligent Design* explodes and school boards all over the country are wrestling with this, and their decision on whether to buy your textbooks or not, may depend on how you address or don't address an issue like that. Tell me how you weigh in the balance, what the demands of say a school board, and the views of the people who were writing your textbooks, and perhaps even your own views?

TERRY MC GRAW

My opinion doesn't matter. You know, you have to be able to divorce my opinions and my thinking and my subjective notions with what the market is supposed to be thinking through and how it goes about it. So we have editorial boards, we have committees that are designed, governance committees that are designed to do that. And so, you know, one of the things that we don't talk in harsh terms like this, but for example, *Business Week*, I can terminate the editor-in-chief, but I cannot tell him what to put between the covers.

JEFF GREENFIELD

If- if hundreds of school boards around the country said we are not buying textbooks that don't cover say, an issue like "Intelligent Design" but the people you know who write in ed textbooks say, "you know what? This isn't science." Are you – do you say to those people, look it's your call?

TERRY MC GRAW

It's an issue that doesn't come up as much as you would think, but it does. You know, I think that in the State of Texas, they'd like to think that the Alamo is the center of the earth. And you gotta disavow them that you know, there is a little more balance to this. When you take an issue like *Intelligent Design*, and you know, you've got a different orientation here. Here you have to bring balance to the equation. You're

going to be talking about all sides of the issue. There are those that believe this, there are those that believe this. Here are the pros and cons of it. This is the facts. And now you need to think through what that means. And therefore, you don't want to get into judgmental, especially in educational text. You want to make sure it's factual. You want to make sure it's balanced, and you want to make sure it's proportional to the issue that you're talking about, so that people then can think it through.

**JEFF GREENFIELD**

Seems to me that this is about as emotional an area as you can get into, is what parents want their kids to learn and what they don't want their kids to learn. I mean it sounds like such a –

**TERRY MC GRAW**

Well, if I thought that there was that much involvement, on the part of parents, you know, I'd be excited. Unfortunately, that's a big issue in the country. You know, not here, but across the country. You know, we have to find ways to engage the parent in the educational issue. We have to engage business to get more involved in the educational issue.

When we start talking about American competitiveness in a global environment with increasing worldwide competition, you know, we're behind.

**JEFF GREENFIELD**

I want to turn now to our audience and let you take a question to begin with from a Professor at the Wharton School. This is Professor Raffi Amit. He is the Robert B. Goergen Professor of Entrepreneurship at the Wharton School. Professor?

**FROM THE AUDIENCE**

Could you share with us, the considerations or the family considerations that led to an appointment of non-family member as the CEO and I'm referring to Joe [...]. And as well, could you share with us the consideration of the family that brought the family back in?

**TERRY MC GRAW**

The issue has to do with the fact that McGraw-Hill Company is a public company, and when my father was CEO and he had taken over from a non-family member as well. He, at that time, was very concerned about broad-based governance issues. And decided in '73, to go to an all outside, all independent board, and that's when Joe replaced him as CEO. It was the board and it was a number of people that asked me to take on and I was appointed the President in 1993. But you know, hear this, this is the most important part. If you're CEO, it's all about performance. And don't ever take your eye off that. The analysts that think so highly of us, and all of that, you start slipping up, and they're not going to like you so much.

**JEFF GREENFIELD**

Let me ask one of our students to pose a question now.

FROM THE AUDIENCE

Joe [...], first year MBA student. At the beginning of the program, Jeff called you a 21<sup>st</sup> century CEO, and so my question has to do with your view on technology and the impact it has on your business. For example, Google has recently made several partnerships with prominent libraries to provide copyright material on the internet. And I wanted to know if you view such developments as a threat or if you view it as an opportunity for partnership and growth, and also what are the processes in your firm to deal with such developments?

TERRY MC GRAW

Oh thank you very much for the question. Well, you know, first things first. In terms of overall drivers of the business, you know, yesterday, today and tomorrow. It is global, it is technology, and it's productivity, period. Right now, you know in our financial services business, there are about 35% outside the United States, for the overall corporation, it's about 22. Over the next eight, nine years, something like that, we'll be about 40-45%. That's big.

Technology is pervasive in everything that we do. Even if it's a print book, it's all electronically and digitally provided. So it gives you tremendous flexibility. The two things that you got to think about, that are very very important, when you talk about technology today, is speed and customization. You know, speed is changing rapidly in every possible way. In devices, in communication capabilities and the like. And the other part is customization. You've got to be able to customize a lot of data, specifically to a specific cause of an individual. So, those are the kinds of things, and then the productivity side is you've got to constantly keep reengineering the processes. Gotta keep finding ways of doing things differently. If I told you to cut your budget by 5%, you'd grumble and do it. If I told you to cut it by 20%, you'd say oh boy! Now you've done it! You know, now I can't do certain things. And then if I said, cut it by 75%, you would say I'm out of business. I'm done. And I'd say, no no, you're just going to have to find a very different way of doing things. And it's a mindset. I'm not saying you're going to cut by 75, but it's the mindset, you know, of constantly reengineering, rethinking how you might be able to do something.

JEFF GREENFIELD

Thanks for the question. Thanks for the answer. We're going to be rejoined by Brian Roberts in a moment, but first, we'd like one of the students here to tell you a little bit about our venue for this program. The University of Pennsylvania's Wharton School.

SCHOOL PACKAGE TOUR

Hi, my name is Donald Felix and I'm an MBA student at the Wharton School of the University of Pennsylvania, in historic Philadelphia. I'm standing on Locust Walk in front of John .M. Huntsman Hall, one of the buildings of the Wharton School, where I spend most my time. Why don't you join me as we take this quick tour? Follow me. No, really, follow me.

The Wharton School was founded in 1881 to prepare students for leadership in a growing global economy. The school's commitment to innovation and knowledge have provided models for more than 1,000 business schools worldwide.

The Wharton's degree program based here at our newly built beautiful John M. Huntsman Hall, to our alliance with NCI, Wharton brings its students closer to the business world.

We're here in front of the statue of our founder, Ben Franklin, who is actually probably not the best role model, as he always is here. The list of Wharton alumni is impressive. From Supreme Court Justice Wm. Renin to Timothy and Richard Smucker, and of course, tonight's guests, Terry McGraw and Brian Roberts.

Here on Locust Walk represents the perfect example of vibrance and energy on our campus. Wharton students are known for their work hard, play hard ethic, while remaining down to earth. I want to thank you so much for joining us on this tour of Wharton. We hope to see you soon. Back to you, Jeff.

**JEFF GREENFIELD**

We'd like to open up the discussion and find out how both of our CEOs see what lies ahead for the pro and incarnation of the communications revolution. So I'd like to have Brian Roberts of Comcast come back and join us. Brian? Come on down.

**JEFF GREENFIELD**

Welcome back. So, one thing that strikes me, is that both of the major communication companies that you run, are still all in the family, and I guess the question that arises, and I think you've hinted a little bit, but suppose there is somebody out there, in our audience here, or at home, son or daughter of a family-run company, what's the one thing you want that person to know, assuming they decide to join dad or mom or grandpa, whoever? What's the one thing they have to know?

**BRIAN ROBERTS**

I think you've got to have as I said earlier, supportive parents, so we won't count that as the one. So I think the one would have to be you know, a belief in yourself, work ethic, that this is right for you, that you're doing it because you want it, not because you think you're pleasing your parents.

**TERRY MC GRAW**

Well done. I agree with that. I think it's very very important to have a purpose. To have a reason for why you're taking an action, whatever it is, whenever. But you should have your own well thought through notion of why you're doing that.

**JEFF GREENFIELD**

One of the things that occurs to me and it seems to me a fate that both of you have happily avoided, is there certainly seems to be examples of family companies that run

seriously aground, either they're torn apart by jealousies or turf wars, about who should be in charge. Some of them descendant of much worse condition, I'm thinking frankly of Adelphi. Is there something in a family-run company that you have to not just tell people what to do but where you really have to watch out for something? Whether it's jealousies, whether it's the sense that this is your own private, you know, piggy bank? I mean –

**BRIAN ROBERTS**

Start with the presumption that maybe you didn't deserve to be here, and you've got to earn your way into the presumption that you do. And so in some cases, maybe it was a true statement all along. But I actually would argue the premise big time.

We've come through a terrible period in corporate America from Enron right on through, and I think that what gets lost is the power of entrepreneurs driving the American economy. And family business are a huge, big or small, is a huge part of what drives entrepreneurialism in this country. And so to throw it out is a bad idea, would be way too extreme, and are there examples of people who have abused or failed? Like every business, there are those examples.

**TERRY MC GRAW**

If you are a public company, you cannot tolerate that kind of dissension. There's got to be clarity in terms of the strategic direction. There's got to be clarity in terms of the capabilities of what it's going to take to get there. There has to be clarity about execution. And therefore, that is the role of the board of directors, to make sure that there is alignment, between those and there isn't those kinds of dissension and if there are, you need to deal with them.

**JEFF GREENFIELD**

One of the issues about family companies that comes up, not so far from home, is that a family may own a relatively small share of the stock, but the stock is structured in such a way that the family's voting power is –

**TERRY MC GRAW**

That's our case.

**JEFF GREENFIELD**

Now, in terms of potential investors, is the deal simply, look they know the deal coming in and that's the way it is?

**BRIAN ROBERTS**

Well in our case, my dad started the company, as I mentioned, in 1972. He kind of knew that this business required so much money to build a cable system. You had to run a wire to every home, and he wanted to do it in many many cities, and you can borrow the money, and at some point you run out of equity. Or you need to go back and get more equity and \_\_\_ and keep going, to the tune that literally, we've spent \$40 billion dollars rebuilding our system, just since 1996. So it's an incredible large

amount of money, and the question was, would you ever be divided in your desire to grow versus retaining your control? Since the inception of the company, we've had control. So we went to the shareholders and said, let's have two classes of stock, and 99% plus voted to approve that on three different occasions, when he changed it and upped it and so that we could keep growing without this kind of fear.

Every business is a different journey, but in our case, yeah, there's probably some people who wouldn't want to work here, because Brian looks as young and he may well be in the job for a while, but I think it's with Terry's answer, only if I do a good job, and continue to perform.

#### TERRY MCGRAW

From our standpoint, we are, you know, totally a public company. You know, we have no other protective devices in it that way. The best, you know, the best offense is getting that stock price up and the way you get that up is by doing good things and make impacts and contributions and the earnings for that correspond. But you're very sensitive obviously, to all the shareholders, and the institutional investor base that you have that you worked very hard to get.

In most family businesses, that, you know, Peter Drucker you know, would say "by the third generation, we've really had it." You know, the family is all at each other, and everybody is done. And I served on a panel in China, with the late Peter Drucker, and he turned to me and he saw Harold McGraw, III on my name card and he said, "You know, I did a study and you know, you're done." (laughing) I said, "whoa, whoa, it's nice to meet you, Peter." But I said, "I'm actually the fourth generation. So I guess we get a fresh start."

#### JEFF GREENFIELD

There's another aspect to this that I wonder if family has a role in it? Your company was recently picked as one of the best companies to work for, by *Working Mother*. You have this, what strikes me as really inventive notion in terms of child care and in an emergency, 100 hours a week, you'll subsidize I think, it's \$2 an hour, if they drop the kid off, \$4 an hour in a home. Now is the fact that it is a family company, is there any part of that that's linked to a decision to do something like that?

#### TERRY MC GRAW

Well, I'd take it even more broader than that. I think, you know, being family friendly, you know, as a company and being considerate of a lot of different needs that an employee is going to have means that you're going to have probably more engaged employee base that is going to be more excited about wanting to be with you.

#### BRIAN ROBERTS

If we're running an enterprise because we're, you know, just a kid who's taking it into la la land, why would shareholders support you? Why would bond holders buy your new bond offerings? We're under pretty intense scrutiny, day in, day out, to get

the organization focused, as Terry just said, on a strategy and on a plan that that's going to win.

**JEFF GREENFIELD**

A lot of what you do is advertiser based, in terms of certainly your magazines. And there's a question that's being – that's arise and with the new technology, about whether or not advertising as a source for financing media, is not an endangered species. Let me just start with you. Are you okay with this?

**TERRY MCGRAW**

No, I think that, you know, the advertising markets will recover. And it's going to depend upon the vehicle that you're using, and the strength that it has with its audience. And so, you're going to have to make sure that you got the quality brand and all of those kinds of things. However, you know, 60% if you go back several decades, 60% of our revenues were generated from advertising. Today it's about 7. And we purposely have come down and brought this part back from that standpoint. And so, I think you've got to look at multiple income streams, from here and from a business model standpoint, getting fee-based and getting into some of the subscription areas is very very important, where you guide more loyalty, with that audience.

**JEFF GREENFIELD**

It, it certainly looked –

**BRIAN ROBERTS**

A big deal in television. Maybe a bigger deal than in his business. I'd start by saying were lucky at Comcast, 6% of our revenue is advertising, but if you talk about a broadcaster, 100% of their revenue, so we're not in the broadcast business.

**JEFF GREENFIELD**

No, but you carry the signal and everything should –

**BRIAN ROBERTS**

The whole model – it has implications to some will be winners and losers. So I think, you know what? You're not going to change technology. The computer allows you to skip that commercial and that's why you're seeing the television networks begin to experiment and they are pushing the question earlier about sports and wireless and portable devices. We've had change before. It will not be as radical as the media wants it to be right away. But it will be profound in the fullness of time here to change the business end. You know you can embed ads, you're going to see an Apple computer when the person sits down.

**JEFF GREENFIELD**

It seems to me that there are so many different things that you do that can really kick off other people – people that you have relationships with. For instance, you're built on cable operators, carry, you know, being part of your operation, right? I mean you

provide the wires, you need to keep the cable networks happy. On the other hand, you're just about to go into business, rebroadcasting for On Demand, from broadcast networks.

BRIAN ROBERTS

We've now said, well, let's take CSI and for 99 cents, anybody can buy it any time they want and let's see if that's how people want to consume the #1 show, some of the #1 shows on television. I think that's the schizophrenia that is the modern age. And I don't think it's necessarily all that new. You have – I like to say the computer has crashed into the television set. And with it, is a lot of dislocation. And it's affecting many, many people.

JEFF GREENFIELD

Right. That's what I mean. I'm just looking forward to the day when I come out on election night wearing a Nike swoop on my forehead –

BRIAN ROBERTS

They will be \_\_\_\_\_.

JEFF GREENFIELD

Well fortunately, perhaps after my time. I doubt that Prof . Shropshire is going to follow up on that question, but he does have a question on this issue. Professor, please?

FROM THE AUDIENCE

It's close to following up, I guess. It really is to get to the passion that both of you had about what's next? What you're excited about in terms of products or delivery of products that we can look forward to and we can be excited about too?

TERRY MCGRAW

Increasingly, small developing countries and emerging markets. The area that has been very hard to crack, and the one that's going to have the most impact is when you're able to impact large developing countries, in particular , China, and India. But obviously, Brazil and Mexico as well. And eventually Russia.

BRIAN ROBERTS

Well we're in three businesses. Video, data and voice. And all three are changing and video we're going to personalization. Question about advertising, and I'm very excited because the computer allows you to have personalized ads. You have personalized television shows like On Demand, and the model's changed. We had 2 million karaoke On Demand sessions last month, okay? We have dating On Demand. We have real estate On Demand and we now have CSI On Demand. The world is changing. Internet is coming to television. We want to get there first. High speed broadband, we give you 6 megabytes a second today and the phone company used to give you, you know, less than 50. We're working in cable labs on 200 megabytes a

second, and some day a billion bytes a second. It's going to get – we're scratching the surface. Very exciting time.

JEFF GREENFIELD

Which raises a couple of broader questions about where we might be in five or 10 or 20 years. And I realize I'm not asking you to blue sky this, but we always hear when new technology shows up, that the old technology is in danger. And history suggests that that's not true. I mean radio is still here. Television is still here, movies are still here. But, is print still going to be around in 20 years?

TERRY MCGRAW

Oh, no doubt.

JEFF GREENFIELD

Has unique advantages? Apart from being able to take it on the bus or in the bathroom?

TERRY MCGRAW

Absolutely. And (laughing) said differently. They are a multiple audience with multiple needs and print will always satisfy one. On that one. But, there's no denying the fact that you're going to see a tremendous transformation to online. I think a lot of the educational space will be online. And in many ways, it already is and you'll just see a tremendous progression that way.

JEFF GREENFIELD

In terms of where we're going with all this, I live in a big city. And I walk a lot. And more and more I see people using all these brave new world gadgets. They're looking at their Blackberries and they're listening to their iPods; they're looking at their cell phones, and they're clueless that there is anybody else around. Picture your cell phone on a flight to Los Angeles, sitting next to a guy who now can use his cell phone. Thanks to guys like you, for 5-1/2 hours. Never having been schooled in the art of modulation. Do you sometimes ask, do you sometimes step back and say, you know, there's places we don't really need this, or want. We need to know how to turn these things off. Is this –

BRIAN ROBERTS

First of all, let me make a guess. You live in New York City?

JEFF GREENFIELD

Yes.

BRIAN ROBERTS

This only happens in New York. (laughing) In all seriousness –

JEFF GREENFIELD

Excuse me. Excuse me. This is Philadelphia. People don't play with their iPods and cell phones.

**BRIAN ROBERTS**

Oh never, never. We're very respectful, very – this is the City of Brotherly Love. Okay so to answer your question, I think a lot about the implication of some of the things that we work on and have been part of and am I proud of every show that's on cable TV? Absolutely not. But, there's – in every gadget that's been invented you know, I always tell people, why don't you, you know modulate your voice or do you realize the implication? And you know, it comes back to manners and society and there's always been some new thing and some people obsess and others eventually find balance and you know, put it in its proper place. I do think we're – have a tremendous benefits or some negatives and I think it's good to talk about the negatives. It's good to remind people this is the quiet car in the train, between New York and Philadelphia and it's okay, you know, they've had to develop that. There's always a reaction and then a fix and then the problem and it gets fixed. But I don't subscribe to the theory that we should just stop time and it's not just possible. So, you know, as a parent, you've got to say, you know, "That's enough."

**FROM THE AUDIENCE**

My name is, my name is Samar [...]. My question is for Mr. McGraw. To what extent do you fear the education system becoming a commodity for the elite? Taking into consideration the skyrocketing tuition, coupled with inelastic demand for textbooks? (laughter)

**TERRY MC GRAW**

Okay. Thank you for that. Well I think that, you know, from a you know, the whole makeup of the cost of a textbook, we're actually in terms of the, you know, the print version of itself, have expanded to include a much broader value proposition. Where it has a lot of support networks associated within a lot of other things that give a lot more value to it. There's certain pricing in certain markets that you have to correspond to the audience that you're dealing with. Therefore, you are doing different things in terms of the value proposition.

One of the things that we're doing very aggressively is moving and pushing into the on-line space, and as you can get into the on-line space, 25% of your costs go away with the paper, binding and printing, and therefore, now you're in a much better position to enhance the value proposition, at the same time, lower the cost. So at this point, in terms of the pure print version, it all has to do with the value proposition of how much you can provide that is of value to the student, to the professor and to that class and then what you can pay for it.

**JEFF GREENFIELD**

I think we have time for one more question from our students.

## FROM THE AUDIENCE

Hi. My name is Willea [...] and I'm a freshman here. And I have a very general question for the two of you. I'm sure the business world as it is, when you were here as students, is much different, than it is now. And I was just wondering if you had any advice or suggestions on how we can learn and adapt after ending our formal education?

## BRIAN ROBERTS

My father's advice still resonates with me. Follow what you think you love. And hope the rest works out. The choices you make, it sounds corny, pick people who you think have character, not who can make you a better offer, or a better title, because in the end, you're going to live and fall by the people you surround yourself with. In a marriage, one last point, if I might, the most important decision you're ever going to make is who you choose to spend the rest of your life with. If you get into a committed relationship. And it's the same thing with your career. It's the most important. If you get that one decision right, I think a lot of things will take care of itself. That's certainly been my case, both professionally and personally.

## TERRY MCGRAW

I would say, you know, just as a follow onto the question there, we are in a global environment. The competition is going to continue to be fierce, I think. There is no way but to be a continuous learner. You've got to put yourself in a position where you're learning all the time from associates, from others, from whoever. You have to be a voracious reader, and there is no other way that you're going to be able to have access to certain things and the like, and if you're not putting yourself in that position to be that constant forever student, you're going to lose things. And when people ask me that question, you know, what keeps you up at night and all of those kind of things, besides the talent issue, which is most important, making sure you've got the right skills and capabilities and be nurturing all those kind of things. It is being out of touch. Things are happening so fast and are coming on so quickly, that it is so easy to believe in what you think and certain assumptions and you could be out of touch. And if you're making decisions on things and you're out of touch, you can get your company into real trouble real quick. And that's why you have to depend on the talent base and depend on each other.

## JEFF GREENFIELD

Speaking of things happening so fast, we're going to try something now, just for a couple of minutes. What we're calling the lightning round. These – we are borrowing, stealing liberally from everywhere from *Vanity Fair* magazine to ESPN and these questions are really short and so must the answers be. Not that I have any sanctions. So here we go. What's on your iPod?

## BRIAN ROBERTS

70s and 80s.

## TERRY MC GRAW

*Business Week.*

JEFF GREENFIELD

Ohh! (laughter) Ding, ding, ding. Okay. Terry, it's your last meal, where is it? What are eating?

TERRY MC GRAW

Pancakes, but be sure now that you put salt in it. You gotta put a little salt in it to make it really good.

JEFF GREENFIELD

Last meal?

BRIAN ROBERTS

Not with him! (laughter) Home with my family.

JEFF GREENFIELD

Other than your family, hero or heroine?

BRIAN ROBERTS

Wow!

JEFF GREENFIELD

Terry, want to go first?

TERRY MC GRAW

Nelson Mandela.

BRIAN ROBERTS

That's terrific. (laughing) I'd like to say – look I'm going to give you the answer, I'd say my father.

JEFF GREENFIELD

Okay.

BRIAN ROBERTS

I'm not going to play by the rules.

JEFF GREENFIELD

Okay, before I get to old, finish this sentence, I really want to do?

BRIAN ROBERTS

Before I get too old, you know I'd like traveling and I enjoy seeing new places.

JEFF GREENFIELD

Where do you want to go?

BRIAN ROBERTS

Oh, haven't been, haven't spent enough time in China. Spent a little bit of time in China.

JEFF GREENFIELD

Before I get too old I really want to?

TERRY MC GRAW

Shoot my age in golf. (laughter)

JEFF GREENFIELD

A career that you might want to explore, far removed from the one you have now?

TERRY MC GRAW

Politics.

BRIAN ROBERTS

Education.

JEFF GREENFIELD

Teach?

BRIAN ROBERTS

Yeah.

JEFF GREENFIELD

A writer or book whose words you still think about and remember?

TERRY MC GRAW

I think about John Adams, the book David Halpersteins.

BRIAN ROBERTS

Theodore Rex. Teddy Roosevelt.

JEFF GREENFIELD

Greatest regret you have tried to undo?

BRIAN ROBERTS

Not enough time with family.

TERRY MC GRAW

You know I don't think you should live your life with regrets. Although I think there's many things you can do, but I think you look forward.

**JEFF GREENFIELD**

Your most indulgent indulgence? Do you want me to prime the pump? Expensive cigars. Your turn.

**BRIAN ROBERTS**

Probably I like, I like driving a car that doesn't get the best fuel mileage and I'm guilty about that. (laughter)

**JEFF GREENFIELD**

Thank you. Once for candor, Terry?

**TERRY MC GRAW**

Pancakes, but you got to use a little salt. (laughter)

**JEFF GREENFIELD**

I think on that Aristotelian note of unity, we can wrap up this discussion of the new world of communications. And the way we're going to do this is by communicating with you that we have run out of time. My deep thanks for our two guests, Brian Roberts of Comcast and Terry McGraw of McGraw-Hill Companies. To both of you thanks for launching this new or renewed endeavor. And if this meeting of the minds has helped contribute in some way to the world's more complexity, that really is the business if you pardon the pun, of CEO Exchange. I'm Jeff Greenfield. Thanks very much for watching. Hope we see you next time. Take care.

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