



CEO EXCHANGE PROGRAM #404 TRANSCRIPT

“TOYS AND GAMES: Changing the Way We Play”

FEATURING ROBERT A. ECKERT AND ROBERT A. (Bobby) KOTICK

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TEASE

Young Americans -Two of the biggest names in the kid's biz, say not to worry. From UCLA's Anderson School of Management in Los Angeles, Mattel's Bob Eckert: “I didn't need to look at the statistics or the marketing research reports, I have four kids!” And Activision's Bobbie Kotick: “99-44/100ths percent of the population knows the difference between fantasy and reality.” How to make games an enriching experience? That's next on CEO Exchange.

SPONSOR SPOT

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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

Thanks. Welcome to CEO Exchange. As you've just heard, I'm Jeff Greenfield. Toys and games. What do you see when you hear those words? Play, escape, childhood, a world apart from the serious, grownup stuff of cutthroat business competition, with tens of billions of dollars at stake! Really? The toy business these days is a \$60 billion dollar industry worldwide, and that doesn't even include video games. They bring in another \$25 billion dollars or so. That's more than Hollywood

makes at the box office. This is a world where one hot character doll, one blockbuster game can make or break fortunes and careers. And no one knows that better than our two CEO guests today. One runs the world's largest toy company, the other the second largest maker of video games. Both of them have known heavy successes and painful setbacks.

Bobbie Kotick of Activision says he's a businessman who doesn't even play video games. But that doesn't stop his company from turning skateboarder, Tony Hawk, into the most popular sports figure among young American men, or from creating one hit after another with the joystick crowd. With partners, by the way, like Dreamwork Studios and Marvel Comics. We'll be talking to Bobbie Kotick, Chairman and CEO of Activision a little later in the program. But first, the CEO of a company that's not only a household word, but actually has a presence in almost every household. And we'll do a spot check of the audience to prove it.

If you've ever had a Mattel doll or game or toy in your house, raise your hand. From Barbie to Hot Wheels, from the Magic 8 Balls to Barney & Elmo, if you'll pardon the shameless plug for PBS, Mattel Products have been with us for generations. And that's the problem.

In an age of computers, and lightening fast video games, how can Mattel's CEO Bob Eckert make sure that this toy story has a happy ending?

BOB ECKERT BACKGROUND PACKAGE

"BLT, pink lemonade and chips", life doesn't get any better."

A homespun man of simple tastes, Bob Eckert could have come right out of central casting, maybe played by Jimmy Stewart, in his prime.

"How we doing today? What's on everybody's mind?"

When he has time, the Mattel Chairman and CEO prefers to share lunch with employees in the company cafeteria, rather than do lunch with a Hollywood mogul.

So what's your favorite toy this year, Bob? "My favorite is Pixel Chix. And what I like about Pixel Chix is, it's basic girl/doll play, but with a new twist that uses technology..."

The son of an Illinois dentist, Eckert joined Kraft Foods outside Chicago in 1977, right after earning his MBA at nearby Northwestern. Twenty years later, like the cream in Kraft's Cream Cheese, Eckert rose to the top, becoming CEO in 1997. So moving his family to California in 2000 to take the top job at Mattel, seems like a radical step. Indeed, Eckert still takes the family back to Michigan every year for the traditional summer vacation. "It's a little harder now. We fly from Los Angeles to Chicago, rent the motor home and drive up to Michigan, about a four hour drive. But

my kids, my wife and I, would not miss that vacation ever for anything in the world. That's one of the most important things in our family."

When Eckert arrived, Mattel was in trouble. His predecessor had been dismissed, and the company was losing a million dollars a day! In part, due to an ill-fated acquisition of The Learning Company, a maker of educational software for kids.

CHRIS PALMERI, BUSINESSWEEK

He ditched that business. He cut costs. He really reenergized everybody at Mattel.

For his first two years at Mattel, Eckert could do no wrong. In 2002, *Business Week* named him one of the top managers of the year. As he put the emphasis back on Mattel's best-selling brands, like Barbie and Hot Wheels.

KEVIN SMITH

Mattel says its vision is to have the world's premiere toy brands, today and tomorrow, but the challenge for Mattel is to persuade skeptics that it really is focused on today and tomorrow, rather than relying too heavily on the successes of years past.

In recent years, Mattel's performance has fallen off again. The main culprit, none other than Barbie, whose worldwide sales have plummeted by nearly 25%. Barbie's dominance among girls has been threatened by Bratz, an edgy line of ethnic, urban dolls created by a former Mattel employee.

ROHMI REED, BRATZ CUSTOMER

I just think that these were real popular amongst little girls, and I thought Barbies were so old and this is new.

But Barbie still has many loyal fans, like this mom's five-year-old daughter.

HEATHER BARNHART, BARBIE CUSTOMER

She loves Barbie. She doesn't even know anything else. She loves the Barbies, yeah.

Eckert has cautiously introduced more modern products. Some say too cautiously. "I think he was initially really focused on stabilizing it and building the existing brands, and not being as aggressive in launching new ones that he ultimately needed to be."

"We've been around for 60 years. Somehow we figure out how to make more toys, and sell more toys, every year than anybody else in the world."

For the traditional CEO from Illinois, Mattel's long tradition of success still plays well for the future. "Thanks for coming out. Have a great weekend. Play hard."

In El Segundo, California, I'm Kevin Smith for CEO Exchange.

JEFF GREENFIELD

Ladies and gentlemen, please welcome the Chairman and CEO of Mattel, Bob Eckert.

JEFF GREENFIELD

Welcome sir.

ROBERT ECKERT

Thank you. I appreciate it.

JEFF GREENFIELD

C'mon, take a step up, and...

ROBERT ECKERT

Well, welcome to the Anderson School and it's always nice to be here with friendly customers.

JEFF GREENFIELD

Was there a moment as you worked your way up at Kraft, a position that you held, some success that you had, where you said to yourself, or maybe somebody said to you, "You know, you could go very high up in this company?"

ROBERT ECKERT

Yes, I had a feeling that I ascribe or associate at least with some religious people who feel like they have a calling sometime. I had that feeling when I was the President of Oscar Mayer Foods. I had this feeling that somehow I would be or it would be good for Kraft, if I were Chairman or CEO some day, and it would be good for me. And I had that feeling like that's how it was going to play out.

JEFF GREENFIELD

So, the time comes, you get the corner office, I don't know if it's a corner office at Kraft, but I'll use that you know, as a metaphor. You're with a very successful company with a long track record. You're near your home, and then you leave to join a company at the time, I think, was losing a million dollars a day. It's said of Alexander the Great, that he wept because he had no more worlds to conquer. Was this a feeling that you just done everything you could at Kraft? Or were you just a glutton for punishment and said, "I know, I'll go join a company 2,000 miles away that's losing a fortune!"

ROBERT ECKERT

A little bit of both. I had achieved a lot at Kraft, and I loved Kraft and I still love the people at Kraft Foods. But I had done everything I was going to do at Kraft Foods, and it was an opportunity for me to do something different, and to continue growing professionally and personally. And the Mattel opportunity was unique. I saw Mattel as a fabulous company with a great history and heritage, that had fallen on hard times, and I thought maybe some of the things that I had learned to do in the past might be useful for Mattel in the year 2000.

JEFF GREENFIELD

One of the striking things that you've written about is that the first person you talked to, the person that I guess you sought out at Mattel wasn't the CFO, wasn't the people who design - you sought out the Human Resource Vice President?

ROBERT ECKERT

I was very interested in knowing about the culture. I was the product of a culture in the Midwest, and at Kraft Foods and here I'm thinking about going into an industry that's very different, a geography that's very different here in Southern California, and I, I figured that the numbers we could work on those, and we could make progress against those. So my anxiety was more about the culture than it was the financial statement.

JEFF GREENFIELD

Which leads me to this iconic power that you invest in the company cafeteria.

ROBERT ECKERT

Well the first time I was in the cafeteria was the day I took the job and I can vividly remember right now, standing in that cafeteria, addressing the people of Mattel for the first time. Their first opportunity to see me, and my first opportunity to see them, and I have to tell you, I was scared. But in that exchange that we had in the cafeteria, I realized these are my kind of folks. I could take these people and put them in Kraft Foods headquarters, and I could take the Kraft people and put them in El Segundo, CA at Mattel's headquarters and you wouldn't know the difference. So I felt very comfortable. And it's important for me to feel comfortable with the folks with whom I work.

JEFF GREENFIELD

Which raises an interesting question. Your first few years, the company experienced dramatic turnaround. In recent years, you hit or the recent year or two, you've hit a challenge. Is the company cafeteria still a good place for you to go and learn when the sky has turned more turbulent?

ROBERT ECKERT

Absolutely. I was there this afternoon. It's very important for us to connect with folks. And one of the greatest places to do that is in the cafeteria. I get to see folks from all walks of life, and the people who really make the company work.

JEFF GREENFIELD

You once gave a commencement speech here I think, about trust. Is that what helps you get through tougher times as a CEO? That is, if you have that, are people willing to say, "I know this fellow, I trust his leadership."?

ROBERT ECKERT

Absolutely. You know, Jeff, there is a Professor Marianne Jennings from Arizona State University, the Carrie School, and she came in and addressed our Board of Directors just a couple of weeks ago, and she gave me some really profound statistics. In 1963, she said, 11% of students said that they cheated. Today that number is over 70%. Sixty-six percent of students today say, "In the real world, I know that people do some things that outsiders might consider cheating to win if that's what they have to do." It's bad. And so, I think in order to break through that, people have to be able to see me and other leaders, as the people we are. It's important in the good times and in the tough times.

JEFF GREENFIELD

In a few minutes, we're going to meet our second guest, but we're going to take a couple of questions for Bob Eckert now from members of the audience. We first have a question from one of the professors at the Anderson School of Management here at UCLA and that's Sanjay Sood.

FROM THE AUDIENCE

Hi, Bob. As the company grows, some of its most valuable assets are its brands, like Barbie and Hot Wheels. What are you planning to do to grow the sales of those brands when overall toy sales are flat, and toy retailers are struggling?

ROBERT ECKERT

Our strategy at its core is broken into three concentric circles. We start with our core toy business, and that's what we're working on, extending the brands and globalizing and improving execution day to day, but it's the core businesses, that you know and grew up with. Then we have the outer core. As an example, we have American Girl Place in both New York City and Chicago, and we're building the third American Girl Place retail store here in Los Angeles, as we speak. So these are opportunities to connect with the brand outside of just pure play. Finally, the outer circle is where we really extend the brand through licensing. In fact, today, among children, we have four or five of the top ten selling video titles. Now the children's market isn't that strong in video. But we know if girls want to play video, they ought to be playing with Barbie.

JEFF GREENFIELD

We also have some questions from students and other members of the audience. So come up and tell us who you are please.

FROM THE AUDIENCE

Sure. Good evening, Bob. My name is Nykio [...]. I'm a second year MBA student with the UCLA Anderson School of Management and my question is related to the matter of age compression. As you know, age compression is a trend that's adversely affecting the toy companies, but seems to be benefiting the video game companies. What's Mattel strategy to address this situation, going forward?

ROBERT ECKERT

Well, one of the first things I did when I came to the company was acknowledge that kids are getting older younger. They have more opportunities and I didn't need to look at the statistics or the marketing research reports. I have four kids. I've seen them grow up. The good news is, for Mattel, we tend to be a little bit younger, compared to most toys, our audience that is, and we tend to be more girls than boys. And so the good news for us is that all kids start playing with toys. In fact, I would assert that all kids start sitting on the kitchen floor, banging the pots and pans, just like my kids did. They then graduate to toys, in our case, Fisher-Price toys, which is very strong in the 0, 1, 2 and 3 year olds, and then they move into Barbie or Hot Wheels or our other brands, or our competitive brands. And then as they get older, particularly boys, they move into video games and other things. So, the category in total is compressed, but our business has held up pretty well, because we're in those growing segments of the category.

JEFF GREENFIELD

Bob Eckert, you will, I hope, will be back with us in a few minutes, after we get to know our second guest. So for now, you can take a bit of a breather, while we talk to your counterpart. Thanks very much.

JEFF GREENFIELD

Now our next guest ran his first business as part of a 4th grade project. It was not a lemonade stand; it was not a cookie concession; it was a gambling casino. And we are going to ask him how somebody gets to run a gambling casino in 4th grade. But in a twist that's kind of out of the movies, the child adventure that was done foreshadowed actually several turning points in his life, most notably, when he convinced Las Vegas legend, Steve Wynn, to invest in several of his companies including Activision. But Kotick sees himself as a businessman, not a gambling man. So rather than letting the chips fall where they may, pardon me, Kotick's disciplined approach has made Activision one of the world's leading players in the multi billion dollar battleground of video games.

ROBERT KOTICK BACKGROUND PACKAGE

Take a trip to where it all began! This is Bobbie Kotick's world. "Are you even trying?" It's a world of fantasy, yet Kotick himself is all business. The CEO of Activision says he doesn't even play video games. Why not?

"Addictive personality. I think I would be spending all my time playing our games."

Kotick became addicted to business and technology at an early age. While growing up on Long Island, outside New York City, he briefly worked in a toy store at age 12. "It's so long ago, that my only recollection is that I hated when people bought those, like little swimming pools, little turtle swimming pools and things, because I had to carry them out to a car."

While at the University of Michigan, Kotick got his big break, meeting Las Vegas mogul, Steve Wynn. Kotick convinced Wynn to invest in a software company he had started. One venture led to another, and in 1991, Kotick and a partner acquired a bankrupt video game company, called Activision. As the video game craze took off, so did Activision, thanks to Kotick's business-like approach.

RALPH SCHACKART, SOFTWARE ANALYST, WILLIAM BLAIR & CO.

So they've done a fantastic job getting the right strategy, getting the right products in the market. Every game that they make it has to have a profit & loss statement. There's more discipline to the process.

X-Men to Legends for XBox.

Kotick quickly realized that the key to success in video games was to build franchises around Marvel Comics characters like the X-Men and Spiderman. "Tony Hawk's 'American Wasteland' rated T for Team." Around skateboard legend, Tony Hawk's, and around Dreamworks movie icons like Shrek.

Activision recently signed a new licensing deal with Dreamworks to turn four more animated movies into video games. Kotick himself admires the ability of arch rival, Electronic Arts, the industry leader, to sew up top franchises. "For the 10 or 15 multimillion units selling franchises that we own or control, they have two dozen or so. And so, they certainly are franchises that they control, that we would like to have."

KEVIN SMITH

Even though Bobbie Kotick says he himself doesn't play video games, Activision has rooms full of testers like these to do the job for him. Their mission to give feedback on new games before they hit the market, as well as check for bugs and glitches.

"What game are you playing?" This is Straightforward –

Kotick says this gives video game makers an edge over movie makers. "We can actually take our consumers and we can put them in front of games. We can focus group test those games, we can go back and then modify the products to reflect the tastes and the interests of our audiences. Until we get to the point where we know that we have a high likelihood of commercial success."

But there are still similarities to the movie business. Now that video games can cost \$10 million to make.

BEN FRITZ, TECHNOLOGY REPORTER, VARIETY

Video games, more and more, just like movies, you're always one or two hits away from huge growth; you're also one or two flops away from having serious problems.

To increase sources of revenue, Kotick wants to charge for putting name brand products in video games, as a form of advertising.

BEN FRITZ

“Advertising is the first way anybody has come up with in a long time, to make more money off the same product.”

And after all, making money is what it’s all about for Kotick. A CEO at the top of his game.

SPIDERMAN

You are kind of in my neighborhood.

KEVIN SMITH

In Santa Monica, I’m Kevin Smith for CEO Exchange.

JEFF GREENFIELD

Ladies and gentlemen, the Chairman and CEO of Activision, Bobby Kotick.

JEFF GREENFIELD

Welcome. Thank you. Have a seat. Okay. You’ve been asked this, I hope, 50 times, but there’s no way out of this one. Why did your teacher let a 4th grade kid run a gambling casino? Did you cut her in?

ROBERT KOTICK

It was a him, and I absolutely had to cut him in. I, I was the very fortunate recipient of great largess in my 4th grade class, because we shared a birthday. And so for some reason, my teacher decided that the person who was going to have the greatest financial opportunity – it was a very unusual classroom too. It was very business focused. At the beginning of the year, we had to sign a contract with our teacher, making commitments about what we would actually do in the classroom. But it was a great inspiration and I’m still in touch with him to this day.

JEFF GREENFIELD

Now you obviously, not just from this gambling venture, but from everything else you did from the time I guess, you were 10 or 11, you were focused on entrepreneurship. But, it doesn’t seem to me that any school can teach a prospective MBA how to wangle himself into a multimillionaire’s charity ball, and come cheek by jowl with Steve Wynn. But this was a turning point in your whole life, right?

ROBERT KOTICK

It was my sophomore year in college and I didn’t – I wasn’t that particularly interested in school, and so I was invited by some friends to Dallas, to this charity event. And got there and sat down and this very good looking couple sitting next to me, and I had no idea who he was. And I had no idea what he did, and I had never been to Las Vegas. But, by the next morning, I was flying back on his new DC9 to

New York. Yeah, but oddly enough, I was going to New York to sign papers with another group of investors for this company that I had started. And my partner, who was my college roommate, was meeting me in New York, and we got there, and we got to the meeting, and there was something about Steve Wynn, that caused me to rethink taking the capital from these investors. And I phoned Steve and I said, “You know, I blew the deal with these investors.” And he said, “I knew you would.” And I said, but my partner is not convinced this is going to be a great opportunity, and I really need the money. We have to keep going with this business. And so he said, “go downstairs in 20 minutes.” Went downstairs in 20 minutes and there was a big limousine waiting, with these two gorillas, and they got out of the limo and they said, “Get in.” (Laughter) We get in this car, and we drive to the 61st St. heliport and the Golden Nugget helicopter is waiting and my partner is looking at me like I’m crazy. Cause I just blew a \$5 million dollar investment that was being made in a company that was really non-existent, that was started by two 20 year olds.

We fly to Atlantic City and this limo takes us deep into the bowels of this parking garage, which is where he had his office. Now we got in and we waited for about three hours, and he finally came in, and he walks in, in his very movie star way and said, “What do we do again? What do we do again?” We said, “Well, we make computers easy to use.” And he said, “Okay.” And he said, “We want to make a prototype, that’s our first step here.” And he said, “How much will it be to make that prototype?” We said, “\$300,000.” So he took out his checkbook and gave us a check for \$300,000. And I said, well, we have the documents pretty well drawn up because of this other investor, so we’ll give you the contract tomorrow. And he said, “Contract, schmontract, what are you talking about? You’re my family now.” And then he walked out. (Laughter)

My partner looked at me, and I looked at him and I was 19 and he was 20 and I said, “You know, there’s definitely something wrong with this picture. A guy in a parking garage in Atlantic City with a pinkie ring just gave us \$300,000 (laughter) and says we’re his family now.” (Laughter)

JEFF GREENFIELD

I can see why this will not make a business book for future CEOs or even MBA candidates. One thing that he did, he said he did this because Howard Hughes, the legendary Howard Hughes had done it for him, and Hughes had told him to do it for a young kid. Did Wynn say to you, I want you to do this for a young kid in the future? And have you?

ROBERT KOTICK

He did. And it wasn’t Howard Hughes though. It was Howard Hughes’ banker, who was the most influential banker in the state of Nevada. But it was one of the first things that he said is, “I’m going to do this for you, but some day, when you’re in a position to do so, you have to do the same thing for someone like yourself.”

JEFF GREENFIELD

Did Wynn say that to you?

ROBERT KOTICK

He did, absolutely.

JEFF GREENFIELD

Have you?

ROBERT KOTICK

I haven't yet. I haven't found just the right person, but I can tell you that (laughter).

JEFF GREENFIELD

You're going to have a hard time getting out of here, Bobby, I think I can tell you that. Now one of the things about this story, about your story is, you don't have any hesitancy about telling people "I had a lot of bumps along the way." And my question – I want to cut to the chase – when you're sitting there in a company, the Sheriff is literally coming to the door from time to time to repo the equipment. You were about to face predators who are threatening with liquidation. How do you keep your spirits up? How do you keep the spirits up of your investors, of people who work for or with you? I mean that sounds to me like a pretty interesting challenge in encouraging human capital, when your own capital is so threatened?

ROBERT KOTICK

This was not too much of a surprise. We bought a bankrupt company. Activision was founded in 1979, but by the time we bought – I bought control of it in 1990, it was a disaster. You never are prepared for how bad things are, even in the worst of circumstances. So the story you were alluding to was the first day that we had taken our hard earned capital and bought a 25% stake in this bankrupt company. And the Marshals were at the reception desk, looking to repossess our mainframe computer! Which stored all the data that we had accumulated for sales and basically ran the business. And they came and said, "We're here to repossess the IBM AS400 computer." And we didn't really know what to do. But a very enterprising guy who worked for us, wheeled out this big mainframe computer and said, "Here you go." And they took it away, and it was a DEC PDP111 from 1979 (laughter). I don't think it had been plugged in in about 10 years. (Laughter) But fortunately, the Marshall didn't know the difference, and truthfully, nor did I!

JEFF GREENFIELD

To leap ahead to the chase, there were a lot of things that turned your company around, but probably no one individual stands more in bold relief than Tony Hawk. Did you know who he was when you decided to make a game out of this skateboarder?

ROBERT KOTICK

No, I didn't.

JEFF GREENFIELD

My brother-in-law was an agent at William Morris and he had hired a guy, who he had grown up with to be an agent, an assistant to him, working with new personalities. And he called me and said, “You know, I heard you guys were thinking about doing a skateboard game. There’s a guy named Tony Hawk who we’re negotiating a contract with somebody else for, and would you be interested?” And I pushed really hard, not knowing who he was for the best possible deal, and almost blew the deal in the process. We signed Tony, and it’s been a fantastic partnership.

JEFF GREENFIELD

There is a vast, untapped market in turning journalists into video game figures.

ROBERT KOTICK

I’m convinced your colleague Anderson Cooper is a character in a video game (laughter).

JEFF GREENFIELD

There you go. Let’s turn to the audience now. Bobbie Kotick is going to take a couple of questions.

FROM THE AUDIENCE

My name is Peter [...]. I’m a second year student here at UCLA Anderson School of Management. My question has to do with product placement. As you’re well aware, that’s a growing trend in the video game industry these days. What I’m wondering is how you are maximizing that opportunity for additional revenue, without alienating your core consumer?

ROBERT KOTICK

Great question, and it’s very top of mind. But if you start at the very beginning of the process, and you identify relevant products or relevant services, that you can then incorporate and make the games more realistic as a consequence and then test them, and because we have this very exhaustive research process that we go through to determine the playability of our games, we can actually also determine whether or not the way we incorporate a product or a service in the game is appropriate or offensive.

JEFF GREENFIELD

I take it that since young men, in particular, are deserting my medium, never mind news, they’re just not watching as much television.

ROBERT KOTICK

Our audience is actually not watching materially less television. So it’s slightly less. But they’re now multitasking, so that they’re watching TV at the same time that their web surfing, at the same time that they’re playing with their PSP or talking on the cell phone.

JEFF GREENFIELD

A very good way to communicate complicated journalistic ideas. (Laughter) That's how I watch. We got another question I think from the audience.

FROM THE AUDIENCE

Good evening. My name is Chris [...] and I'm Principle of my own human resources consulting company. And I'd like to have a little scenario for you for my question. So we're sitting in a room, full of young, bright, 20 somethings, that are really eager to get into the business world. Beyond finding capable and smart employees, we hear a lot about fit. And what fit means. What type of person would fit into your company really well and why?

ROBERT KOTICK

I always say this in interviews with the folks that are coming to our company, is that you really need to think about whether or not you want to work in an environment like Activision. Because it is a somewhat unforgiving environment. We're not tolerant of mediocrity, we're not very tolerant of incompetence, and so you really have to look yourself in the mirror and most everyone says, that they'd like to work in that environment, but whether or not you really have the capability to do so is the question you need to ask.

And then what we've tried to do is really decentralize the businesses, so that we have a studio, for example, in Madison, WI that makes a certain genre of game and, the types of people that work at that studio, are very different than the people who work in the studio in Woodland Hills, that make Tony Hawk, and very different still from the group of people that make games in our Albany, NY studio.

JEFF GREENFIELD

Bobby Kotick and I will be rejoined by Bob Eckert in a minute, but first we're going to take a look at the setting for this program, which is UCLA's Anderson School of Management.

SCHOOL TOUR

Hi, I'm Nicole Adrian, a MBA student at UCLA-Anderson School of Management here in sunny Los Angeles. The capital of entertainment. Come with me as I show you around our academic campus, where you'll meet students known for excellence, the right attitude.

As we celebrate our 70th anniversary of management education, UCLA Anderson is consistently ranked among the top business schools in the world.

Entrepreneurs call this the home of the world renowned and top ranked Harold and Pauline Price Center for Entrepreneurial Studies, where students participate in a range of programs from small business management to venture initiation.

The cap stone of the MBA program is our unparalleled, applied management projects, where student teams perform field work with a real corporation, or design a business to apply the skills they've seen.

“Are they going to hire externally? Grow organically?”

Bottom line. Teamwork is the essence of UCLA Anderson. From the classroom to the Rosenthal Library, students form friendships and career networks that last a lifetime.

Thank you for joining me at the UCLA Anderson School of Management, where we transform the future of business every day. Back to you Jeff.

JEFF GREENFIELD

Please give a nice hand to MBA candidate, Nicole Adrian.

JEFF GREENFIELD

So you've met two men who took very different paths to the top, and who work at opposite ends of the business of play and let's see what happens with a merger, at least for some conversation. So Bob Eckert of Mattel, come on out and join us please.

JEFF GREENFIELD

Thanks for sticking around.

ROBERT ECKERT

So Bobbie, I got this great business idea I wanted to talk to you about. I just need \$300,000. (Laughter)

JEFF GREENFIELD

There's some feeling that the traditional toy industry itself is under unprecedented pressure because of what's available in this new generation of toys. They can just do so many things that you just – that you can't do with a doll, with a car.

ROBERT ECKERT

The fact is, with our audience, we can make the toys too sophisticated today. One of my favorite toys when I joined the company, I saw this red truck we had, and on the cab of the truck, it had a stylus. And you could draw where you wanted that truck to go. And the little boy drew something and the truck did it. So if you wanted the truck to go up there, and turn right, the truck would go up there and turn right and I thought, “Isn't this nifty?” I mean we all grew up with the little red truck. And now the little red truck does stuff. It was a bomb! The fact is, kids like to push the red truck around the kitchen floor! So one of the things we're always concerned about is staying within our space and letting those in a different space do that space well.

JEFF GREENFIELD

Kid falls in love with a doll. That doll is going to be with that kid for a while. You're in a company that makes a product, when it hits the market, it ain't hitting in the first several weeks, that \$55 cartridge or whatever it is, suddenly becomes a \$19 cartridge. Is that a pressure on you that is perhaps the thing that most keeps you up at night? The swift nature as opposed to a doll that may literally be salable across generations?

ROBERT KOTICK

A lot of the way that we try and minimize the risk of new product introductions is to stay focused on franchises. Big brands that are very recognizable, that we either own or control or borrow from others, and making sure that we're innovating every year.

ROBERT ECKERT

You know Jeff, we have the turnover too. Eighty percent of our toys are new every year. So the average girl may have 15 Barbie dolls and the average boy has 65 Hot Wheels cars. But you don't buy the same toy twice. Each Barbie doll that she buys and each car is different to us. You only have one red Camaro. The next car might be the blue Mustang or the fire engine. That's a whole new product for us. And we have tremendous churn in our product line, so that if we don't keep it fresh, and if we're not on trend with where kids are today, we have a problem too.

JEFF GREENFIELD

And speaking of a problem, and I want to be very direct about this. Obviously, Barbie is still the #1 girls' toy in the country. But you're being hard pressed by Bratz. A very different kind of doll. They're #2 I believe now. A lot of people involved with that product started at Mattel and I know there are legal issues here, but the question is, was there something, looking back on the structure of Mattel, that didn't allow for that product to develop there?

ROBERT ECKERT

Barbie is the #1 toy in the world today. And the #1 toy in virtually every country in the world today, and every major retailer here in the United States will sell more Barbies this year, than any other toy. And so she is still important. So the challenge we have in Barbie is, how do we keep Barbie fresh and relevant? You and I know that Barbie is 45 years old! The five year old girl doesn't.

JEFF GREENFIELD

I'm not even going to bring up Ken, because it's too much in the gossip column (laughter). Let's say a young person at Mattel, working at an entry level, or near entry level job, has an idea for a toy, for a doll. Can that get a hearing at Mattel?

ROBERT ECKERT

Absolutely. Because ideas are not just confined to one particular area or one particular group, one particular discipline. We're both in businesses about ideas. Creative ideas. And you may have a great idea, or somebody in accounting may have

a great idea. So we need to make sure that those people have access to the people who make judgments on those and we absolutely have that ability.

JEFF GREENFIELD

There is another area that I want to explore that both of you are clearly, deeply involved. And that's the marketing relationships with other well known brands. You've had relationships with studios like Disney and Warner Bros., over the years. I did plug because of PBS Barney & Sesame Street. Your game plan has marketing partnerships with Dreamworks and Marvel Entertainment. Shrek and Spiderman, I think are yours. And you're both involved in cross promoting with well known brands like McDonald's. Is that a key in both of your visions in the future, that it's just critical that you partner with really well known names like that?

ROBERT KOTICK

Well I think we have a great debt of gratitude to you because in the green room, we actually started colluding on the licensing terms. To make sure that all these future partnerships were in sync on royalty rates, and advances and guarantees. (Laughter) we've always been focused on, on a composition of revenues that comes from proven brands, as well as new original franchises that we try and create each year. And I don't think that will change. And I think if anything, even the partnerships that we've had with people like McDonalds, continue to get stronger.

JEFF GREENFIELD

And for you Bob?

ROBERT ECKERT

Absolutely. Intellectual property is really important. We've been selling toys with Sesame Street for years. And everybody can remember to this day, Tickle Me Elmo. And we've got a Tickle Me Elmo coming in 2006, that's just going to blow the world away! But we couldn't do that in a franchise other than Elmo. So we need other people's intellectual property.

JEFF GREENFIELD

The following occurs to me. You are putting in some of your video games, McDonald's, right? I mean as part of the action. You have an ongoing relationship with McDonald's. So I'm wondering, is the future going to be where my son or grandson, whatever, will play one of your video games, pop into McDonald's and in the video game, buy a Mattel doll?

ROBERT KOTICK

Not inconceivable, if we can figure out how to generate revenues from it. (Laughter)

JEFF GREENFIELD

Well I understand that that's – I gather that's an important part of what you do, but what – I guess what I'm sneaking around to is, does the prospect of video games with product placement, say something to you?

ROBERT ECKERT

Absolutely! I think the advertising model is going to have to change for a lot of people. Because we now have the technology in our homes to zap through some of the commercials. And so, if you are a manufacturer and a marketer of these products, you need to make sure they get exposed in the right environment. And what better way to do that, than in the content or the body of the television show or the video game? So I think that's going to be an important business.

JEFF GREENFIELD

But that's different from the idea of say a Barbie video game, right? I mean –

ROBERT ECKERT

There is a Barbie video game. There will be a Barbie video game, and we'll work on it together. Thanks to your show.

JEFF GREENFIELD

Will there you are. (Laughter) I'm telling you.

ROBERT KOTICK

We're going to stay away from Tickle Me Ken though. (Laughter)

JEFF GREENFIELD

Right. Okay, let's take a question from one of the faculty members here, it's Ainslie who is an Associate Prof. of Marketing right here at Anderson.

ANDREW AINSLIE

My question is sort of to take Jeff's questions right to the last stage, which is thinking about all these synergies and the possible for mergers in both your businesses. You've had for example, some recent with Dreamworks, would that be a natural synergy between yourselves and one of the movie businesses? And the other is, actually between Mattel and Activision. Where in essence, at the exact point where Mattel's brand equity with kids leaves off and Activision starts? Is that something that might lead to some merger in these industries or are these the sorts of businesses that ought to be left well separate?

ROBERT ECKERT

The fact is in our company's history, we've twice tried to get into the video game business, and it doesn't work well for us. We know what we do well, which is toys. When we've made acquisitions within the toy space, the traditional toy space, the right thing at the time, at the right price, our shareholders have done well. We've learned the hard way that when we go into somebody else's space, we don't bring anything unique. So we would rather develop relationships between our companies, as opposed to necessarily getting together.

ROBERT KOTICK

From our perspective, we're in a business that, if you look at the last 10 years, the industry itself has compounded at about 15%. Our company has grown revenues and earnings in excess of 40% every year; our return on invested capital is in excess of 45%. There are not too many businesses that have those financial characteristics. And so, from our perspective, we think we can build a lot more value for our shareholders, continuing to focus on growing and expanding our own business, rather than being a part of another business that might have a substantially lower return on capital.

JEFF GREENFIELD

I got one question, quick question for each of you, which has to do with the broader implications of what you're involved in. Your company, Mattel, is very committed, not just to philanthropy, but to the idea of responsible manufacturing. You've spent a lot of time and money making sure that your stuff ain't made by sweat shops.

ROBERT ECKERT

That's right. Since 1997, we have publicly displayed the audits of our facilities, outside audits and if you go to Mattel.com, you can see every write-up of every facility done by outside auditors. Last year alone, the auditing group, not only looked at our plants, but a large number of the toys that we don't even manufacture in our plants, the outsource toys, covered 50,000 people that work on Mattel products. Not one underage worker among the 50,000. We put that publicly. We are public with it, because we're proud of it

JEFF GREENFIELD

Is part of that because you no longer manufacture in the United States?

ROBERT ECKERT

Yes, it makes no difference whether somebody works for us in the United States, in Latin America, in Asia. We operate with the same rules. It makes no difference whether we own the facility, or whether it is somebody else's facility making our products. We keep the right to go inspect those facilities, and to keep making progress. It's like everything else. We're not perfect yet. But we want to stay ahead of the curve, and we think that by making our progress public, it'll hold us responsible for it.

JEFF GREENFIELD

Bobby, the question that, you know, you've heard it a million times and so not the question I'm going to ask. It's not about the content, the violence and sex and as a personal matter, I found it hilarious that people were fine with Grand Theft Auto, as long as the perpetrator was killing and stealing, but when he was starting to have sex, that was a real problem. But so your games can tend not to get that kind of criticism. And you've said, publicly, that you monitor your own kids, both video games and television watching very carefully. But you've described in great detail or with an amazing vividness, the future of video games. With virtual reality stepping out of

sci-fi into the real life of game players. They're going to be able to enter these games 24 hours on-line.

My question is, whether or not you ever go home and think, "What's the consequence of so attractive a product?" Not that you're going to have people turn into killers, but that they're going to be so engaged in this artificial world, that they leave the real world behind. Is that something that that you think is one of your responsibilities to think about?

ROBERT KOTICK

Sure. We think about it all the time. And in the work that we've done, the research that we've conducted. And one of the things you realize is that people create make-believe worlds from the time they start playing with Fisher-Price toys. And 99-44/100ths % of the population knows the difference between fantasy and reality. And as engaging as these experiences are, they know how to step away from what is the game world and get back into the world of reality and in part, the seduction of these experiences is that they allow you for that small period of time, to escape your reality, and participate in a fantasy world, in a way that you can't in any other medium.

But I really don't think that you're going to see the – any characteristics in these experiences that would lead to antisocial behavior, that are going to change the way the people learn or the way that they participate in real life activities.

JEFF GREENFIELD

There is one other area I want to touch on before we move on and that's the notion that you're both in the business of creating toys and games to capture the imagination of what can be a fickle consumer. And you touched on this a little, but how do you go about seeking the best creative minds in the business, and even more important, how do you keep them?

ROBERT ECKERT

You know, I've only worked at two companies in my life. And that's quite unusual these days. When I was a kid, most people worked at one company for a long time. I think most of the students today, once they leave here, will, on average, work for six or seven different companies. That's reality. So my goal is during that period of time when we have you to develop you to make you feel good about it, to give you challenges, to allow you to continue to grow, so you'll want to come back tomorrow.

ROBERT KOTICK

We're the great beneficiary of being in an industry that attracts the most talented, creative, thoughtful minds that are in commerce today. And that's just because of the power of the medium and the opportunity for innovation and the way that the technology is changing. It's so appealing to people to have a career in video games today. More so than probably almost any linear media.

So the challenge for us is how do you get those people and then to the earlier part of your question, how do you compensate them appropriately, and then how do you

incentivize them for the future, and how do you retain them? And that is something that I spent an enormous amount of my own time on. We invest heavily. We were laughing about this yesterday. We have 300 separate metrics that we use to actually look at people's annualized performance. But it's because we really want to get people to the point where the contributions and decisions that they're making are going to be then directly reflected in their compensation.

JEFF GREENFIELD

What about more practical things? Do you, for instance, will you say to a creative person, "you want to work at home? You want to take a couple of weeks and go sit in a cabin and think about what you're going to do? Go ahead."

ROBERT ECKERT

Well maybe a day or two. (Laughing)

JEFF GREENFIELD

Okay. Okay. Now the picture we have of your business, Bobby, of your typical creative guy, is you know, a high school dropout with an IQ of 180 and the social skills of a baked potato (laughter).

ROBERT KOTICK

That's just the CEO (laughter).

JEFF GREENFIELD

How close is that stereotype to reality?

ROBERT KOTICK

Well, there are certain studies where they might allow pets, or they might have somewhat odd work hours. Generally speaking, if you came into our offices, it wouldn't look too dissimilar from Kraft or Mattel or many other professional managed companies.

JEFF GREENFIELD

Just a quick followup. As broadband and these amazing new technologies lets you replicate the quality of movies, the cost is going up. There are games I'm being told now that can cost \$25 million dollars to develop and market.

ROBERT KOTICK

We do have the increase in the budget. We've also seen something that's an amazing phenomenon to me as a medium, but over the last 10 years, we've increased the hours of entertainment. We've increased the quality of those hours of entertainment, and we haven't increased the price. With the introduction of Xbox 360, we actually raised wholesale prices by \$10 a unit, in part to cover these increased development expense. But we've seen no shortage of sales, as a result.

JEFF GREENFIELD

We're going to take some final questions from the audience, but before we do, we are going to turn toward we like to call, the lightning round. The idea of this is, I'm going to ask each of you, both the same to be fair about it, alternating a series of very short questions to which we would like very short, spontaneous answers. So Bobby, it's your last meal, what do you eat and where do you eat it?

ROBERT KOTICK

Burger King around the corner. (Laughter)

JEFF GREENFIELD

Boy, this is going right down, that's it?

ROBERT ECKERT

McDonald's #7.

JEFF GREENFIELD

Okay, we're going to keep going. What's on your iPod?

ROBERT ECKERT

I'm the only person in my family of five that doesn't have an iPod. Rather I have my son's iPod. He's 17 years old, and he and I have similar tastes in music. And we now, you know, the device exists to allow the iPod to replace the car radio? I listen to his tunes when I'm in the car. Classic Rock N Roll.

JEFF GREENFIELD

Bobby, what's on your iPod?

ROBERT KOTICK

I have five iPods and I think I have one terrified music server at home. So probably (laughter) –

JEFF GREENFIELD

Let me rephrase this. Anything you listen to more than others?

ROBERT KOTICK

White Snake I think is what's playing. (Laughter)

JEFF GREENFIELD

A book or writer that made a difference to you? That stayed with you?

ROBERT ECKERT

Well I like the current one, John Grisham. I like the stories, but the book he's written that I like the most is called, I think, "The Painted Barn". When he wrote a story about America in the 1950s and a family that was in rural Arkansas, and the parents had to leave to go to Flint, MI to work at the large industrialized car factory. That's

how I see what we're doing in Asia. Those – they're not 1950s families, they're the year 2000, 2005 and 6 families, that we're giving that opportunity for.

ROBERT KOTICK

I was just rereading “Democracy in America” and it's amazing how Tocqueville was so able to capture what I think is the very essence of American society, and most of what he captured about, sort of the individual spirit that makes this country so great, is still completely apropos today and something that I keep in my head.

JEFF GREENFIELD

Person living or dead you would most like to have a long leisurely dinner with?

ROBERT ECKERT

My father.

ROBERT KOTICK

Warren Buffet. (Laughter)

JEFF GREENFIELD

Two very different answers. And with those, we want to take a few more questions from students and other members of the audience.

FROM THE AUDIENCE

My name is Alan [...] and I'm a first year MBA student at Anderson. I feel like more and more of video games and toys are being developed based on intellectual property that's already been developed. And to a certain extent, that is curbing innovation. So how do you two big companies make sure to foster innovation in your companies while making sure to hit the numbers as well?

ROBERT KOTICK

You know from our perspective, we do focus on sequels, but it's critical for those sequels to appeal to the expanding consumer base, and you know, it almost goes without saying, that each year, when you see a new Spiderman or you may see a new X-Man, that there has to be innovative game play and one of the things that we really try to do is create a rapid prototyping process, where we can actually create early versions of the games, and bring them out to consumers, let them test them, play them, make sure that those are representative of the new features and functions that need to be incorporated in the game.

ROBERT ECKERT

Innovation is really important to our business too. Eighty percent of our product line turns over every year, half of all toys are purchased around November and December, in the year, and we've got a supply chain that takes us about a year to get those toys here. So, it's a rock n roll sort of business.

FROM THE AUDIENCE

Hi, my name is Tina [...] and I'm a first year student here at the UCLA Anderson School of Management. I'm just curious. As discount retailers such as Wal-Mart become more dominant in the market, how does your retail strategy changed?

ROBERT ECKERT

Well we have a couple of parts of our retail strategy. One, is fish where the fish are. So if Wal-Mart is the largest retailer in the world, we want to partner with Wal-Mart all over the world. The second thing we're doing at the same time, however, is seeding the next retailer. Because if you study the history of retailing, which I'm hopeful you do here at Anderson. You'll see that any given model can change and become obsolete. So today, people are buying more toys, over the internet than they used to. And we want to make sure we have a presence there too.

JEFF GREENFIELD

Bobby, I want to redirect that question a little bit. You're on the Board of Directors I think of Yahoo, a small start up company, do you have any concern that a company like Yahoo or Google can take the next creative game and put it right into an advanced computer and basically render obsolete, all of these consoles that are now you know, so hot?

ROBERT KOTICK

I, I think it's more of an opportunity than a danger. The one thing that I will say is it's going to change the character of gaming. And in the 15 years that I've been in Activision, it's the first time that I can genuinely say that, the experience itself will change. And that is, the influence of the internet. And with the next generation Playstation 3 and the new Xbox, you have now, for the first time, the ability to, on an always on environment, play against another person. You can be rewarded for your play, you can be recognized for your play, you can play 24 hours a day, 7 days a week. You can do it in a way where you have instant messaging integrated into the experience or audio or video. And so we're moving from what's been a very solitary experience to a very social experience. And I think that will have a profound impact on the type of games we create.

JEFF GREENFIELD

Not to mention worker productivity when they get finished a 24 hour stretch playing a video game. (Laughter) Bob, what's next?

ROBERT ECKERT

Mattel's vision is to be the world's premiere toy brands for today and tomorrow. Wherever kids go, particularly younger kids, we need to keep up with them and keep our brands fresh. Somehow or another, in this tough business, we figure out how to make more toys, sell more toys, make more money, and make more cash flow than anybody else. We've got to keep that humming.

JEFF GREENFIELD

Well, here's a phrase that became very familiar to me when I bought my kids video games and tried to master them. Game over! (Laughter) We're out of time. My thanks to Bob Eckert of Mattel and Bobby Kotick of Activision. And if this meeting of the minds has helped contribute in any way to the world's marketplace of ideas, that's the business of CEO Exchange. I'm Jeff Greenfield and thank you very much for watching. Hope to see you next time. Thank you.

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