



CEO EXCHANGE PROGRAM #406 TRANSCRIPT

**“STAKING A CLAIM TO THE FUTURE: Putting Technology in Good Hands”
FEATURING EDWARD J. ZANDER AND EDWARD M. LIDDY**

**TAPED ON MARCH 1, 2006 AT THE KELLOGG SCHOOL OF
MANAGEMENT AT NORTHWESTERN UNIVERSITY**

TEASE

Can't keep up with the times. Staying on top takes innovation and sometimes radical change. Whether you're making cell phones or writing insurance policies, from the Kellogg's School of Management at Northwestern University, Motorola's CEO Ed Zander. "We've got to move from cool devices to cool experiences." And Allstate's chief, Ed Liddy, "Anything that's easy, somebody has already done it." 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

Thank you. Thanks. Welcome to CEO Exchange. I am Jeff Greenfield. I'd like you to picture America on the road a few decades back. With a souped up Chevy with the top down, and the radio blasting away. There's a pretty good chance that that radio was a Motorola, and that the car was insured by Allstate. The car radio's popularity, in fact, inspired the company's name change, from Galvin Electronics to Motorola.

And Allstate, created by Sears, during the Great Depression, that was named after a popular brand of tires sold in the famous Sears catalog.

But to stay the times have changed, that's an understatement and our two guests tonight have played a key role in those transformations, where the road was sometimes rocky. Today the famed Sears catalog that gave birth to the Allstate name is history. But today's Allstate is a network of car and home and life and workplace insurance, driven by technology that can measure risk, zip code by zip code, block by block. We're going to be meeting Ed Liddy, who is the Chairman and CEO of Allstate Insurance Corporation in just a few minutes.

But first, Motorola. Doesn't make car radios anymore. Doesn't make TV sets, it doesn't even make semiconductors. What it mostly makes are some of the hottest mobile devices around. We call them phones, but they take photos and they connect to the internet, and they send messages, and they entertain you with songs and TV shows. One of them, the Razr, became one of the most sought after, maybe lusted after, consumer products in years. The man overseeing this revolution loved to ride the roller coasters at Coney Island, while growing up in Brooklyn. It sounds like good training for the business world. But though Ed Zander cut his teeth out in California's Silicone Valley, he had to come to the Midwest to find his true calling.

ED ZANDER BACKGROUND PACKAGE

"Your effective strategy is pretty awesome what they're doing..." call it the Silicone Valley effect. Ed Zander takes lunch meetings in the company cafeteria. This is his office. He gutted the old wood paneled corporate suite and gave the secretaries the great views. "When I got here, we had an office like ten times this size, with a bathroom and a shower and everything. I came from, you know, the West Coast the last 20 years, and Silicon Valley Tech is, you know, I'm not saying it's right or wrong, you just don't get into offices and assigned parking and private cafeterias."

What Zander does get into is results and boy, has he gotten them the past two years, with the Razr, an ultra thin cell phone that comes in colors like gold and pink. Zander's baby granddaughter would be the envy of many a teenaged girl. "One hour after she was born I had a pink Razr right in her ear." Thanks to the popularity of the Razr, Motorola has been regaining lost market share. Globally, its phones now have 20% of the market. Motorola still has a long way to go to catch Nokia and retake the #1 spot it lost in the 1990s, when it was slow to get popular new phones to market. "You sell this stuff?" That was before a search firm recruited Zander to head Motorola in 2003, replacing Chris Galvin, whose grandfather founded the company. Zander had been a star at Sun Microsystems, where he spent 15 years.

BOB WALBERG, PRESIDENT, CHARTWELL ASSET MANAGEMENT

He had a reputation for being you know, kind of a no-nonsense kind of guy, a lot of energy, you know, New Yorker, and he's taken that New York attitude right into Motorola, really kind of streamlined the operations, cleaned the shop up, and again, now this company is really hitting on all cylinders, as it looks to 2006 and 2007.

CECI RODGERS

One ongoing challenge, Motorola had developed a reputation for unreliability that had been hard to erase. “What’s neat about this one is, that it’s not as fragile as the Razr, 'cause the Razr, we see a lot of them, you know, the flip part snap open very easily.” Dan Ramos is on his second Motorola Slvr. The camera on his first one had a glitch. But he still wouldn’t switch to another phone.

DAN RAMOS, MOTOROLA CUSTOMER

I was going to get the Razr, and the reason I got it is because everybody’s got the Razr. So I got this one, it’s newer. It’s a little more money, but it was worth it, I think.

CECI RODGERS

Which just shows how powerful Motorola’s hip new image is. Just like the old days. At its birth, almost 80 years ago, Motorola founder, Paul Galvin, also brought a very cool product to market. A radio for your motor car, thus the name, Motorola. Then came other breakthrough technologies. Walkie-talkies, computer chips and the cell phone. But at every stage, Motorola’s engineers were calling the shots, instead of the savvy marketers. Until now.

“Let’s go ____.” Enter Ed Zander. He’s blunt and street smart. Growing up in Brooklyn, he and his brother would go to Coney Island and ask tourists for their leftover amusement park tickets. Zander’s favorite ride was the Cyclone Rollercoaster, which seems only appropriate for the whirlwind job, he has now. Zander says the next wave of mobile devices will be remote controls for life, like this one called the Q. “So if you’re at a boring meeting, and you don’t want to listen to your boss, you can play with your Bluetooth, and watch videos while you’re doing your e-mail.”

If successful, Q could steal market share from Blackberry and help Motorola connect with customers for years to come. For CEO Exchange, I’m Ceci Rodgers in Chicago.

JEFF GREENFIELD

Ladies and gentlemen, please welcome the Chairman and CEO of Motorola, Ed Zander.

JEFF GREENFIELD

Welcome.

ED ZANDER

Thank you.

JEFF GREENFIELD

I am quoting this from, it was actually an interview I did with Governor Wilson of California when I asked him why he wanted to be President? He said something that

I found, frankly, unsettling. He said, “Unless you’re the lead dog, the view never changes.” And that struck me as a pretty – a pretty unhappy view of collegiality and teamwork, if that’s your view of everybody else who is not the chief. You don’t – you seem to have brought a very different spirit to when you became CEO at Motorola, in terms of engaging the folks you work with.

ED ZANDER

There wasn’t this burning passion I had, when I was 30 years old, to say I wanted to be a CEO some day. I think the CEO thing sometimes is overrated. I think it’s the team you build. It’s the employees you have that makes success. And I think somewhere in the last 20-30 years in our country, we – with all due respect – we put too much emphasis on guys like us and not enough on the teams that really make things happen.

JEFF GREENFIELD

One of the things that it said that you actually love, and maybe this is part of your Brooklyn thing, I’m a chauvinistic - is you’d like to encourage spirit exchanges. Even debate among your folks. How, how do you ensure that people who work under you are willing to debate something, even if they think you think otherwise?

ED ZANDER

I think you gotta build it over time. It’s tough, when I first got here, the meetings to me were very sterile, very organized, you know, very one-dimensional. And I think it took me a good year to get everybody comfortable that they could challenge me, and you know, we’re all part of a team. It’s hard, but I think now we have a sense of teamwork in the company where people mutually respect each other, but you know, can go at it and can debate and can disagree.

JEFF GREENFIELD

Is there ever a question where you’re thinking, I’m not sure I’m getting from this guy his – gender neutral – guy or girl – guy or woman – a straight answer. I’m not sure they’re not pulling their punches.

ED ZANDER

Sure. I can tell very quickly if somebody is giving me the answers just to give me the answers. Try to outguess me. I’ll sometimes - shouldn’t say this cause I’ll give a tip to my managers – I’ll sometimes take a contrarian view just to play it out and see whether there is original thought there, and whether they’re willing to go, you know, defend their position.

JEFF GREENFIELD

I once asked a guy who had just gotten a very big job in television, a big executive job and said, what’s the worst part of your job? He said, “I can never tell if my jokes are funny, because the people around me laugh no matter what.”

ED ZANDER

I try to look at, you know, great leaders and people that, you know, really have built great companies and the trait you find is the CEO can't be dominating. I mean I sometimes have to pull back, cause I'm a very outward going person and I have a lot of opinions and I talk a lot, and I have to sometimes pull back and say, let them talk, let them think. I think the best thing we can do as CEOs is to allow sometimes your key managers to make a mistake. Try to pick the areas where if they make it, it's not critical. It's not fatal. Because you learn through your mistakes. I've made some great mistakes in my life, but every time I've done it, I've learned something from it.

JEFF GREENFIELD

Want to tell us the biggest?

ED ZANDER

No. (Laughter) I'll think about it.

JEFF GREENFIELD

You were educated as an engineer and switched to marketing. And to some extent, that sounds a little odd, because I would imagine that engineers who actually know real stuff might have a certain sense of disdain for the people who just sell stuff. What brought you to marketing?

ED ZANDER

I wasn't very good at engineering. (Laughter) It's true. I graduated and you know, I was going to be a great engineer and I worked for a few years and nothing I ever designed, worked. And, I did what every engineer that has that problem, I went to business school and got my MBA and launched a career in marketing and –

JEFF GREENFIELD

It raises the question when you're marketing something, do you have to know how it works in order to sell it?

ED ZANDER

I think you do. I think, in my industry, being the technical industry, it helped having the technical degree at first, because I'd understand some of the things. But over the years, I think one of the keys to success is to treat yourself like a consumer or user of the products. I, I really don't read a lot of the manuals or get involved with a lot of the things. I try to understand the value proposition to the consumer or the customer.

JEFF GREENFIELD

So when you first saw a Razr, did your mind start thinking, I wonder how this all works? Or did you just look and go, cool?

ED ZANDER

It's a funny story. I mean we had it in the labs about two years ago, and I saw it when I first got here and thought it was neat. It was cool. I did want to understand how – the real trick of Razr is not – it looks good, but how we did the intended design and

the electronics and how we got thin is even a better story. And we couldn't get anybody to take it actually. We had a hard time marketing it to the carriers around the world. We almost gave up on it as a niche product, but I and my Chief Marketing Executive, said there is something here and stayed with it, and finally got the marketing right.

JEFF GREENFIELD

I want to ask you a specific thing about your marketing, 'cause it certainly struck me as the son of an English teacher, okay? You make Razr. You make, you make Pebl. You make Rokr, and you make Slvr.

ED ZANDER

I got a few others too. (Laughing)

JEFF GREENFIELD

But Ed, would you like to buy a vowel or two? (Laughter)

ED ZANDER

Well actually, actually, I also have a reaction, this is Q right here. So this is one letter. But –

JEFF GREENFIELD

So now you're out of consonants as well.

ED ZANDER

That's true. The nickname in the company was Razr and it looked to me like a razor and I said, "Let's keep the name." It was hard to get R-a-, you know the razor name, we shortened it to get it and then we said four letter words. And let's just find four letter words for all the other products.

JEFF GREENFIELD

So you're not worried you're encouraging a generation of people who can't spell?

ED ZANDER

Uhhhh...

JEFF GREENFIELD

All right as I told you, I'm channeling my late mother's English teacher.

ED ZANDER

Good marketing.

JEFF GREENFIELD

We're going to meet our second guest in just a minute, but before we do we want to take a question or two from members of the audience here at the Kellogg School.

FROM THE AUDIENCE

My name is Allison [...], and I'm a second year student at the Kellogg School of Management. And my question has to do with technology. And how Motorola plans to address as technology evolves and constantly changes, consumers can become more and more confused and what is Motorola doing to address this and make sure that the product lines are in line with what consumers can understand?

ED ZANDER

Well, that's the great question. I have an expression I used in fact at a staff meeting today. I said, we got to move from cool devices to cool experiences, because what we're throwing at you, for example, in the mobile device area is, we got cameras, we got video, we got music and yet, if you're like me, I'm having trouble getting the pictures out of my camera. I mean out of my phone, right? How do – what do I do with it? You've all had to become systems administrators of personal computers, when by right, it should have been like a television, you know, plug it in, turn it on. It may get worse before it gets better, because the technology, even in this mobile area is running at a much faster rate than the last 20 years of the personal computer industry. So, you're going to see a lot more cool technology gizmos. But at the end of the day, my best test for a lot of these devices that I have is I get on Michigan Avenue, and I see friends or people who are in the restaurants, and they'll tell you how good the stuff is.

JEFF GREENFIELD

I've already told Ed Zander that he needs to hire me on the theory that if I can make it work, anybody can make it work. (Laughter)

ED ZANDER

Ahh, you're a different generation. We've given up on you. (Laughter)

JEFF GREENFIELD

Anyway, let's take another question from the audience.

FROM THE AUDIENCE

Hello, Mr. Zander. I'm Noel [...], President of IOR Global Services, and my question relates to your global company. How do you prepare your leaders to be able to handle the intercultural complexities related to that global expansion?

ED ZANDER

I, I think that's probably one of the biggest challenges for American-based or U.S.-based companies, if we are a globalized company. We now have over 50% of our business outside the United States, almost 50% of our employees outside the United States. The major opportunities for us, actually, is places like Brazil, Russia, you know, India and China, which have almost 3 billion people with 8% GDP growth, and just enormous mobile computing opportunities. The challenge for us is to have a

diversified workforce. And it's not just here in the United States, but it's around the world. So our executives have to come from outside the United States. Our engineering has to be deployed around the world. Our manufacturing deployed around the world. We build products today in India that will never see the light of day here in the United States or Korea or China or in European markets. The challenge for us is how do we compete in these geographies? Against international competitors? And it isn't about off shoring or outsourcing. I think that's all just over you know over talked about. It's about competition. It's about how do we [...] our competitive workforce globally? So it's something we're working a lot on at Motorola. The good news is before me, the – you know, the legacy of Motorola, the Galvin family, we were in China in 1986, for example, before it was even cool to be in China. So we got an international workforce. Today I'm just trying to extend that even further to operate in a global competitive environment.

JEFF GREENFIELD

Thank you. Ed Zander is going to back with us in just a few minutes, after we get our second guest. For now, Ed, thank you, we'll see you in just a jiff. Ed Zander.

ED ZANDER

Thank you.

JEFF GREENFIELD

Does it seem odd to you that our next guest watches The Weather Channel when he's at home exercising on the treadmill? Maybe not when you realize that the damage caused by a big storm like hurricane Katrina can cost his company literally billions of dollars. But Ed Liddy is used to stormy weather, as Chief Financial Officer of Sears. Ed Liddy had overseen the spinoffs of all of the Sears Financial Services, including Dean Witter Securities, Caldwell Banker Real Estate, the Discover Card, and Allstate Insurance, but when he joined Allstate full time in the 90s, he took on an entrenched old boy network with a culture, literally rooted in the military. He went to work changing that culture down to the roots, while seeking to convince his colleagues and customers and Wall Street that the company was indeed in good hands.

ED LIDDY BACKGROUND PACKAGE

“What are we looking at right here?” “This is the very first car that Allstate ever insured.” A 1930 Studebaker Dictator 8 Sedan. “And it was a fellow, Bill Leonards, who lived in Aurora, Illinois, who insured this car by filling out a form in the Sears Catalog and sending in a check for a grand total of \$41.00.

JEFF FLOCK

Ed Liddy, first outsider to head Allstate, likes talking about his company's history, much more than his own. “Wouldn't we like to have those prices today?” \$41.60, the first policy and first revenue for Allstate. It had \$35 billion last year under the stewardship of Liddy, who, himself, grew up in a middle class home in New Jersey and Florida.

STEVE DANIELS, ANALYST

He's sort of a CEO's CEO. He's unflappable. He is – he is very analytical.

JEFF FLOCK

But his first job was an analyst for Ford. A graduate of Catholic University, MBA from George Washington, Liddy is more comfortable though, with a focus on his company, which turns 75 this year. "I'm Ed Rimers speaking for Allstate."

JEFF FLOCK

How did you get good hands? "Well, in the era of television first becoming popular, we had a sales manager who came up with "You're in good hands with Allstate." But then it really became popular when Ed Rimer used the slogan on television. "You're in good hands with Allstate."

Liddy helped pick actor Dennis Hasburt as the latest Allstate pitchman. "Are you in good hands?"

JEFF FLOCK

Ed Liddy has made a career out of helping run prominent Chicago area companies. He worked for Donald Rumsfeld at G.D. Searle and was Chief Financial Officer at Sears before coming to Allstate.

Liddy has turned a profit wherever he's been, no matter what. Even the worst of storms, both financial and literal. Hurricanes Rita and Katrina cost Allstate \$3 billion dollars in claims last year, yet it still earned over a billion and a half.

STEVE DANIELS

They made a profit because in the three years prior to those hurricanes hitting, they were raising prices on their homeowners customers every year.

JEFF FLOCK

Liddy is known for making tough decisions that ultimately pan out. At Sears, he was largely responsible for getting rid of the legendary Sears catalog. He was also an architect of the breakup of Sears. Spinning off Allstate in 1993. And when he came to Allstate himself, a year later, he converted the devoted Allstate agents, many long time employees, with full benefits, to independent contractors. "The easy decision, someone has either made, or is going to make." With just 20 employees when it launched in 1931, Allstate now has 38,000. And Liddy is known for treating them right. Running a daycare facility on the corporate campus outside Chicago, along with a fitness center and salon. "The customer experience is probably the primary nexus point..." Liddy preaches customer service but is taking a hit for refusing to write new homeowners policies in some hurricane prone areas, including Florida and even parts of coastal New York. Allstate is also being sued in Mississippi for refusing to pay hurricane damages caused by water, generally not covered, instead of wind. "That issue has been contested in the courts for 20 or 30 years. We're pretty

confident on what the outcome will be.” As confident as he is, that his historic land will be solid in the future, “are you in good hands?” as it has been in the past.

“You’re in good hands with Allstate.” I’m Jeff Flock for CEO Exchange in Northbrook, Illinois.

JEFF GREENFIELD

Ladies and gentlemen, please welcome the Chairman and CEO of the Allstate Corporation, Ed Liddy.

JEFF GREENFIELD

Thank you sir. So I read that you, as a young man, apart from being an athlete in many sports, had notions of diplomacy as a career. And I also read that at your first meeting with the managers when you became – came to Allstate, you said, “A number of you in this room, probably will not be here next year.” Which sounds very forthright, but not exactly diplomatic. Why begin that way?

ED LIDDY

Well, I’m not sure what I was thinking when I wanted to be a diplomat, so let me first dispel that thought. You know, I think that getting an organization to change is important, and I think letting people know that you want them to be better is important. So I’ve always felt being as forthright and direct with people as you can, not threatening, but being as forthright as you possibly can, to get the organization to begin moving in a different direction, is absolutely vital. Otherwise, people get confused as to what you’re trying to do.

JEFF GREENFIELD

Certainly people must have heard that with a certain sense of unsettledness. And clearly you knew that was – that’s what you wanted them to hear that.

ED LIDDY

Yes, I did. But that’s one message point. Then you try to go back and you do let me call it damage control, and make sure people understand you’re really trying to send a message about a whole organization has to get better. Has to embrace change, has to be a different company to thrive, not just survive.

JEFF GREENFIELD

One of the things you did differently and this was the part that I find required I guess an iron gut, if that’s the right body part I’m talking about. Okay Allstate had the system so called Captive Agents. They worked only for Allstate and they were treated as employees or executives. There were health benefits, there were pension plans. They were part of the team. You came in and said, no. We’re changing this. You got a choice. You can either become an independent agent and that loses these benefits, or we’ll give you a generous severance and you can leave. Were you prepared for the reaction? Did you know it was coming? A lot of people thought what’s he doing to our company?

ED LIDDY

Yeah. You know, we had - the situation was just a little different. About two-thirds of our agents were already independent contractors and a third were employees. And the third that were employees, had contracts, one of about 10-11 different contracts. It was very difficult for us to do anything. So as I looked at the situation, I concluded that we would be better off if we could make more or all of them entrepreneurs and that was what the conversion to a single contract was all about. It was difficult, but as I look back on it, our agency force today is more energetic and more focused on serving the customer; and selling policies than I think, we ever could have been if we had stayed in the old model. So today, an Allstate agency has a stake in the value of the business. They can sell that business. They can run it for as long as they'd like and there's real economic value there. Before there was not. But you don't take people and turn them from an employee into an entrepreneur overnight. It takes a little bit of time. Those that wanted to grow and mature into that role have done fabulously well.

JEFF GREENFIELD

What's the old saying, "you don't make an omelet without breaking eggs?" You had some people who were unhappy. At the same time, your company constantly gets rated as one of the best places for working moms to work, one of the best places in terms of diversity. A lot of the so-called, I think wrongly called, softer issues, your company is extremely strong in. And yet, you know when people talk about you, you're the hard-nosed guy. So what made you - I won't say what made you such a softie in this, because I have a hunch that you think that this is good for business.

ED LIDDY

Well I do. We have always believed that your workforce really has to reflect what's happening in the American public. I think we've done that. Some things you want to make sure that you're absolutely adhere to and you don't change, and that's many of the work life and diversity issues that you mentioned.

JEFF GREENFIELD

You look up one day at your television set and you see everybody is talking about the weather in the Gulf. I'm not sure people even who understand the dimensions of Katrina and its successors, understand the impact it would have on a company like Allstate. As I understand it, it essentially took all the profits from that region that Allstate had made for what, a dozen years, 20 -

ED LIDDY

Correct.

JEFF GREENFIELD

-and literally blew them away. First of all, in terms of your response as an insurance company, tell me what you and your colleagues were doing then?

ED LIDDY

You know reality is what reality is, so when you're looking at The Weather Channel and seeing one of these storms approaching, you're really uncomfortable about the whole thing. But we have a fabulous network of claims people. There are about 18,000 people. I have a saying at Allstate that there are real insurance companies and there are make-believe insurance companies. And you find out what a real insurance company is, when you have one of these massive events, because a lot of the smaller, less trained organizations simply don't have the manpower and the processes and the skill and the will to take care of the policyholders. So in an odd way, it really is an opportunity for us to show what we're all about.

JEFF GREENFIELD

You gave actually a couple of interviews about - about lessons and one of you lessons I think was in an event like Katrina, and I'm guessing or not guessing, but I think like a 9/11 event, this is an area where the government has to ensure. That it's just too big, it's at the point that it's simply too big an impact to be absorbed by private enterprise?

ED LIDDY

There are some events that are simply of such a magnitude, occur on such a scale that I think the industry and individual local governments simply can't do a good job. And the American people look to the federal government for some help in those situations because if you listen to meteorologists, one of which I am not, but they will tell you that the water is warmer, they'll tell you the currents in the Atlantic Ocean, both air and water, are different and we could be in a period of Katrina's not being that exceptional. So you look at the potential for Miami or New York City to be hit with that kind of very intense earthquake, it could be a problem. Let's do what America does best and get ready for it now, as opposed to waiting until it occurs.

Deleted:

JEFF GREENFIELD

There's a certain kind of enlightened self-interest from insurance companies. They want people not to smoke. They want people to drive safely. They want cars made safely. It's both obviously good citizenship and also means fewer people getting injured. Is it conceivable that the insurance industry might, at some point, take a role in the argument about global warming?

ED LIDDY

You know, I don't think so. But there is enough science out there, to teach us right now that something has changed in the weather. You know? People would have said, well the possibility of four hurricanes, going through the State of Florida in essentially the same place, no possibility. The possibility of a very, very strong

hurricane Katrina, you know a four or five, hitting where it hit in New Orleans and causing the city to flood, to be destroyed, very, very low probability. But there you have them, back to back, two years in a row. So you begin to worry about it.

JEFF GREENFIELD

We're going to turn once again to the audience for a question or two for Mr. Liddy.

FROM THE AUDIENCE

Hi. My name is Rob [...] and I'm a second year student at Kellogg. My question is really regarding the perception in the marketplace. Earlier tonight we heard about Motorola which has been a company that's been around for a long time, but has been able to remain fresh and hip. My question is really, how does Allstate deal with their perception of the marketplace and remain relevant to the industry and to customers?

ED LIDDY

Yeah, you know it's a really good question. I was sitting in the back with Ed Zander, waiting to start and he's like a human vending machine. He's got, you know, he's got a black Razer in one pocket and a Silver and a pink one. It's tough when you're in the insurance industry. When Ed was pulling out his Razers, I was looking for an insurance policy I could pull out. (Laughing) And then I concluded no one would care if I could find one. But you know our brand, Allstate, and the "You're in Good Hands" slogan, has been around since about 1954. It's one of the most recognized brands and one of the most touchable brands I think, not just in financial services, but anywhere in corporate America. We've moved into advertising NASCAR. Things where America seems to be going. What you can't do is always just stay with one model, let's say, advertising to the mass market. Today you have to try to reach individual consumers. And individual gets to know an insurance company and insurance policy when they have a claim. And that only happens about once every seven years. So training our people, making certain they have a smile in their voice, that they understand how important it is, when a claim occurs that they can talk to a policyholder well. That's very, very important to us.

JEFF GREENFIELD

I want to shift to some – one other area that you've been very strong about, and that is, this notion of extremely sophisticated risk assessment in terms of pricing insurance. I believe that there are some 1500 different pricing patterns, if you add them all up, as opposed to just small, medium and large. One of the things that your company has used very assertively is the credit check. And you've come under, let's say, the view of this is not unanimous, but I think California maybe is the State that says, they don't even want people doing this. The argument, hardly unfamiliar to you is, you know, if you use this, you're basically punishing poor people disproportionately, even if they might be perfectly safe. Could you tell me just what it is about the credit check, that you're so convinced tells you that this is an accurate and fair way to assess risk?

ED LIDDY

Well, it's only one of about 250 variables that we use. It's an important one. It's one that's been used in the credit card business and mortgage lending and other kinds of loans for quite some period of time. And any time people have done an independent and objective study of it, they concluded that it is not discriminatory. In fact, it enables you to write more business, not less business.

JEFF GREENFIELD

So just to be clear, the fact that somebody may be low income or even struggling, doesn't tell you that their credit is no good?

ED LIDDY

Absolutely not. Absolutely not. You know, I'm a product of a single mom, who raised my sister and me and never had two nickels to rub together. She would not miss a credit card bill for anything because it was part of her character. And on the other hand, sometimes when people have a lot of money, they become very loose with what they engage in. So I think if you really take the time to understand the patterns, you see that it is not discriminatory and it enables a company like Allstate or the entire industry which has embraced it, to write more business. And that's a good thing.

JEFF GREENFIELD

Ed Zander will come back and join us in just a few minutes, but first, we want to take a look at the Kellogg School of Management here at Northwestern University with MBA student, Michelle Reyes.

SCHOOL TOUR

Hi, I'm Michelle Reyes, a second year MBA student here at the Kellogg School of Management at Northwestern University. Follow me as I take you on a tour of our campus located on the North Shore of Chicago's Lake Michigan.

Publications such as *Business Week* and *The Economist* consistently rank the Kellogg School as one of the top business schools in the world. In addition to the academic experience, students attend Kellogg to refine their skills as socially responsible business leaders and are sought after by recruiters, who respect their ability to lead teams and work effectively in groups.

Kellogg students are partners in the schools' success. We have numerous opportunities to shape our business school experience, while honing our leadership abilities.

The last two years have been a tremendous learning experience. The personal and professional relationships I formed have enriched my life and I look forward to seeing how these evolve in the years ahead.

The people here at Kellogg are truly unique. They are accomplished, down-to-earth, and definitely know how to have fun along the way. And we're only a hop, skip and an 'L' ride away from downtown Chicago. Thanks for joining me on our tour of the Kellogg School of Management. This shoot doesn't count for class credit, so I gotta run. Enjoy the show.

JEFF GREENFIELD

Let's give a real round of applause to our hosts here at the Kellogg School for hosting this session if you will, with a round of applause.

JEFF GREENFIELD

Thank you. So here's a question for you. Will a conversation between a top insurance executive and a top communications executive, ensure lively communication? If you want the answer, do not touch that dial or clicker or whatever they've invented since this program began. Instead Ed Zander, please come out and join Ed Liddy.

JEFF GREENFIELD

Now this is a good chance I think, for you to ask Mr. – or Zander a question or make a point that might be right on point with both your industries. You make all this wonderful equipment that lets people communicate almost wherever and whenever they want. How do you feel about people using cell phones while they're driving? (Laughter)

ED ZANDER

You know, we're a little worried about it. (Laughing) There are no clear trends, if you think about it, is the cell phone any different than someone who is putting in six CDs, you know, into their CD changer or someone who is stopped at a light and combing their hair or putting on lipstick or what have you? So I'm not sure that I would put it in any different category. We watch the trends. There are a few states and a few cities that have a different view. And they encourage the use of speakerphones and things of that nature. So no clear trend right now but something we're keeping an eye on.

JEFF GREENFIELD

A company using nano technology has developed a paint that will block cell phone calls so that people in theaters once the concert starts, can't make or receive phone calls. Your reaction to this?

ED ZANDER

I think it's great. I mean I would even think driving, you know – we're doing things, I mean we have Bluetooth technology now and we have these things Razr wire sunglasses. We have a lot of cars now, the ability to talk, hands free, you know, driving. I go to movies and it's irritating if a cell phone goes off. So look, we've lived our lives making phone calls and I think we can – we have to watch the social

interaction with some of this technology. So I'm a big believer in you've got to separate the two. When I go to a restaurant, or I go to a movie, I want to enjoy the experience.

JEFF GREENFIELD

So you get as annoyed as the rest of us, even – oh great! It's encouraging.

ED ZANDER

Sure! I turn it off –

JEFF GREENFIELD

One of the things about technology more broadly, that seems to me to have direct impact on your business, this pricing mechanism that you use, with all these sophisticated measurements or metrics, I guess is the right word, could you even do them without modern computing technology?

ED LIDDY

Oh no. No, you couldn't. You know it wasn't that long ago when the insurance industry like so many industries, was still doing things on pieces of paper, and you know, not that long ago, if we looked at a particular application, we would say well it was either a good driver, or a better driver, or a best driver and you'd get one of three rates. And today, literally, you can get one of millions of rates, which again, expands the potential to do the business. And that requires very sophisticated analytical tools, some very powerful technology.

JEFF GREENFIELD

And yet, I read a study within the last month that suggests that people who are Pavlovian responders to e-mail, actually lose productivity. The study said that it takes so much time to disengage from what you're doing, each time that ding goes off.

ED ZANDER

Turn off the ding! (Laughter)

ED LIDDY

If you can turn it off now. (Laughter) I'm not sure where the off button is.

ED ZANDER

Look, it's no different. Look I got trained. I use the – I got a TV remote control in my hand when I was a kid. I'm very good at that. And my kids got PCs, and they're very good at that. And today's generation of young people are getting these mobile devices that do all these wonderful things, or e-mail and you know, I think if you watch too much TV it might not be good for you either.

JEFF GREENFIELD

Well it's not personal personal but on a personal level, when you have a major decision to make, do you unplug? Do you go somewhere where you actually can't be reached for an hour or so, or two or 12minutes, whatever the right time for a CEO to be out of touch?

ED LIDDY

You know, decisions take a while, particularly big decisions. They take a while to gestate, to think about it. And so you don't really have to disconnect, because the right course of action will become apparent to you, over some period of time, as you solicit input. You know, I do disconnect from e-mail once in a while and my view is, it's not so much that it's hurting productivity, I think what it does if you're not careful, is it destroys accountability. So what happens is, someone will send an e-mail on something they're working on, and they'll say, "oh well, let's copy Zander on it, just so he knows. We know what he's going to do. And that's their way of saying, well let him make the decision. And you have to be very careful with that, or you are making every decision in a company. In company's the size and complexities and breadth of Motorola or Allstate, you cannot do that. People are – are well paid to make decisions. So what you really have to guard against is an encroachment in accountability and responsibility.

JEFF GREENFIELD

Another question from the audience, please?

FROM THE AUDIENCE

Hi, I'm Maya [...] I'm a first year at the Kellogg School of Management. The use of cell phones and video phones have increasingly become an information gathering tool. Mr. Liddy, I have a question for you, as far as how have you been able to use this technology to gather more information from your customers, at an incident or accident, and for Mr. Zander, how do you see this and other mobile technologies enhancing the way business interacts with its customers?

ED LIDDY

You know, we do not gather information from cell phone usage and it could well be that our folks who their full time job is to figure out how do you get better at data gathering and underwriting, are, in fact, concentrating on it. But, there's a point beyond which, people think you're encroaching on their privacy. So there's a couple of companies now that are testing black box underwriting. They put a little device in your car, and it can tell in conjunction with your navigation system, how fast you've gone, how well you've drove, where you drove, how far, and that could be a way to price the insurance product in the future. But I'm not so sure. I think the industry has got to tread into those waters gently.

ED ZANDER

There's more information being gathered on you and me and everybody else, "legally", quote unquote, but I think we as an industry and we as the consumers and

we have as government, have to go figure this out and figure out where we draw the line on privacy, and how do you manage through this stuff.

But I tell you what, the technology is happening. Every cell phone today will have GPS in it and the fact is; that all content, all information will be available and maybe hopefully, we can turn it positively, to give Allstate a lot more tools to help their business be more effective, so if there – God forbid is an accident, or something going on, the people who are mobile in the field, the kind of information gathering, the ability to make Ed's company more productive and more efficient to the consumer. So I want to turn this into a net plus, as opposed to a net minus.

JEFF GREENFIELD

I want to switch gears for a minute and point to the notion that both of you were outsiders. Came into companies with a very established tradition. Both of you had to shake things up, or to complete a successful turnaround. Were there specific strategies that each of you used to overcome resistance from people who didn't want change? I guess, Ed Zander in your case, you predecessors had done some of that, but still you both were the new guys on the block.

ED ZANDER

Well, you know I think every situation – I think one of the problems in time and the business school may not like this, but I don't think one size fits all. I had to really understand Motorola first. Met with managers, first thing I did in the first month was go see our major customers. Got right on the road and saw them and I, I concluded at least in Motorola, there was a very strong culture of good things that had been in place for 75 years and it wasn't that I was going to be there and just rip up the culture and fire everybody and change everybody. So, I had to build a strong relationship with the employee base about what was good about Motorola first, and then built upon how I wanted to extend that second. And for me it was a set of unique things and unique circumstances of what I had to do. Course I had to let them know I was in charge and this is the kind of vision I had for the company. There was a turnaround in progress. The company had a strong, you know, strong culture and strong customers. But we had to do some checking up. We had to change some people. We had to change some cultural habits around speed and sense of urgency and focus on the customer and quality that I had to get in place there.

ED LIDDY

Similar to what Ed just said. I think perhaps one of the most underrated skills that a CEO can possess, is the ability to listen. You know if you listen a lot more than you speak, organizations know what to do. Good people in good organizations, they know where to take it. If you can just listen before you start pontificating, you'll be amazed at how people will embrace what you have to say and how quickly you will learn about an organization. So I try to do that. I still try to do it and it's a message I would give to anybody who is an aspiring CEO. Learn to listen.

JEFF GREENFIELD

Listen before you pontificate, and you're going to put people like me out of business. (Laughter) Be that as it may. You're often talked about as somebody who once you've made a decision, you do go back and you make sure it's right and this is for both of you. As you look back on your tenure, is there something that you now think, that one I think I should have done different?

ED LIDDY

Oh yeah, probably too many to mention in the short time we have. You know I made a decision on what to do internationally. We are a North American-based company. Canada and the United States and in our market that works really well. There are a 1000 companies in the U.S. that sell automobile and homeowners products like we do and the top five only have a 45% market share. We can do really well domestically. But I made a decision, oh six years ago or so, not to pursue the international arena. Insurance is different. It's not as global as some other industries are. I think that was a good decision at the time. I question it. I go back and reexamine the decisions, not because I want to make them over again, but because I want to learn about myself and our organization. Could we have thought about that differently and would we have made a different decision?

So, as I look at where the growth is, around the globe right now, and it's many of the evolving or emerging countries, and we are not there, I wonder if that is a shortcoming in our strategy. And if we had stuck with the international business, which we were bleeding in at the time, if we'd think differently about it ten years ago. Making a decision that's good for the next 2-3 years, and making a decision that's good for the next 20-30 years, sometimes are at odds with each other, and being able to balance those two, can sometimes be difficult.

JEFF GREENFIELD

Interesting.

ED ZANDER

I think it's something – I got told before I came in, when I asked for advice from some good friends that are CEOs, something you read in the books, and that is, of course, you know, move quick on people. We never do. I mean all the guys I talked to said, that's the one thing they regret, not moving fast enough and I got in and heard that advice and still – I feel in retrospect, perhaps on some people that I had a gut you know, feeling for, I could have moved a little quicker. Some of the organizational changes that I wanted to do. You know, second guessing right now, but I think, I'll throw the recommendation to any friend of mine who wants to go do one of these jobs, is educate your gut, and then go with it pretty quick .

JEFF GREENFIELD

Okay. You have to get high marks for candor on this question. Thank you both. Like another question from the audience.

FROM THE AUDIENCE

My name is Chuck [...]. If things such as employee openness, communication, employee engagement, are those – those things are important to a business. How do you know when you're there? How do you measure those things?

ED LIDDY

I don't think you're ever there. I think those kinds of things are very much a journey and not a destination. And I think many of them flow from the personal style that a CEO sets. You invite different points of view and eventually the organization trusts you, then they will be even more open with you. So I, I think there are some things in life that you are always striving to attain. You need to recognize that you'll never quite get there. And candor and openness in an organization is one of those things, but I think a CEO and a CEO style has a lot to do with how open your organization will be with you or with issues.

ED ZANDER

Yeah, I agree, because I think my first town hall meeting in January, I started January 5th, I gave out my – I said, “look anybody got a problem, EdZander@Motorola.com and you know I got – I probably regretted that, I got like 500 e-mails. I answered every one of them. And I still do today. I tell you the first few town hall meetings was dead silence. It was just the way Motorola was. Everybody was afraid to talk and now the word spread throughout the world that if Ed comes to a town hall meeting, be prepared 'cause he'll call on you if you don't. And I'm not saying - I still got a long way to go, 'cause they worry about retribution. They worry about can they be honest? I don't answer anonymous e-mails. I won't do it. I won't even read them. If an employee puts his name on it, they got to be able to trust me.

JEFF GREENFIELD

Audience question. One more.

FROM THE AUDIENCE

Hi. My name is Gil [...]. I'm a second year at Kellogg. You both are leading organizations which are in very competitive industries. And how do you basically ingrain a culture in your organizations to constantly innovate?

ED LIDDY

You know, it's a really great question because I think that the companies that thrive today and will dominate their landscape tomorrow are those that are innovative. So I would say you have to have a couple of things. One you have to let people know in your organization that it's important. That the status quo is wonderful. Embrace it, ride it for as long as you can, but it assures you of nothing when it comes to tomorrow. So you really have to let people know that innovation is a priority. Second, I think you have to tolerate failure because you know, you'd like to think that everything you try in business is going to work. And it's going to work dramatically well. You know what? It's just not the way it is. Some things are going to fail. So you don't want your failures to be fatal. You don't want people making the same mistake

twice or three times, but you have to let people know that you can have an incubator kind of philosophy. You know, try something. Maybe don't try it we have 35 million policies in force, we take care of 17 million households. Don't try it on all 17 million the first day. But go out and try it and see if you can make some progress.

Innovation is a shared responsibility. It's not necessarily one person. You know you always like to think that great innovations happen because somebody stuck with it and they built it in their garage or they licked their finger and discovered the next new pharmaceutical product. Some of that happens but most innovation is really hard work by organizations pulling together and constantly challenging themselves to do better.

ED ZANDER

I, I is one of the biggest challenges because in tech, we've shown over three or four decades, that we re-invent ourselves every 10 or 12 years and that we take on a lot of cases 10-12 billion dollar companies and put them out of business. I mean this is an industry that is consumed with the disruptive technology and an industry that at the height of success - I have an expression inside Motorola, I've used it before, at the height of success break your business. Just when you think it's going well, just when you think you had the best quarter, just when you think you've got the best product designs, go inside your companies and break it or find out and what we do, what we try to do at Motorola is to encourage the innovation. We have things called the early stage accelerators inside the company and incubation type groups in the company. I have a hot line into the labs. Anybody who has a great idea can be heard. We're trying to go where the smart people are. So it's not going to happen necessarily in Chicago, it may happen in Bangalore, and it may happen somewhere in China. It's a constant, constant thing that I spend a lot of time on. What's the next big thing? What's the next wild technology?

JEFF GREENFIELD

I think it's an old Joe DiMaggio line, "that maybe it's better to be lucky than good." I mean Razr was in development when you got to that company, right? When you saw its potential. In your - in the moments that keep you up at night, in an unhappy way, do you figure that there is somebody out there, maybe in Bangalore, maybe in Taiwan, that's coming up with something that's going to blow everybody else out of the water and they're going to be the defining product that everybody has to have?

ED ZANDER

I like to always think that I know my competition better than they know themselves in terms of what they're going to go do. So you spend a lot of time doing that, but you can't - you know, I like playing offense. I like setting the agenda. I like being the thought leader, so you know, my way of managing is, we've got to set our strategy. We got to set our products. We've got to set what we've got to go do. The brand of Motorola, I hope it's more than just a Razr. I mean, great companies in the world have had brains that have transcended you know, what the pop culture is of that particular year or that particular generation.

JEFF GREENFIELD

You're both obviously, you're CEOs, powerful folks. But even powerful folks are not all powerful. We reserve that for higher beings. What happens when you get really frustrated? When you know you want something done. You're committed to a certain course of action and for whatever reason, government, a competitor, indifference, whatever, it doesn't happen. How do you deal with that? How do you – how do you channel that? I guess what I'm asking is, do you punch the wall? Do you go for long walks?

ED ZANDER

I think the important thing you have to learn and I had to learn is that your employee base and your customers are watching you every day every minute of every day. I go down to the cafeteria and if I walk the halls, if I go into sales meeting with my employees, customers are looking at you, and it's not that you can't have the, you know, the emotion to win and the desire to be the very best, but you've got to know this is a long journey and you're going to have your bad days, your bad weeks, and your bad months and you know, as long as you get a vision and as long as you've got the team, and you've got everybody you know, marching in the same direction, you know it's not going to be easy all the time.

And I tell it – I say, even at Motorola, we had a pretty good two years, and I say it's never as good as it is, and it's never as bad as it seems. And sometimes the press and especially these days, they take good and they make it great and they take not so good and make it really really bad. Our job is to moderate the highs and potentially the lows, celebrate successes, make sure you understand why you didn't succeed in some cases.

ED LIDDY

I think to be an effective CEO, one of the characteristics, you absolutely have to have is, you have to be an optimist. I'm not saying you have to be naïve, but you have to be confident that, in fact, you will overcome a certain situation. So I think maybe with age comes wisdom and if you have a good idea, and you are blocked from achieving success today, then figure out how to repackage it and re-push it and come at it at another way.

If it's a good idea, it will stand the test of time. And you will eventually, if you persevere, you will eventually prevail. So I think you gotta have fortitude. You've got to have courage to kind of keep going. You know, anything that's easy somebody has already done it.

JEFF GREENFIELD

Before we close, we're just going to take a few minutes to devote to what we have developed as the lightning round. These are very short questions that require very short answers, preferably the first thing that comes into your head. So, --

ED ZANDER

You go first. (Laughter)

JEFF GREENFIELD

It's your last meal. You both get a chance at these. Ed Zander, (laughter) your last meal, what is it, where is it?

ED ZANDER

Probably Italian food, probably good old Brooklyn would be fun.

JEFF GREENFIELD

Mr. Liddy?

ED LIDDY

I would say anywhere with my family. I wouldn't be -- location specific. And it's probably a good piece of seafood.

JEFF GREENFIELD

Seafood. The music that you most turn to, either the genre or the artist?

ED LIDDY

It's a good question. I have pretty eclectic tastes and so it ranges from you know, classical music to opera. I still probably like rock the best, and it would be from the 70s and 80s generation. In fact, my kids listen to that music also, so maybe I'm stuck in a time warp.

ED ZANDER

Same. Rock, late 60s and 70s.

JEFF GREENFIELD

A place you visited that most remains in your mind? Other than your home now as the most compelling attractive place on earth?

ED ZANDER

I don't know if it was attractive, but I thought you know, China was pretty interesting and Beijing and surrounding areas. Culturally and people wise.

ED LIDDY

Attractive no, but sticks in my mind, Louisiana, specifically New Orleans, after Katrina hit. No sounds, smells of decay, just overwhelming. A television picture, newspaper picture, can't possibly do justice to it. You're just overwhelmed when you see it up close and personal.

JEFF GREENFIELD

A figure, historical figure living or dead that you'd most like to sit down and have a long conversation with?

ED LIDDY

I'd go with Harry Truman. Interesting character, very difficult time, followed a very very popular President and I think history has treated him really extremely well. He was treated much better by history than he was in his contemporary presidency.

Deleted:

ED ZANDER

And Lincoln has always interested me, because he was so controversial when you get to read about him and see both sides of it. And it's not just you know, he was a great President, but faced probably the most difficult challenges of any President.

JEFF GREENFIELD

Last one. I want you to complete the sentence. While I still have the time or energy, I'd really like to?

ED ZANDER

(Laughter) Ohh...I'd like to get good at golf. (Laughter)

ED LIDDY

I'm going to answer from a professional standpoint. I would like to have our people continue to believe in themselves. Because we've come a long way and when you believe in yourself, you can accomplish an unbelievable amount of stuff.

JEFF GREENFIELD

Alright. It is clearly time now for our guests and the audience to race out of here and check all the messages that have been piling up (laughter) on the mobile phones and PDAs and to get the latest update from the Weather Channel, Ed Liddy, just to see what's going on. I really want to express my thanks to our guests; the Two Ed's I guess we could call this if this goes into syndication. Ed Zander of Motorola, Ed Liddy of Allstate. I really appreciate your time and thanks to the Kellogg School as well. And by the way, if this meeting of the minds has helped contribute in some way to the world's marketplace of ideas, that's the whole idea and the whole business of CEO Exchange. I'm Jeff Greenfield. Thanks a lot for watching. See you next time. Good night.

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