



CEO EXCHANGE PROGRAM #506 TRANSCRIPT

“FROM GLOSS TO GLOSSY: TAKING A GOOD LOOK AT
LOOKING GOOD!”

FEATURING WILLIAM P. LAUDER AND CATHLEEN P. BLACK

TAPED FEBRUARY 27, 2007 AT THE NEW YORK UNIVERSITY -
STERN SCHOOL OF BUSINESS, NEW YORK, NY

TEASE

Want to step out in style? Then take a good look at two CEOs who know how to make you look good. From New York University – Stern School of Business, William Lauder of the Estee Lauder Companies – “The product makes you feel better inside, you project that confidence in a different way”, and Cathleen Black of Hearst magazines – “Strong brands like a *Cosmo* or *Good Housekeeping*, I think they will be around for decades and decades.” Two CEOs putting a new face on cosmetics and publishing, next on CEO Exchange.

SPONSOR SHOT

Funding for CEO Exchange is provided by SHRM (the Society for Human Resource Management). In today’s knowledge-based economy, the nature of work has changed. Once driven by materials and machines, success is now powered by people. Competitive strength is no longer only tied to physical resources, but upon workforce talents. SHRM believes that the power of people is not a cost to be managed, but an asset to be leveraged.

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. (applause)

JEFF GREENFIELD

Thank you. Thank you, welcome to CEO Exchange. So as Shakespeare once asked, “What’s in a name?” Well, in business, it can mean a very powerful brand like Estee Lauder, a three generation family affair that sells nearly \$7 billion dollars worth of beauty aids, or it can mean a publishing empire, like Hearst, where 19 magazines reached tens of millions of readers.

But even the most powerful of brands are not immune to change. Estee Lauder needs to expand to a younger, more diverse, and more international customer base. And if Hearst wants advertisers like Lauder to follow, it must move beyond the world of print.

Now these are challenges that might pose some of the toughest tests imaginable, not just to the two CEOs who are here, but even to the students here at NYU – Sterns School of Business.

Now when Cathie Black was growing up in Chicago, she dreamt of working in the magazine industry. To quote *Broadcast News*, the movie, “What do you do when reality exceeds your dream?” She’s now in charge of 19 magazines, including *Cosmopolitan*, *Esquire* and *Good Housekeeping* for one of the most prestigious publishers in the world. We’ll be talking with Cathie Black, the President of Hearst Magazines in just a few minutes.

But first, as the third member of the family to head the Estee Lauder Companies, William Lauder is determined to make over the company in his own way, he’s championed standalone stores. He’s pushed into overseas markets. He’s targeted young consumers, while building on the foundations laid by his remarkable grandmother, Estee Lauder. So please welcome the President and CEO of the Estee Lauder Companies, Mr. William Lauder. (applause)

And welcome. Good to see you. Have a seat. The story of your grandmother, dubbed one of the genuine business geniuses of the 20th century, is remarkable, if not the least, because of her determination. Going to the head of Neiman Marcus when she was just starting and saying, you’ve got to carry my products. Three generations in, with so established and successful a company, how do you keep that energy? How do you avoid resting on your not Lauders, but laurels? (laughter)

WILLIAM LAUDER

Well, you keep the energy really because I was only exposed to high energy, high accomplished people my whole life. My family, everyone is high energy and high accomplishment. Sitting around the dinner table with my parents, both of whom worked in our family business, being exposed to my grandmother and her persistence and her desire, it just rubbed off osmotically, and staying still is not really a part of my vocabulary.

JEFF GREENFIELD

One of the stories told about your grandmother, by your dad, is that he was helping one of his friend’s daughters, make a few silly, not silly, but small

beauty aids to sell to her classroom and he gave her some pots and your mother supposedly said, “You’re helping the competition?” Now this is competitiveness with a – with really an edge. What’s up–

WILLIAM LAUDER

My grandmother had an instinct for business in every aspect that was pretty remarkable. When I look back at her determination and her focus, both on a competitive basis, but also just when you think about it, 1946 post-war in the United States, a woman getting on trains, no planes, or buses, and traveling around the United States with a suitcase, sitting outside the doors of buyers offices, waiting for them to give her the time to sell her products. That’s something you’re born with, that’s a part of the DNA and her persistence was not just about keep the competition out. Her persistence was I want you to do what I want you to do. Why don’t you want to do what I want you to do?

That had to do with my brother and myself and my cousins. If we said no, we don’t really want to do something, she said, “why not?” And she’d keep after it until we gave up and said, “okay.” (laughter)

JEFF GREENFIELD

Given the resources, your family is clearly a family of substantial means, why aren’t you traveling all over the world, seeing the most luxurious places in the world, or taking three months in the winter and stretching out on a beach in the Caribbean?

WILLIAM LAUDER

You know, when I go through my quarterly analyst conference calls, I ask myself the same question. (laughter) But the fact of the matter is, you know, we are determined to make a success of our company. And I’ve been given an extraordinarily – extraordinary privilege by being exposed to accomplished people like my grandmother, my father, my mother, and I feel I have an obligation to not only continue that success, but also to make it even greater in its own way for the future.

JEFF GREENFIELD

The question is, how does the grandson of Estee Lauder demonstrate that he has what it takes to regenerate the company and we’re going to find out from correspondent Jill Bennett.

WILLIAM LAUDER PACKAGE

JILL BENNETT, CORRESPONDENT

“The view is quite compelling.” Just imagine going to work every day through a lobby designed by your grandmother, past a case of awards and tributes to your family. “My grandmother got the *Légion d’Honneur* from the President of France.” To an office just down the hall from your father.

William Lauder, the grandson of Estee, was named CEO in 2004 and he is ever mindful of the conventional wisdom which states the first generation creates the success, the second generation builds on it and the third, spends it. “The challenge I have is to prove to anyone and everyone, most importantly, myself, that I can be accomplished on my own, regardless of what was handed to me. I believe that I have to work twice as hard for half the credit.”

His grandmother got all of the credit for starting the company back in 1946, by selling skin cream. Here’s an original invoice from that year, when a 6 oz. jar cost just \$2.50. Oh, how times change! The company now markets 25 brands owning its namesake, Estee Lauder, Clinique, Bobbi Brown, M-A-C, La Mer and new Tom Ford lines, while licensing celebrity fragrances from Michael Kors and Donna Karan.

The company posts nearly \$7 billion dollars in annual sales. “The company as it is now is a very different company than she envisioned it. But the fact of the matter is, is she’s always been and always was extraordinarily proud of all of the babies that were spawned from the Estee Lauder brand.”

William Lauder heard plenty about the brand from his parents, who both worked at the company, and while he considered careers as a pilot or a hotel operator, he knew by the time he graduated from the Wharton School of the University of Pennsylvania, that he wanted to work at the family business. His father, Leonard, now Chairman of the company, offered some advice. “The first thing my father said to me was, “Whatever you do, you’re going to have to go accomplish it somewhere else first.”

William worked at Macy’s for three years after completing its executive training program. He joined Estee Lauder in 1986 as regional marketing director of Clinique U.S.A. Within a year, William launched the environmentally friendly cosmetics line, Origins, and focused on creating standalone stores.

PETE BORN – EXEC. EDITOR, BEAUTY, WOMEN’S WEAR DAILY
They’re good at brand building. Spotting talent and building it into a brand. And since then, the world has changed, and it’s a lot harder to do that. That would be their distinction.

Branding expertise or not, William had a rude awakening in his first year as CEO profits slumped and the stock fell 30%. With the Clinique and Estee Lauder brands losing market share in the U.S., William made a big push overseas. “We find our growth is coming primarily from Asia,

emerging markets such as Russia, China, Brazil, as well as we're growing in share and we're growing very well in markets like the Middle East, travel retail and Europe."

And that created more than a cosmetic change in Lauder's fortunes, profits during the 2006 holiday season, more than doubled from the year before and shares reached a two year high. Still, analysts say the company, which was focused on the department and specialty stores for 60 years, needs to make a stronger appeal to the mass market.

JIM DORMENT, RESEARCH ANALYST, U.S. TRUST

The biggest thing I'd like to see them do better is to strategically focus on reinvigorating the Estee Lauder and Clinique brands to the point where at the very least they stabilize their shares if not start to see them continue to grow here in the Americas.

JILL BENNETT – CORRESPONDENT

There's no end to the challenges of growing an international company with 26,000 employees, but William Lauder is ready to meet them. You might say, it's in his blood. "I grew up in a family where my father was working very hard. My mother was working very hard. His mother and father were working very hard, and that's an environment that I feel very comfortable in." William hopes to pass that same strong work ethic onto his children. As the saying goes around here, that's so Estee." In New York, I'm Jill Bennet, for CEO Exchange.

JEFF GREENFIELD

Just for the record, as a one-time customer of La Mer, it does not sell for \$2.50 a jar. (laughter)

WILLIAM LAUDER

No.

JEFF GREENFIELD

Okay, just wondered anyone if you looking for a bargain, just want you to know. But you mentioned in that piece about it's a line that I think you've used before about working twice as hard for half the credit, because of who you are and how you got there. When you walked in to Estee Lauder as a full-time worker and likely future CEO 20 years ago, did you have a conscious notion in your mind of how you would relate to the folks, not the Lauder family, but the other folks at the company to say you know what? I mean to earn this, not inherit it?

WILLIAM LAUDER

Well, I was fortunate enough to start at the – in a level of the company which, where I had peers age-wise. And the people with whom I worked

and for whom I worked, bent over backwards to treat me as a peer. They didn't treat me special. I was subject to the same rules, regulations and expectations and performance and I treated myself the same way.

JEFF GREENFIELD

In terms of running the company, climbing that ladder, there was a limit, so I'm just wondering if there was a way that you and your fellow Lauders make it clear, look it's a family company, that is, it's our company, but here's where you can rise.

WILLIAM LAUDER

We've bent over backwards in our company to create a professional atmosphere, where merit and accomplishment are the first and foremost standards for progressing in your career. And my father, who was the CEO, was not my predecessor, but in fact, it was a gentleman named Fred Langhammer, who was the CEO in between my father and myself. He was a professional manager, professionally trained and the most capable person for the job at the time.

And when he said, you know, it's time for me to retire, our outside directors put me and a number of others through a somewhat rigorous, not somewhat, a very rigorous process, so they could make the determination on their own, that I was the most qualified for the job, not because of an accident of birth, but because I actually had the skills and experience and ability.

JEFF GREENFIELD

And when as we saw in the package, that first year, when the news wasn't all good, when the stock went down, what – how did you tell yourself, the people you worked with, that, you know what? It's the right decision. I can get us out of this. I don't know whether or not you've tried to channel consciously your grandmother's spirit or energy, but how does a CEO do that? When, in the first time out of the box, you know, things get rocky.

WILLIAM LAUDER

Well, I guess to paraphrase Mark Twain, "Nothing focuses the energies so much as the certainty of one's demise." But the fact of the matter is, is it focused us on doing a number of things that perhaps we should have been doing before. And the fact is, my role is not as a family member. My role is as the CEO and leader of this company.

There should be no debate amongst our outside shareholders, where my interests are aligned. The vast majority of my personal wealth is tied to the success of this company. And no effort I can make to do otherwise will change that fact.

JEFF GREENFIELD

One of your early successes, even before you got to be CEO, again as we heard, was you had a disagreement with your dad, I think, about a strategy, standalone stores. He wasn't sure about that and you said let's try it and you proved right. Do you think that that has opened you up to the idea that when say, either one of your children or another person in the company, says I don't think you're right, Mr. Lauder. I want to try this. Are you more receptive because you saw what happened when the CEO acknowledged that someone else had a better idea?

WILLIAM LAUDER

My belief is, one of the first acknowledgments one must make as a leader is one, you do not have a monopoly on good ideas. Good ideas come from any place and every place and you have to be prepared to listen, and be prepared and comfortable with commentary, criticism and observation of how something can be done better. This is not an autocracy. We could never be successful as a company with so many employees, so many brands, doing business around the world 24 hours a day, that only one person is capable of making decisions.

JEFF GREENFIELD

I want to talk about what it is you sell. The first ad, I believe, for Youth Dew, which was a product that your grandmother helped make the company, was a product of a woman about to get into a tub, from the rear, slightly out of focus, but appropriately enough, wearing no clothes.

Now we flash over a few decades and you got Tom Ford, the former Gucci creative genius, on board, he revival – he wants to take Youth Dew and revitalize it. One of the first ads is a rather attractive model, wearing either few or no clothes, which raises an old question about the business you're in. Are you selling the product or are selling something else? Namely the idea of sex?

WILLIAM LAUDER

The short answer is yes to all of the above. It's not one or the other. You're selling the image, the aspiration, the idea of what this product says to you and means to you, as well as, you're selling the product itself, because of what it does for you, physically and emotionally. If the product makes you feel better inside, you project that confidence in a different way and if the image of that product that you may see in a store, in a magazine, reinforces why you made that choice, that's all the better.

JEFF GREENFIELD

But if as recently happened, some consumer survey was looking at various beauty aids and they were looking at the high end, and they were saying, you know what? As far as we can tell chemically, biologically, it's not all

that much difference between the high end and the low end thing. So if a potential customer said to you, “Mr. Lauder, why should I buy this product at X dollars when I can buy this product at X minus Y dollars?” What do you say? Is this notion wrong? Are there in fact material differences in the products that make a difference?

WILLIAM LAUDER

Quite frankly, there are material differences in the products in a number of different aspects. And you can come at it from a number of different angles. What starts with is the quality of the ingredients, the concentration of the active ingredients that make the difference, the quality of the packaging. The quality of the retail environment in which it’s sold, and the service component for what we offer.

And one of the key things that we offer that consumer, is the confidence and the knowledge with that service, when you took your wife to Saks Fifth Avenue to shop for La Mer, you had someone who was dedicated to helping her find the right formulation and the right product. And your comfort level for paying that premium was that you know you got the right product. And that is an important part. The other thing I’d say to you is not all cars are Hugos.

JEFF GREENFIELD

This is true.

WILLIAM LAUDER

So many people in society find that they want to stratify- stratify themselves by paying up and aspiring to be able to buy more.

JEFF GREENFIELD

Before meeting our second guest, we are going to take a question from the audience here at that NYU Sterns School of Business. Tell us who you are and ask your question.

FROM THE AUDIENCE

Hi, my name is Mateo [...]. I’m a second year MBA student from Spain. I would like to ask you a question regarding some problems that arise in several family businesses. How has your company managed successfully to attract and retain talent in employees and non-family member employees?

WILLIAM LAUDER

We’re fortunate that our company is large enough that there is plenty of room for everybody who is of talent in our company and there’s only just a few of us with the name of Lauder who are part of the company.

The fact is, there's right now five active members of our family in different places in our company in a company of 26,000. There's plenty of room for capable leadership executives and my obligation is to create an environment that is stimulating to everybody.

JEFF GREENFIELD

Thanks for the question. William Lauder will be back with us shortly after we meet our second guest for now. Thank you. Now if you want a measure of how times have changed, try this. When Cathie Black became the publisher of *New York* magazine in 1979, it was the first time a woman had ever been publisher of any weekly consumer magazine and some male staff members reportedly resigned in protest. I think you can say that Miss Black had the last laugh.

From there she went to head up *USA Today* and then the Newspaper Association of America, before landing what must have been her dream job a decade ago, running Hearst magazines.

During the past ten years, she has imprinted her style in some of the world's best known magazines, while keeping heady company as one of Fortune magazine's most powerful women in business, and Forbes magazine's most powerful women in the world.

So please welcome the extremely powerful, yet amiable, President of Hearst magazines, Cathie Black. (applause) Hi Cathie. Now I got to begin by asking the question I've always wanted to ask a powerful magazine magnate, which is you. I look at the magazine stands voraciously, I'm a voracious reader and I've got to know how many times can a magazine tell us how to lose 15 lbs. in two weeks, how to flatten the abs, how to round the butt, how to discover five new sex positions and what to do with those Thanksgiving leftovers? Which are two different questions by the way. (laughing) I mean don't people ever say, you know I think I read this?

CATHLEEN BLACK

Well, here's *Cosmo*, right? *Cosmo* is about 37 years of age. It sells on average 2 million copies a month at the newsstand, year in and year out and another 900,000 subscriptions. So I guess either the weight did not stay off (laughing), the sex was not as good as what they thought, and he still wants to read it as their bedtime buddy. I think we've got a future.

JEFF GREENFIELD

Well, now there's another part of your story, that is constantly reprinted so I feel I can ask it. Is, it's the weekend, and you're pretty good at going up to your place in rural Connecticut and you jog into town and then you come back from town a mile and a half and you do what?

CATHLEEN BLACK

I pick up the garbage or trash I should say. I don't know how I started this, to tell you the truth, but we – I have a black Lab and I walk or run with the dog to town, and then I get the newspaper, have coffee, several newspapers, get the coffee and then I say to the clerk behind this little tiny village store, I say "Can I have an extra bag?" You'd think I would bring my own plastic bag by now, and so they go, "Sure."

And then I have my coffee and I walk back and I pick up trash along the way and I figure like that's my little thing to, you know, if everybody would just like think about their neighborhood or their two blocks one way or the other, our streets and country roads and highways would be clean. So that's my little thing.

JEFF GREENFIELD

So if we came to that magnificent new Hearst Building, late at night, would we see you (laughing)?

CATHLEEN BLACK

Yeah you would, I promise.

JEFF GREENFIELD

Okay fair enough. We're actually going to get into somewhat more depth about the business side of Hearst but first we want to find out something more about the executive described as the first lady of American magazines and how she got her start, and here is correspondent, Ceci Rodgers.

CATHLEEN BLACK BACKGROUND PACKAGE

CECI RODGERS

So these are like your children? "They're all my children. So don't even think of asking me which is my favorite." From glamorous and fun *Cosmo* to perennial favorite, *Good Housekeeping*, Cathie Black has kept Hearst magazines near the top of the publishing industry for the past decade. Her biggest coup came a few years ago, when she convinced Oprah to launch a magazine. "I remember the day that we went to meet Oprah to make our pitch and she said as we left, you know, well if I do a magazine, I'll do it with Hearst" and we're like yes!" *O* was an instant blockbuster and Hearst's top revenue performer in 2006.

When Cathie Black arrived at Hearst a decade ago, revenues were just over a billion dollars. And magazines like *Harpers Bazaar* and *Esquire* were struggling. Today those magazines have rebounded, and revenues top \$2 billion dollars.

William Randolph Hearst launched Motor magazine after noticing the automobile craze in Europe during his honeymoon. Hearst is still privately held but not as quiet as it once was. This is its splashy new headquarters building in Manhattan, far from Cathie Black's midwest roots, growing up Irish Catholic on Chicago's south side. And from a young age, she aspired to be a New Yorker. "For me it was always the Big Apple. I was dying to have an apartment. I was dying to have roommates. I was dying to have a job, but my father wouldn't let me sign a lease with roommates until I had a job and that I could afford the lease."

That job, the first head of ad sales at Ms. magazine. Black broke gender barriers from then on. As publisher of *New York* magazine, President and Publisher of *USA Today*, and CEO of the Newspaper Association of America. Finally she got a crack at her dream job, President of Hearst magazines. "I've always felt that you know, I'm here due to some part luck, some part timing, some part being in the right place at the right time." And a big part connecting with her audience, whether it be readers, employees or advertisers.

WILLIAM LAUDER, PRES. & CEO, ESTEE LAUDER COMPANIES

She's very open, reasonable, always open to proposals and ideas and challenges, honest and straightforward and I think the most important part of working with anybody is their ability to be straightforward and say, look this is what I want and need from you and this is how we need to get it.

CECI RODGERS

Those qualities were never more important as advertisers looked beyond magazines to other media. To stay current, Black has already ventured into radio and television, all a part of what she calls brand extension. "We searched the country to find 17 young women who think they can be role models." Now Black is also leading Hearst into the digital age. "So what do you have for us Deborah?" With two failed magazines last year, Black is toying with web only launches, like this one aimed at web surfers who word search global warming more often than they do Paris Hilton.

JONATHAN FINE, MEDIA COLUMNIST, BUSINESS WEEK

Being on MySpace is very compelling. Living online is very compelling. IMing your friends at all times is very compelling, iPods, you know, on and on down the list. Where does the magazine fit into that? I mean that's what Cathie Black, and for that matter, everyone else in the industry has to figure out.

CECI RODGERS

Teen magazine, *Cosmo Girl* has been drawing readers to its web site and sending content to cell phones for years. Black is pushing her other magazines in the same direction.

SUSAN SCHULZ, EDITOR-IN-CHIEF, COSMO GIRL! MAGAZINE

Everybody realizes there's money to be made there. There's a lot of different ways that you can publish things whether it's on the web or mobile or other ways that we're kind of looking into inventing. So, she absolutely is very much wanting to bring the company to that level.

CECI RODGERS

Blazing a digital trail, while still nurturing magazines like her first love, Seventeen. "Did you read that one?" "I absolutely read that. We all read Seventeen." "Well yes." "As a young girl, you'd rip those pages out or you'd put a picture of some guy up on your bedroom wall. I remember that."

The beginning of a personal story that many years later has become a real page turner. In New York, I'm Ceci Rodgers for CEO Exchange.

JEFF GREENFIELD

As it happens, last night I ran into one of the executives of Hearst magazine, and I thought okay, tell me something interesting about Cathie Black. Well, you know what she said? She said she's an astonishing listener. You got 19 magazines, that's 19 budget meetings, which are not the most exciting things in the world, that go on for 2-3 hours and you listen. You really listen in detail. My question is, is it nature or nurture? Did you teach yourself how to do this?

CATHLEEN BLACK

You know, I think as you mature a little bit in business, you tend, I hope, to listen more. You don't have to put your own opinion out just so quickly. Because once you do that, it does certainly if there are other people there, as well, it kind of shuts down communication. So I sit there and I'm sort of taking it in as to the strategy or money they're asking for or whatever they think they're going to do. And I'm trying to process that, saying is this going to get us to where we want? At the end of the day, I'm about execution.

JEFF GREENFIELD

Here's one of the reasons you're my hero. In these meetings, you have one rule as I understand it. No cell phones, no blackberries.

CATHLEEN BLACK

Correct.

JEFF GREENFIELD

Because there's nothing worse (applause)

CATHLEEN BLACK

No, I like to start a meeting on time. I like to end it at whatever time we said we would be ending it at and if everybody is doing this underneath the table, or looking back this way or whatever you know, it's going to go on forever. And it also means that whatever is going on is less important than what that person feels that they ought to be doing.

JEFF GREENFIELD

Okay so you're a listener. You don't want to waste time. Strikes me that you also do something that perhaps some of our elected leaders might learn to do which is cut your losses. You had to take a couple of magazines and say these are not working and at what point, when you do that, it's apparently your strategy is just do it. How hard is it to make that judgment?

CATHLEEN BLACK

It's very hard. I mean you know you're obviously it's a failure and nobody wants a failure, although you learn from your failures. And it also is putting more or less some number of people, dozens sometimes, out of work. You know you think through something like that, very carefully but you know, this is not original, but one of my former associates said to me, "The only thing you regret about a hard decision is that you did not make it sooner."

JEFF GREENFIELD

Question about advertising policy as relates to magazines. *Cosmo* has a cigarette ad. Do you have different standards of that for different magazines. Are there some magazines that will not carry cigarette ads and how do you make that judgment?

CATHLEEN BLACK

We actually do have different standards, which doesn't make a lot of sense in today's world, to be perfectly honest, but when I first started in the business, cigarette and liquor advertising were the two biggest categories. I mean it's ironic today to think that if you had the tobacco category, that was a big deal if you were the salesperson with those kinds of accounts. But as we have started new magazines over the years, we don't – very few of our magazines carry cigarette advertising and *Good Housekeeping* interestingly enough, has never carried it.

JEFF GREENFIELD

Yeah. You are the head of the Newspaper Association of America. Your life has been spent in what we used to think about print. Now there's an interesting number, 40 something years ago, 70% of Americans read a daily newspaper. Today that number has been cut in half. Is this something that's only affecting newspapers? Or is print itself an endangered species?

CATHLEEN BLACK

First of all, I hope print is not an endangered species but I don't – I truly do not believe that it is. I believe that the magazine reading experience is something that is different. It is an enjoyable experience. We must have digital extensions of all of our brands and that's what we're literally right in the middle of a whole revolution and it's very exciting.

JEFF GREENFIELD

Cause it used to be that print was supposed to have the three B advantage. That you couldn't take a computer into the bathroom, on the bus, or on the beach. Well, the Blackberry, the 4th B, has kind of blown that out of the water. Is there something special about print?

CATHLEEN BLACK

I was in magazines when cable first came out. And everyone said cable will put all that narrow casting of cable will put magazines out of business. And it just hasn't happened. Do I believe that weaker magazines may kind of fade away? That's certainly possible. But I think the strong brands, like a *Cosmo* or *Good Housekeeping* or other company's strong brands, I think they will be around for decades and decades.

JEFF GREENFIELD

Let me go back to your role as CEO. In your operation, in your office, visioning sessions. What are they?

CATHLEEN BLACK

Well, a number of years ago, I wanted to think about a 3-5 year plan and we pulled about 15-18 people together just for like a day and a half off-site and it really was just to sort of lay out a plan and to think, all right, what do we want to become? We know what we are today. How are we going to grow? What ways are we going to grow? What kinds of platforms do we want to grow on? What are the new magazines ideas out there that we really believe could be a big and successful magazine? And so it sort of started.

JEFF GREENFIELD

Want to turn to our audience for another question or two. Tell us who you are and ask your question.

FROM THE AUDIENCE

Hi. My name is Cheryl [...], my company is LGS Management, and my question is on the “glass ceiling”. When I started, in business, I think it was when the term was first coined in the 80s. And today, people like you have certainly moved in. Do you think that that ceiling has been broken?

CATHLEEN BLACK

It’s a subject that I have thought a great deal about during my whole career. But I felt on the night of the inauguration, when Nancy Pelosi was there as Speaker of the House and I thought, you know, we finally, and she had a great phrase about having really finally gotten through the glass ceiling. And I’ve always felt a great sense of responsibility. It reminds me hearing William Lauder, a few minutes ago, I’ve never heard a man say that he felt that he had to work twice as hard.

I think that a woman has always felt that she had to work twice as hard, just to make it that much easier for somebody who might be coming up right behind her. There’s always going to be some barriers for the person who may not be in the majority, but it’s very rare now when I go to any kind of a meeting, which is not at least half women and half men. In fact, in our company, because we have so many women’s magazines, about 65-70% of our employees are female. So I think we’ve got role models all around our company and the magazine industry has been very welcoming to women. And the advertising agency business as well.

JEFF GREENFIELD

Thank you for the question. Before we bring back William Lauder, we’re going to take you on a tour of NYU-Stern School of Business, our host for this program and here is CEO Exchange Correspondent, Randal Pinkett.

SCHOOL TOUR PACKAGE

RANDAL PINKETT

Thanks Jeff. Oh to be a student at NYU-Stern! Right here on historic Washington Square Park, in the middle of trendy Greenwich Village in New York City. A great place to go to school, and to start a business.

I’m here on campus during entrepreneurship week, a national celebration and acknowledgment of what has made America great. Let’s celebrate the power of entrepreneurship at NYU-Stern, with MBA candidate, David Ross, as he takes us around campus.

DAVID ROSS, CEO, SPEAKCLEARLY

As a part-time student, I’ve had the flexibility to develop my company, Speak Clearly, while getting an outstanding education at the same time. Stern professors and alumni are like consultants for my business.

One of the things I love about Stern is its diversity. Students come here from over 50 countries and almost 40% of MBA candidates are women.

Stern prepares us to be ethical business leaders. Over 30 years ago, it was one of the first business schools to require a course in professional responsibility for all students. The Berkley Center for Entrepreneurial Studies is a great place for students to get support while creating a business. The Center hosts a year-long maximum exposure business plan competition.

JEFFREY A. ROBINSON, ASST. PROF. NYU STERN SCHOOL OF BUSINESS

At the end of it, now whether you win or whether you don't come up as the actual winner for the year, you've had an experience where you've put together a plan that's solid, a plan that helps you to go for funding. A plan that helps you to take your idea to the next level.

DAVID ROSS

I was honored to be one of the winners of the business plan competition, and receive funding for my business, SpeakClearly. I discovered that thousands of people were having trouble understanding tech support workers from around the world. Because they were ineffectively trained in speaking English, my software program trains them to speak English more clearly. It saves companies time and money, and results in happier customers.

“Okay so all I need to do is put the file in the folder? Okay. Thank you. Bye bye.”

Stern's mentorship programs provided feedback at each stage of development and all the competition winners received continuing guidance, coaching, and support through the Stern incubator.

And from my feedback, I revised it and wrote up this whole business plan.

We even get our own office space here. That's incredible in New York City!

RANDAL PINKETT

Thinking of success, David, you are clearly inspired by the resources at Stern and ready to take your business to the next level.

DAVID ROSS

Absolutely. And since there's so much going on at E Week, why don't we go check it out? Hey, aren't you one of the speakers?

RANDAL PINKETT

You got that right. Good memory. Hey Jeff, back to you. Let me tell you about E Week. We've got a whole lot of things going on here at Stern.

JEFF GREENFIELD

Randal, David. Thank you and welcome back William. A question here about this new digital world. You've got a web site, Gloss.com. People can go and look at your products, they can buy your products. I'm sure that that web site is going to be enhanced steadily, with video. Are you worried about that? That if his customers can go right to his web site, they won't need Hearst to – he won't need you to advertise his products?

CATHLEEN BLACK

Well I think it's mutually complimentary. When a woman goes into a department store to look at the products that she has seen, hopefully where she has seen them is within the pages of a magazine, because that's where the inspiration, that's where the ideas come from. So I don't think it's going to be directly competitive.

JEFF GREENFIELD

Well let me ask you the blunt question. If you can save all that money you're spending in Cathie Black's publications and go right to the customer directly, is that something you'd be interested in? Or do you think you're still going to need Hearst for the eyeballs that tell the customers about your product?

WILLIAM LAUDER

I think the notion of a partnership between great publishers with great brands like Hearst with *Cosmo* and *Harpers* and all these all other great brands. It's a great synergy, because the credibility of editorial is not something easily replaced by going directly. I believe what the internet has done has created a ubiquity, a redefinition of letting your fingers do the walking. Now it's a matter of putting a brand name, Clinique.com, Cosmopolitan.com and finding the information there, but I think what it allows you to do is to sort of weave together the combination of the two.

The challenge we've given Cathie and her team is, don't just come to us with the static printed page. Come to us with a marketing idea of what *Cosmopolitan* means to that new woman who is seeking information in a multidimensional way.

CATHLEEN BLACK

And this is nothing brand new. I mean magazines have always had very strong relationships on the client side, in addition to the advertising agency, but the way I'm looking at it and the way we're trying to teach

everybody in our own operation to look at it, is to say, do not allow that advertiser to say, I spent \$100 with you last year, I want to spend the same amount, but now I want digital. The way we look at it, digital is its own business. We have it as a separate unit, so we're keeping them relatively separate. But the brand can also sell digital. So they will be able to create a program that will have a digital component or a mobile component or whatever, but we cannot give it away for free!

JEFF GREENFIELD

You've heard Ms. Black tell you that, you know, you're going to have to have a different view of this digital thing. It's another way to get your customers. But, are you prepared because of this revolution, to greatly increase your advertising budget? Because now *Cosmo* or *Good Housekeeping* or *Marie Clare* or a competitor, forgive me, *Vogue*, is now both in print and on the web? Are you required now to spend more advertising money to reach all these people in this way?

WILLIAM LAUDER

Well, let me paraphrase your question in a different way. We're not required to spend more. We're required to always make our spend ever more efficient. Now the beauty of the web is the measurability of its efficiency. It's really very simple. How many people clicked on the ad? The model works. It says you got a few thousand people, great. You got 2,000 people, maybe not as good. So I'm not saying, oh yes, here we are. We're going to go double our spend.

CATHLEEN BLACK

You could do that.

WILLIAM LAUDER

I know you'd love that, wouldn't you? (Laughter) But we're saying it needs to get more efficient, more effective. So if the *Cosmo.com* salesperson comes and says, "Look here's our story." Our response is, "That sounds really interesting. Let's put your money where your mouth is, show us how many eyeballs you deliver to our front door."

CATHLEEN BLACK

But one of the things about a magazine, it has always been a brand builder. I mean that's where you really begin to build the image of whatever that product or service is. So I'm not as – I'm not as nervous about it, but I think our salespeople have to be trained. They have to be marketers far more than just only salespeople. So that's the challenge. It's a human resource challenge as much as anything.

JEFF GREENFIELD

All right. I want to go, if I may, to another question from the audience.

FROM THE AUDIENCE

Hi, I'm Sonali [...] and I'm a 2nd year MBA here at Stern. We touched on this a little bit earlier, but can you both sort of talk about maybe a project or acquisition that you personally felt very strongly about, that didn't quite work out the way that you had anticipated? How difficult was it to come to the decision to cut the cord and how you go about that process?

CATHLEEN BLACK

One was *Talk* magazine. And the reason which may not be relevant to everybody in this room, but at the time, the former editor of *Vanity Fair* and the former editor of *The New Yorker*, a woman by the name of Tina Brown, was a huge media star. And she very much wanted to do a magazine and she had created a joint venture with Harvey Weinstein, and so it had huge hoopla about it, a launch party, Jeff you were probably there.

JEFF GREENFIELD

Oh no, no I wasn't. (laughter)

CATHLEEN BLACK

Ohhh,

WILLIAM LAUDER

I was there. (laughter) I paid for a pillow or two.

CATHLEEN BLACK

Money, money.

JEFF GREENFIELD

I was watching *Gilligan's Island* reruns I believe.

CATHLEEN BLACK

You know, a huge, very extravagant, fantastic party around the Statue of Liberty in Ellis Island. It was this awesome evening with every movie star you can imagine. And Tina had a lot of heat, if you will, and really attracted a lot of folks. But again, at the end of the day, our math for magazine publishing is unbelievably simple. It's circulation revenue; it's ad revenue and it's cost control. And you have to have a strong editorial product. And I think what happened with *Talk* magazine, was that they kind of listened to the hype. So it ended up being *Talk* magazine was a very New York, L.A. magazine, which would have been great if the whole business plan was predicated on like 200,000 circulation as were your expenses. But instead, the expenses were up here and the circulation was down there.

JEFF GREENFIELD

It seems to me that one of the really interesting things from both of you, are the really different cultural aspects. For instance, if I see some of your, your competitors' products advertised in an American paper, I'm going to see a lot of things for tanning and bronzing. In China, I assume a market you're interested in, with a billion too. Pallor is considered beautiful. So whitening products are much more valuable. How do you keep on top of the fact that in each culture you may be facing a whole different standard of what's beautiful?

WILLIAM LAUDER

Well we have to be culturally sensitive. And we've got operations on the ground in so many of the 40 largest markets in the world. You know, there's history rife with marketing business histories. Rife with cultural insensitivities which one learns from. There's a famous Chevy Nova being marketed in South America and what does Nova mean in Spanish? No go! A car that says no go, doesn't really work. (laughing)

We've had experiences like that myself. One of my favorite was when I was the President of our Clinique brand, we were launching a new product for anti-aging and the creative image was the picture of a birthday candle, a white birthday candle that had been blown out with the smoke going up. It was quite a beautiful photograph. And when we presented it at one of our meetings, all of the Asians were curiously silent. Instead of smiling and saying I like it. They were silent. They were modest and they didn't want to criticize until I said, well what is it? And somebody very politely said that in Asia, one only burns a white candle like this, in memory of someone who's just passed away.

So it wouldn't have been the right choice for us to use that image to talk about anti-aging. (laughter) Thank goodness this was early on and we changed the image.

JEFF GREENFIELD

It would seem to me the same thing applies to you. We've talked about *Cosmopolitan*, the cover of *Cosmopolitan* seems to have one theme, basically, well, call me mad cap, but it's basically sex. I mean, yes breast cancer is here and sex, sex, sex, sex. The point is, could you put out this version of *Cosmopolitan*, aren't there countries where you could not do this?

CATHLEEN BLACK

Well, here's the way that we - *Cosmo* is in 57 countries around the world, and just a couple of interesting statistics. The Russian edition of *Cosmo* now sells a million copies a month, which makes it the largest selling young woman's magazine in all of Europe. That's just the Russian

edition. It's this fat, with one beautiful ad after the next from Estee Lauder to Gucci, to Prada, you name it. It's astonishing. But we've always believed that the local publisher and we try to go with, if not the best publisher, the most interested publisher who wants to do one of our magazines, we believe that they know their market far better than any American company could possibly know that market. But basically, we want them to make the editorial decisions.

Early on, generally about 80% of the editorials is from the American edition, whether it's *Cosmo* or *Good Housekeeping*, *Popular Mechanics*, *Harper's Bazaar*, then over time it ends up being just about you know, 50/50, sometimes 60/40, 60 local to 40% national.

JEFF GREENFIELD

But there's a broader question here, of which it seems to me neither of you are in control, and that is, does the ability to market an American-based product or an American magazine, ebb and flow with the reputation of the United States itself? That is, if the world is looking at the United States more or less favorably, does that in any way affect your ability to market your product or your magazine?

WILLIAM LAUDER

Well, it affects us somewhat Jeff, but you know we don't position our brands as American brands. We don't put the American flag on our product. We've really positioned our brands like Estee Lauder, Clinique, M-A-C, they're world brands. They're global brands. They're relevant to the local consumer. Where we can, we'd like to use locally relevant imagery.

So the important thing is not the Americanness, as much as the relevance of these brands globally.

JEFF GREENFIELD

We're turning to the audience now for another question. Please?

FROM THE AUDIENCE

Matthew [...], Premiere Retail Service. You've been talking about the marketplace changing over the last decade or so. With that the talent pool has been changing obviously. What is the talent pool look like to you now, and what's the change been over the last decade and where do you see it going?

WILLIAM LAUDER

North America, Europe and Asia, are very different. I'd say quite clearly, that the ambition level of North American young talent entering the marketplace is as good as ever, as strong as ever, and probably better

motivated today than in the period right around 2000 of the internet bubble where everybody had an idea on their palm pilot, about what they were going to do to revolutionize the world.

But when we compare the ambitious North American talent to the extraordinarily hyper-ambitious Asian talent, it pales in comparison and the European talent is even further behind still. The main difference is most Asians and Europeans are language skilled and are capable of functioning in a global world.

CATHLEEN BLACK

I see it within our own company that the young people are ferociously ambitious. We've a large global business but it is a joint venture partnership that we have around the world. The Asians that we have are fantastic, and I can't speak that much of the Europeans, because we have all joint ventures. But in the UK, our people work very hard so I think that the media has always been a great draw for young people graduating.

Seven out of 10 people want only to be at *Harpers Bazaar*. That's – they want to be in the fashion business, and they want to be at *Harpers Bazaar*, and I say, how about *Popular Mechanics*? Not a big taker. (laughing)

JEFF GREENFIELD

Thanks for the question. We have one more question I think.

FROM THE AUDIENCE

Hi, my name is Ross [...]. I'm a 2nd year MBA student at the Stern School. Thank you both for coming. In the past few years, you've heard innovation as being a buzz word in business. How do you figure out exactly in your respective businesses where to innovate, where to keep the same, and how has that process changed since you guys have taken the helm of your companies?

CATHLEEN BLACK

We hire MBAs like you guys. (laughter) (applause) You're named Head of Strategy and then we go and do what we know how to best to do. No, I'm being flip obviously.

But you know, I would say that all of our digital efforts are the most innovative and a lot of other processes as well, which you know, it's not quite as sexy, but the way I look at it, what are the kinds of things that we can do that don't impact in a negative way anything on the page, so that the consumer experience is as good as we can possibly make it? How do we get people thinking differently about their jobs? I think it's the hardest thing if they've been trained this way, and it's worked for years and years,

how do you get somebody to say, you know, I don't need seven people to do that. I could do that with four.

WILLIAM LAUDER

I couldn't agree with Cathie more. And let me add to that, which is innovation as a definition is such a broad aspect. You innovate your business prophecies; you innovate a product that appeals to the consumer; you innovate the message which you're trying to deliver to the consumer. Each of those takes an entirely different discipline and to try to use one word to incorporate it all, really doesn't do justice. You have to have an open mind, as to how you look at your business. How you renovate your thinking to be innovative on a daily basis, and how you're reaching your consumer.

Ultimately, to paraphrase one of our previous Presidents, "it's about the consumer, stupid." It's all about what does she see? What does she hear? How are we communicating to her clearly. Sometimes, we as marketers, maybe over innovate and making changes which she doesn't want us to change. She's come to rely on a certain rhythm. She likes the way her product works for her. She likes the rhythm of the magazine and she's used to finding certain things at certain parts, and she doesn't want the change. We don't want to change. Because she's used to it a certain way, think of some of the best brands out there in the publishing world, in television, in consumer products and foods, and think of the times when they changed it in one way for you.

JEFF GREENFIELD

New Coke.

WILLIAM LAUDER

New Coke. Classic example. Sometimes you can – we as marketers, can be guilty of over thinking ourselves. Greatest example today, forgive me, but the United States American branded automobile companies are getting their heads handed to them by American manufactured foreign brands. Why? Because they thought that innovation was a variation of Henry Ford's adage, "You can have any color car you want, as long as it's black." As opposed to saying, this is what the consumer wants. This is what they're going to pay for it.

JEFF GREENFIELD

On the other hand, you used to – I don't know if you still do, you used to fine people at Hearst for saying one particular thing right? We tried?

CATHLEEN BLACK

We tried that and it didn't work.

JEFF GREENFIELD

That's a no-no.

CATHLEEN BLACK

It made me nuts. It just made me nuts when I first came to the company. Well we tried that, and it's like no, you're not going to say that.

JEFF GREENFIELD

Thanks for the question. There's one more area that I want to explore before our final segment. And that is the – funny you talked about parties, and that is, high society. Both – neither of you are strangers to what Satchel Paige called the Social Ramble. It's part of the DNA and I'm wondering is it a requirement for the jobs that you do, that you know, that some nights a week, you gotta be out there?

CATHLEEN BLACK

I'd say the answer is yes.

WILLIAM LAUDER

Absolutely.

JEFF GREENFIELD

I asked because my definition of hell on earth, just for the record, is six or seven hours in a hotel ballroom, at a dinner. You know, I give money to charity, but I would sooner have another nostril drilled, than go to things. So I want – I'm pushing the candor meter here. Do you like it?

WILLIAM LAUDER

Like it is a relative term (laughter).

JEFF GREENFIELD

Well no it really isn't. I mean you either like it or you – well okay explain to me why it's a relative term?

WILLIAM LAUDER

Like, in the sense that I enjoy the people I work with. I enjoy the people with whom I do business, and I know that as part of the dance and the drill, there are occasions when we may call upon each other to support each other for something we feel passionate about, that's not directly related to our businesses.

JEFF GREENFIELD

Sure. You could write them a check.

WILLIAM LAUDER

I could, that's true. And sometimes they'll say, I'll take your check and I want you to sit next to me.

JEFF GREENFIELD

Ahhh! So if I said to you, Ms. Black, here's your choice. Tomorrow night, you're going to get gussied up and go into the Waldorf, in the Grand Ballroom and you're going to sit for the friends of whatever, or you can stay home, call and order in Chinese food and watch Grey's Anatomy?

CATHLEEN BLACK

It's not Thursday. (laughter) (applause)

JEFF GREENFIELD

Oh somebody's got a future in politics. (laughter)

CATHLEEN BLACK

You know, I came up the sales and marketing side of the business, so I like the people part of it. I've always liked the people part of it. And it comes with the territory. I mean business travel comes with the territory. Of the nights that I spend in the Waldorf or a comparable hotel over the course of a year, I mean are there things that I would rather be doing other than that? Generally yes, I mean if we were being honest about it, but again, it's – and I think the visibility is good for our companies as well.

JEFF GREENFIELD

Fair enough. We're going to conclude with what we call the lightening round. These are very short questions. They require very short answers. What music do you listen to? iPod? CD, I don't care. But what do you listen to?

WILLIAM LAUDER

70s and 80s.

JEFF GREENFIELD

70s and 80s?

CATHLEEN BLACK

All over the place. You know, classical, Il Divo, Lindsay Lohan, just jazz (laughing). Harry Connick.

JEFF GREENFIELD

Outside of work skills, forget work. What are you good at? Besides picking up trash in Connecticut. (laughing)

CATHLEEN BLACK

Not a skill I hope to be good at. I love the outdoors. I like to ski. I like to play golf. I like to cook.

WILLIAM LAUDER

All what Cathie's good at mostly and having fun.

JEFF GREENFIELD

Okay, tougher question. Outside of work, what are you not so good at? Is there anything that you just say I'm no good at this.

WILLIAM LAUDER

Going to the ballet.

CATHLEEN BLACK

Turning off.

JEFF GREENFIELD

Other than your family, I want to discount that, what public person living or dead would you most like to have a long dinner and a long conversation with?

CATHLEEN BLACK

Katherine Graham.

JEFF GREENFIELD

Katherine Graham, former publisher of the *Washington Post*. Why?

CATHLEEN BLACK

I knew her a little bit when I lived in Washington and when I read her book, now probably seven or maybe more than that years ago, I was just so caught up with the sacrifices that she had made, the very difficult life that she had and I would have had liked to have known her better.

WILLIAM LAUDER

Winston Churchill.

JEFF GREENFIELD

Winston Churchill. I can think of about ten reasons but why don't you give me yours.

WILLIAM LAUDER

I think a brilliant visionary in history, who had a way of speaking that was brilliant.

JEFF GREENFIELD

A favorite indulgence that you actually indulge?

CATHLEEN BLACK

Massage.

WILLIAM LAUDER

Skiing holidays.

JEFF GREENFIELD

Your most memorable meal? Not with whom, I'm talking about the food. A meal that you remember because of how special it was.

WILLIAM LAUDER

November, 1980, a little town outside of Geneva, with a chef named Freddie [...]. Where we said we're yours. And eight courses later, and eight choices of wine later, we were done. (laughter) Literally, we were literally done. (laughing)

CATHLEEN BLACK

I'm a little spoiled. My husband is a great cook. So we have fabulous dinners and lots of wine and those are my favorites.

JEFF GREENFIELD

And may I ask what he cooks? His specialty?

CATHLEEN BLACK

I'd say his specialty is asabuco.

JEFF GREENFIELD

What's your favorite Hearst magazine?

WILLIAM LAUDER

Cosmo. (laughter) (applause)

JEFF GREENFIELD

Do you want to tell us what you picked up from the latest issue or two that you –

WILLIAM LAUDER

You may have to ask my wife. (laughing)

JEFF GREENFIELD

Oh, this is public television. Let me turn the tables. You have a favorite Estee Lauder product?

CATHLEEN BLACK

Yes. La Mer.

JEFF GREENFIELD

Not put off by the –

CATHLEEN BLACK

The price? Yes. (laughing)

JEFF GREENFIELD

We're just about out of time. I really want to thank William Lauder of Estee Lauder Companies, Kathleen or Kathy Black, President of Hearst magazines for joining with us 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, thanks so much for watching. See you next time. (applause)

To learn more about the CEOs featured on this program, and other leading CEOs, visit PBS.org. To order this episode of CEO Exchange on DVD, call PBS Home Video at 1-800-PLAYPBS.

Funding for CEO EXCHANGE is provided by SHRM (The Society for Human Resource Management). We recognize people drive organizational success and organizations with the best talent win. Human Resource Management is strategically finding, developing and channeling that talent into success. SHRM, a global Human Resource Management Association more than 200,000 members strong. Leading people; leading organizations.

CEO EXCHANGE is produced by WTTW National Productions in association with *Business Week* and is exclusively underwritten by the Society for Human Resource Management in Alexandria, Virginia.

© 2007 Window To The World Communications, Inc.

All rights reserved. Unauthorized reproduction or transmission is a violation of applicable laws.

Exclusively underwritten by:

Produced by:

