Interesting People

George A. Schaefer
Retired Chairman and
Chief Executive Officer of Caterpillar Inc.
Interesting People

The Cat Experience

• Preceded by Lee Morgan
• February 1985: “It is not a position I applied to … (and) it’s not a pleasant place to be.”
• February 1, 1985 to Summer of 1990
  – Don Fites
  – Glen Barton
  – Jim Owens
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The Beginning of George Schaefer

• Cincinnati, Ohio
  – Father
    • Tim Russert
      – Wisdom of our Fathers
  – Mother
  – Siblings
  – High school
    • Sports
    • Academic interest
• Children
  – Grandchildren
• Pre-Cat Jobs
  – First
  – Most important
  – Worst
• Fondest memory
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The Beginning of George Schaefer

- Impact on your career
  - Important person
  - Important event
- Washington University; St. Louis
  - Accounting major
  - Caterpillar Inc.: 35 years
  - Age 27; 1960
  - San Leandro, California
- Cat history
  - Six years in France
  - Decatur plant manager
  - 1976, Vice President of Finance and Data Management
  - 1981, Executive Vice President
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Chairman and CEO

• February 1, 1985
  – Elected
  – General office employee cuts
• Outside board memberships
  – Aon Corporation
  – Helmerich & Payne, Inc.
  – McDonald Douglas
  – Morton International
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Tenure: February 1985-Summer 1990

- Preceding three years
  - ($1 billion)
  - 1984, ($428 million)
- Your first speech: “Tell it like it is”
  - “Battle for survival has just begun”
  - “Long tough road ahead”
  - “Do not underestimate challenges and problems”
The Operating Principles of Caterpillar: Pre-1981

- Highly durable at premium prices
- Service oriented dealerships
- Incomparable product support
- International manufacturing
- Promote from within
  - Average years of service: 22 years
- Collective decision making
Issues Facing George: 1985-1990

• Decentralized structure: business units; ROI
• England: plant closing and lay offs
  – Glasgow
  – “Lives of people and communities”
  – Margaret Thatcher cable
    • “You can’t do that”
• Global recession
• Strike
• Lower mark ups on light construction equipment
• High production costs
• Outdated plants and equipment
• Low heavy equipment demand
• Dollar value increases
• 1989: $900,000 including perks
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1985-1988: Significant Milestones: No. 1

• 1986: Caterpillar Tractor co. to Caterpillar Inc.
• 1987: $1.8 billion plant modernization program
  – 6,000 workers; 25 days; backloader
    • 3,000 workers; 6 days
  – 10 years to design a new product
    • Little as 27 months
• Komatsu enters the UK market
  – Occupies abandoned Cat plant
• Manufacturing space reduced by 30%
• Employment reduced by 8,000
  – Total reductions, 32,000
• Cost reductions by 20%
1985-1988: Significant Milestones: No. 2

• Product changes
  – 5,000 vs. 1,000 hours
  – Fites/backhoes
    • Executive Vice President for marketing
    • Secretary of business strategy conference

• Hydraulic excavators
  – Japan engineers
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Personal Interest: Educational Observations

- USA
  - High school
    - 180 days
- Europe
  - 220 days
- Japan
  - 240 days
- Korea
  - 250 days
- Today’s world
  - Education
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Management Style: No. 1

- Listen
- “Good conflict;” discussion
- Serve as a catalyst
- No tolerance for:
  - “Yes men”
  - “Just plain wrong”
- “A lot of people can do a lot of things better than I and so let them do it”
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Management Style: No. 2

- Not most charismatic person
  - Participative
    - Not personally a risk taker, but more risks
- Outcome vs. ownership
- Breakfast meetings
  - Strategic planning committee
  - Free swinging
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Business Strategy Conference: No. 1

• 100 best minds
  – Nothing is sacred
• Conclusion: build on core business
• Sought Board input
• Observations
  – Plants too costly
  – Reduced by 6.7 million feet
  – Pierre Gruidnon
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Business Strategy Conference: No. 2

• Capital venture
  – Bob Powers
    • 500 proposals
    • 11 ventures
      – Cat service tech group
      – Advanced Tech Services
        » 32 to 270 employees
        » $2 to $22 million in revenues
        » $1.6 million in profit
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Business Strategy Conference: No. 3

- Insurance program
- Leasing
- Defense hardware
- External research and development
- Automated manufacturing
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The Tragedy of General Motors/Ford: Compare and Contrast

• February 20, 2006 Fortune
  – “It is the instinctive wish of most businesspeople that General Motors not go bankrupt. The company remains so central to the economy, so sprawling in its reach, that going into Chapter 11 would be ominous almost beyond contemplation. And yet the evidence points, with increasing certitude, to bankruptcy.”
  – Last year ($8.6 billion): trucks/SUVs
  – Unfunded pension liability: retiree benefits
  – Stock price: below 19, lowest since 1982
  – “…turning GM around is a harder logistical and managerial task than the invasion of Iraq…”
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The Dividing Line: Manufacturing & Services

• Henry Ford: local v. global conveyor belt
• McDonald’s: same world wide product
  – Service; or
  – Distributed manufacture of cooked meat products
• Denim jeans: body scan; textiles; Jim Owens
• Made to measure shoes
• Service = bigger margins; Walmart
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Service Work = Manufacturing

- Commodities
  - Medical: radiology
  - Vision
  - Dental
  - Legal
  - Hair dressers
  - Banking
- Higher value parts remain in US
- Global structure for manufacturing
- Lowest value addition to supply chain
- “…Nothing to lose but your supply chains…”
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Personal Observations: No. 1

• Your characterization of your personality
  – Situational introvert
  – Situational extrovert
• Leadership
  – Part grows into the person
  – Person grows into the part
• Fondest adult memory
• Wildest dream
• Perfect day
• Favorite book
• Hero
• Greatest impact upon your life: person/event
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Personal Observations: No. 2

• Most difficult decision
• Sea change in Cat direction ($600 million loss)
  – Psychological and political resistance to change
  – Cultural resistance
  – Complacency
  – Bad news = opportunity
  – Winston Churchill: “…never give up…”
Personal Observations: No. 3

- **Worst decision**
  - Post-performance depression
  - Best decision: adrenalin rush

- **What drove you?**
  - Fear of failure
  - Peer group consistent characteristics

- **Rewind your life:** age 26 to CEO; from CEO to age 26

- **Regrets?**

- **100 years from now:** rearview mirror: What was George Schaefer about?