

## **Interesting People**

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James W. Owens,  
Chairman of the Board and CEO  
of Caterpillar, Inc.

## Interesting People

# The Beginning of Jim Owens: Family

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- Father
  - Ran printing operation for naval shipyard
  - Hour long commute to work each way
- Mother
  - Homemaker
  - Dinner together at 6 pm each night
- Elizabeth City, North Carolina
  - Population in 2000 – 17,188
    - Queen Elizabeth I
  - Sports
    - Several school records in track
    - Football: end on defense and offense; all conference
    - Number of spectators?
- No one in immediate family had finished college

## Interesting People

# The Beginning of Jim Owens: Dream Job

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- Brother, David, said there was a strong expectation that both Jim and David would graduate
  - Jim – two years instead of four
  - Fred Gallasch: “He was the only guy I know who could fall asleep in the dentist’s chair”
  - As a teenager, your dream job or vocation?
    - Lou Gerstner, IBM
      - “teacher then an engineer, and build bridges and highways”
      - Harvard Business School

## Interesting People

### North Carolina State University: Raleigh, North Carolina

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- 1968, textiles; 1970, Master of Textiles; 1973, Ph.D. Econ
- Textiles
  - Space shuttle items, artificial limbs, seat belts, hot air balloons, swimming pools, artificial tissue for implants, carpet, wall paper, fiberglass Jacuzzis, tennis rackets, baseballs, clothes, towels-an endless list!
  - Second largest manufacturing industry in terms of money in the USA (second only to aerospace industry)
  - Largest manufacturing industry in North Carolina in terms of money
- Dissertation topic
- Why econ?

## Interesting People

# NC State: Statistics

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- Location: Raleigh, North Carolina
- Student population: 29,957
- Total research expenditures: \$286 million
- Number of patents held: more than 500
- Land mass: 2,110 acres on the Raleigh Campus, 101,000 acres in research and extension farms, forests and facilities 11 Colleges: Agriculture and Life Sciences, Design, Education, Engineering, Humanities and Social Sciences, Management, Natural Resources, Physical and Mathematical Sciences, Textiles, Veterinary Medicine

## Interesting People

# Owens: Cat Employment History

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- 1975: age 26; \$18,000: Chief Economist, Caterpillar Overseas SA, Geneva, Switzerland; Cat recruiter
  - 1971 profits of \$128.3 million to \$398.7 million in 1975
  - Moscow, Johannesburg, European cities; “It was like being in adult Disneyland”
- 1980-1987: Management positions in Peoria
  - Peoria: “... which operations should be retained, which should be sold”
  - “...It was like a holy war. I was on the precipice of being fired every few weeks.”
  - “More is nothing like a burning platform to get people’s attention and ours was on fire pretty good”

## Interesting People

# Owens: Cat Employment History

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- 1987: PT Natra Raya, joint venture, Indonesia
- 1990 President: Solar Turbines, San Diego, California
- 1995: Group President, Executive Office
- 2/1/2004: Chairman; Chief Executive Officer
- 2004: Cat earnings \$2+ billion
  - Up 85% from 2003
  - 33% sales growth

## Interesting People

# CEO Election: February 2004

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- February 1, 2004: Cat's new chair and CEO
- Salary and bonus package worth \$1.35 million and stock options valued at \$2.9 million
  - Long way from his \$18,000 starting salary
- Global resurgence in economic activity
- Insatiable demand from China for construction equipment
  - A market Jim helped open all those years ago



## **Interesting People**

# Outside Director Positions

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- June 15, 2004: Manufacturing Council: Bush
- IBM
  - Elected March 1, 2006
  - Lou Gerstner, Cat
- FM Global Insurance Company
- Alcoa, Inc.
- Global Advisory Council to the Conference Board

## Interesting People

# Relaxation Activities

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- Skiing
  - Copper Mountain
  - Aspen
  - Aspen Highlands
  - Buttermilk Mountain
    - Stein Erickson
    - 1952 Gold medal winner
    - “... be tough, be confident and be humble”
- Log rolling
- Golf: handicap?

## Interesting People

# Caterpillar, Inc.: Statistics

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- Lives watched
  - Employees: 92,000 worldwide
    - From one to 5,600 (Mossville)
    - 2006 labor and labor related expenses: \$7 billion
    - Earned \$1 per second - \$1 million in 11 days
    - Earned \$1 per second = \$1 billion in 33 years
    - \$7 billion – 231 years
  - Family members: 230,000
    - Total: 322,000
      - 2006: Detroit; Super Bowl - Steelers v. Seahawks, 68,206, i.e., 3.5 times Super Bowl attendance
- Suppliers: 36,000
- 8,500 supply product materials
  - Others: computers, office supplies, consulting services

## Interesting People

# Caterpillar, Inc.: Statistics

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- Locations
  - 331 in 43 countries in 7 continents
  - 80 million square feet of property
    - Pentagon: 6,636,360 square feet
      - » Cat = 12+ Pentagons
    - White House: 55,000 square feet
      - » Cat – 1,454 White houses
- 43 million part numbers shipped each year
- Cat Foundation
  - 2005: \$26.7 million

## Interesting People

# IBM: Sea Change: 25 Years Ago

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- “Endless Love” by Diana Ross and Lionel Richie was at the top of the charts. Ronald Reagan was staring down the Soviet Union. And Princess Diana, aged 20, was on her honeymoon with Prince Charles.
- August 12, 1981 – and International Business Machines
  - IBM 5150
  - “personal computers”
  - \$1,565; 16 kilobytes of memory
- Roughly one billion PCs are now in use across the world
- Office workers spend more time with their PCs than they do asleep or with their families
  - America, 70 PCs for every 100 people; 35 in France; 7 in Brazil and 3 in China.

## Interesting People

# IBM: Sea Change: 25 Years Ago

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- “Skunk works”
- Gates: “Hardware, in effect, will become a lot less interesting. The total job will be in the software”

## Interesting People

# Lou Gerstner, IBM

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- Louis V. Gerstner, Jr.
  - CEO from April, 1993, until retirement, December 2002; nine years
    - Chairman of The Carlyle Group, a private equity firm in Washington, DC
    - Member of the Board of Caterpillar, Inc.

## Interesting People

# IBM: Gerstner's Arrival

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- “Who Says Elephants Can't Dance?": “Inside IBM's Historic Turnaround”
  - IBM got stuck in old way of thinking; world changed, IBM did not
    - Inward thinking
    - Success breeds its own failure
  - Transformation vs. reorganization
  - Gerstner management theory
    - Focus vs. diversification
    - Execution
    - Personal leadership



## Interesting People

# Sea Change: IBM; Computers

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- IBM exits in 2004; Lenovo, a Chinese firm
- Today
  - PC under threat as the primary platform
  - Software over the Internet
  - The PC now faces the struggle against its own technological offspring
- The mobile telephone: banking, health records, price monitoring

## Interesting People

## Other Sea Changes

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- IBM: 125 +/- billion
- Cat: 44 +/- billion market cap
- GM
  - \$10 billion loss in 2005
  - 35,000 employees – 1/3 of the hourly workforce – accepted early retirement
- Bill Ford: The business model that sustained us for decades is no longer sufficient to sustain profitability”
  - #5: Fortune 500
- Dell
- Intel: 10,500 terminations

## **Interesting People**

Cat; GE; Boeing; Lean Enterprises  
institute; Think Tank Cambridge; James  
Womack

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- “... Cat’s position most secure .. because there is so much knowledge embedded in what they make.”
- “... even when a company such as Boeing stumbles over its efficiency, its intellectual property gives it room to recover.”

## Interesting People

# Business Model Changes

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- The Profit Zone and How to Grow When Markets Don't #1
  - Eight to ten years
  - Three to four years
- Secular shift: S&P; “risky business”
  - 1985: 41% least risky; 35% in high risk
  - 2006: 13% least risky; 73% high risk
- “Less to do with corporate strategy or management structure move with the nature of human beings and our instinctive reaction to change”

## **Interesting People**

# Business Model Changes

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- Cause
  - Globalization
  - Digital revolution
    - Information based economy created
    - Computing power, telecommunications, data storage
- Shift
  - Power toward customers

## Interesting People

# Business Model Changes

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- Company isn't: structures, machines or assets
  - Groups of people
- Identification of the correct model for the future
  - People to behave in new ways
  - Winners v. losers: change resistant
- “Peter Drucker: “Biggest problem: saying goodbye to yesterday”
  - New producers problems
  - Companies will die younger
    - Gillette, AT&T, May Dept. Stores

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# Business Model Changes

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- Can a company survive for a century?
  - Hollywood model
  - Private equity
- Challenge: finding the will to embrace revolutionary change!

## Interesting People

# Caterpillar: Jim's Major Decisions

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- Internal debate: Did the Soviet Union or China offer the best long-term opportunity?
  - “I was a strong advocate of China at the time”
  - Soviet Union held little appeal
    - Politics
    - Development so far behind



## Interesting People

### Owens: China

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- Invited Chinese team to Peoria during the negotiation and entertained them at his home, playing pingpong in the basement
- “They had a hard time believing anyone lived in a big house like that”
- Visiting Cat factories
  - “Like kids in a chocolate factory”
  - “Like Star Wars to them”

## Interesting People

## Owens: China

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- First product sold in 1975
- Cat: “... First office in 1978
  - Headquarters for Cat China Financial Leasing
  - 1981’s: Tech transfer agreements
  - Today: 13 facilities
    - Joint ventures/wholly owned
- Global economic benefits of open and fair trade
- Unilateral sanctions do not work
- Access to good jobs, homes; better quality of life
- issues
  - Currency valuation
  - Intellectual property rights

## Interesting People

### The New Titans: The Economist: September, 16, 2006

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- Rich countries no longer dominate the global economy
- 2005: The combined output of emerging economies: 50%+ total world GDP (measured at purchasing-power parity)
  - Far greater influence on the performance of the rich economies
  - Driving global growth; impact on inflation, interest rates, wages and profits
- As incomes catch up, biggest boost to the world economy since industrial revolution

## **Interesting People**

# The New Titans: Globalization

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- As developing countries & the former Soviet block opened their borders to trade and investment
  - More are industrializing and participating in the global economy than ever before
- Competition from cheaper imports
  - Reduce the wages of unskilled workers in developed economies
  - But workers as a whole will be better off

## **Interesting People**

# The New Titans: Globalization

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- China: doubled the world supply of workers: from 1.5 billion to 3 billion
- Competition should reduce profit margins and distribute benefits back to consumers and workers in the form of lower prices
- China 200 million underemployed rural workers

## Interesting People

# The New Titans: Globalization

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- Every year, 1.2 million engineers and scientists graduate from Chinese and Indian universities
  - As many as in America, the European Union and Japan combined
  - Three times the number ten years ago
- In 1970, 30% of all university enrollments down to around 12%
- Rich countries would make high-tech products; developing economies low-tech ones
  - Rich countries no longer have a monopoly on high-tech capital and know-how
- Future: Laptop computers, mobile phones and DVD players are no longer cutting-edge technology

## **Interesting People**

# The New Titans: Globalization

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- White-collar service jobs
- Telecoms charge have tumbled
- Software programming, medical diagnostics, engineering design law, accounting, finance and business consulting

## **Interesting People**

# The New Titans: Globalization

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- China and India offer immense opportunities, but they also bring new risks
  - Currency
  - Intellectual property
- If these economies stumble, or even if they simply decide to sell their American Treasury bonds, the world will certainly notice
- Because of the emerging economies' increased economic weight, a crisis there would have a much bigger impact on the global economy than formerly



## Interesting People

# The Wealth of Nations: Adam Smith

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- Scottish economist, Adam Smith, published in 1776, the dawn of the Industrial Revolution
- Anachronisms
  - The term *economics*
  - The term *capitalism*
  - Feudalism was still dominant in Europe
  - The *feudal corporations* referenced by Smith were very different from modern corporations.
- The concept of *Invisible Hand*
  - People benefit the community around them simply by acting solely in their own self-interest, without conscious regard to community service
  - Self-interest equates with general interest
  - Smith was not advocating a social policy (that people should act in their own self-interest), but rather was describing an observed economic reality (that people do act in their own interest).

## Interesting People

# The Wealth of Nations: Adam Smith

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- Smith left much of his personal wealth
- Correct for disastrous situations with no intervention on the part of government or other organizations
- The increased competition among manufacturers and increased supply would also lower the price of the product to its production cost plus a small profit, the “nature or natural price”
- Smith believed that while human motives are often selfish and greedy, the competition in the free market would tend to benefit society as a whole anyway

## Interesting People

# The Wealth of Nations: Adam Smith

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- Special Interests
  - “Special interests”, a term which can comprise corporate conglomerations, outright oligopolies, labor unions and other groups
  - Manipulate the state into regulating for special interests against the general interest
- Meritocracy
  - Allowing individuals to achieve what their “God-given talents” will allow them to, without interference from outside forces seeking to shape larger societal outcomes

## Interesting People

# The Wealth of Nations: Adam Smith

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- “Both-Benefit” Transactions
  - A voluntary, informed transaction always benefits both parties
  - Provided that there is no coercion or fraud, when the buyer gives something of value to the seller in exchange for something else of value, both parties “win”

## Interesting People

# The Wealth of Nations: Adam Smith

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- The Diamond-Water Paradox
  - The intrinsic theory of value held that an object's value was rooted in how useful it is to mankind
  - Was it that diamonds (which had, at the time, little practical use) command a much higher price than water (which is utterly crucial to man's existence)?
  - Diamonds are worth more than water because of their rarity, and because great effort is required to mine and cut them
  - Smith admits that even this solution is unsatisfactory because it does not sufficiently describe why diamonds are worth more than, say, emeralds (which require even more labor to mine, and are considerably rarer), or why a large, easily minded diamond is worth more than a small, difficult-to-spot one.

## Interesting People

# Objections vs. Strategy: Success Factors

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- Objective: Hit a home run; win the Super Bowl
- Strategy: success factors
  - People: all inclusive culture
  - Quality: product improvement
  - Product: new product intro process
  - Velocity: order delivery time reduction
  - Distribution: business solutions; product
  - Trough: flexible cost structure; cycle downs
  - China: manufacturing; marketplace leadership

## **Interesting People**

Cat: 2010

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- Product quality improvements
- #1 for every major product group
- \$50 billion in salaries and revenues by 2010
- EPS @ 15% to 20% per year
- Dramatically improve earnings performance in any future economic downturn

## Interesting People

# Cat Strategy: 2010

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- Large acquisitions
  - China
- Financed services
  - 75% of all Cat sales
- Logistics
  - Warehouses/delivery of replacement parts
- Re-manufacturing
  - Newest



## Interesting People

## Goals

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- Seven years at Cat as CEO
  - Average perhaps three
- Success
  - Spot trends quickly
  - Deliver results quickly
  - More and more speed is a factor
- But the most important thing will be to leave Cat better than he found it
- “Great companies that win, that succeed, they go through generations of leaders”
- “I want Caterpillar to be one of the great global companies that survives. I want people to say I moved the ball forward, I created opportunities for success”

## Interesting People

## Goals

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