



**KEYNOTE ADDRESS AT SAFECO INSURANCE
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Paula Rosput Reynolds: What I'd like to do now is to introduce a speaker who's going to talk to us about the world. And that speaker is Dr. Gary Koyen. Gary and I have worked together periodically since 1998. Let me just tell you a short story, and then I'll offer you further background on Gary.

In 1998 I was working for Duke Energy, which at that time was the largest energy company in the world outside of the major oil companies. I was there as the result of a merger. Thus I was acquired. So--how many American States people are in this room today -- former American States? Oh, come on, put your hands up. Yeah. [Laughs] Yes, there's a double wave in the back. So you know exactly what it is like, being on the receiving end of the fabled "merger of equals."

Well, I was part of a particularly dysfunctional management team, and Gary was hired to come in as a facilitator -- no, really as a mediator. [Laughter] After one day in an off-site meeting in Denver, Gary [gave me] a message about his sense of the situation. He took me [aside] and he said, "You won't stay here. You'll move on."

Gary was exactly right. I left several months later. Duke subsequently went through some wrenching times in the next half a decade because it did not have enough leadership that could hoist something as large as Duke to the next level.

So this was an interesting first experience with Gary. Gary had done a lot of work with Duke Energy--actually with the underlying Duke Power and he had worked at Chase-Manhattan Bank before it merged with Chemical. Gary has worked with Prudential, which had been to its knees a couple of different times. And he came to work with me later on at AGL through kind of a serendipitous set of circumstances. His team is working full time right now at Delta Airlines and has done a stint in Silicon Valley at Cisco. Clearly, Gary has had a lot of experience working with corporations in transition.

Gary works with companies who are either poised for a step change or they're up against the wall. And what he works towards is breakthrough--when you have to make a profound change. But what Gary also does, and he's going to do for us today is discuss how global trends are affecting the nature of commerce globally --and why we need to care about these changes in the world.

By way of background, Gary holds a Ph.D. in psychology, with undergraduate study in psychology, mathematics and physics. So he's a guy who's has journeyed about, intellectually. He has been both an academic and a consultant, and has done very powerful work in the psychology of breakthrough. But I have personally found Gary to be most compelling when he weaves together the threads of how the external environment is profoundly affecting the way we

work, and what this means for leaders.

And so, it's with a great deal of pleasure that I introduce Dr. Gary Koyen to you today to spend an hour framing the world. As leaders, it will then be our job to translate this understanding to SAFECO terms. [Applause]

Gary Koyen: Thanks, Paula. Thank you. I appreciate being invited back to Seattle. This is my old stomping grounds, here. I actually live in Boulder, Colorado, today, but I was in Eugene, Oregon, for 20 years and was a 15-year scuba diver. And I probably know more about the bottom of Puget Sound than you guys do. [Laughs] So I had a lot of fun up here and it's great to be back. You fly into Seattle or the Pacific Northwest and always drop down through the clouds and you get to see green. And we don't have that in the rest of the world out there. Anyway, nice to be with you.

Everybody knows that the world is changing. In fact, everybody knows it's changing really, really fast. The problem is that it's not very easy to understand, or get a handle on, what is driving the change and what to do about it. And so we have all these vulnerabilities that are going on today in the business world that are driven by these profound changes, but it's really hard to understand what are the full dynamics that are causing the problems.

Another thing that we have a hard time getting a handle on and accepting is the distribution of pain that comes along with that kind of dynamic change that's going on out there. Because a lot of people lose their entire careers and jobs that they've invested in for a couple of decades. And that becomes a part of that process, and it's very hard, just as a citizen of this country, to sit by and watch that happening. And it seems like we should do something about that – but what is the something that we should do? And it's not very easy to get a handle on that.

It's particularly problematic for legacy companies in America because legacy companies grew up in the '50s, when America was the entire world economy. We were it. There was no South America. Europe and Japan were destroyed by war. Nothing had emerged in Asia yet. America was the world economy. And we built businesses during that period of time; and I have to tell you, we built them in kind of a fat and sassy way. And now we're on a global stage, and we can't quite grasp what in the world this is all about. But one of the things it's about is we're no longer *it* -- we're now a participant in it.

So what I'd like to do today is to assist in-- not in details, but in helping get to a broad-brush understanding, a big-picture understanding, of what's going on out there.

One of the fundamental things that people misunderstand is there is one very dynamic force that's operating, and it explains almost everything. And that is the extent to which self-responsibility is sweeping across the planet. Now, that's a head-scratcher. What the heck is he talking about?

Well, when you spread capitalism, and when you spread democracy, what you're spreading is individual and personal freedom, the result of which is to let individuals take care of their own

lives. And when you turn that loose, you're turning loose the most dynamic force in the world for good. Because what happens is that if a person is removed from fate and being trapped, and they're moved to possibility and being free, they start playing very aggressively in the world of possibility. And out of that, all kinds of dynamic things begin to happen.

So we see two forces that are moving very aggressively across the face of the planet. One of them is capitalism. In China today-- China's not a communist country anymore; did you know that? It's a dictatorship, but it's not communist. There are billionaires in China today; that happened in less than 20 years. Wow.

So what happened is we're unleashing capitalism inside of countries that traditionally didn't have that and what we've got is literally hundreds of millions of people in China today trying to figure out how to be entrepreneurs. Hundreds of millions. So there's, I think in China alone, there's over 300 million people under the age of 20. That's just in China; you have the same thing in Indonesia and you have the same thing in India.

And as capital is freed up and turned loose inside of those economies, and people are allowed to do things, and they're released from-- they're released, really, from economic entrapment and economic bondage, all the creative juices start to flow.

And on top of that, they are so lean and they are so hungry-- I mean, we're talking about people who are not Americans; they are not fat and sassy. They are not-- they did not grow up in luxury and in peace and in freedom and in all the stuff that we take for granted. They grow up dirt poor, politically oppressed, economically unfree, and all of a sudden, you open that door and say, "Well, have at it, boys and girls." And a few of them -- meaning a few hundred million -- a few of them out for the 3 billion we're talking about -- a few of them figure out that there's an opportunity there and get going.

So if you get on the airplane and you go to China today, you can go to modern cities that didn't even exist 20 years ago. We're talking huge metropolitan areas, skyscrapers, and these places weren't even in existence 20, 25 years ago. If you go to—I think I read-- there's one province in China that makes 75 percent of all the athletic shoes that are sold in America. That didn't even exist 20 years ago.

So the extent to which dynamic change is being driven by freedom is really something. I mean, we're turning people loose all over the planet and what, in effect, we're saying is, "Hey, in part at least, you get to behave like Americans now." And so they figure out how to get their hands on an idea and get their hands on some capital and get some people who will do work and put it all together; they try to figure out a market that they can sell to; and they are lean and hungry and aggressive and future-oriented and-- Just imagine yourself being in prison, in jail, for a long time and one day somebody comes by and just unlocks the door and says, "Hey, we've decided to turn you loose." That's what that experience is like when you get inside of...and India, too, because it was such a socialistic country. It's still very socialistic, but it's changing. It's happening. You go to Bangalore today, and you see capitalism in an extraordinarily dynamic way. And

Indonesia, same kind of thing is going on. South America is a big puzzle. You know, Russia went backwards.

But if you just kind of look across the globe, what we're seeing is hundreds of millions of people being turned loose. The largest number of people to ever come out of poverty in the history of the world is happening right now. I mean, on a scale that's just unbelievable...the numbers of people that are going to raise themselves out of wretched conditions, poverty-stricken conditions, and become self-responsible -- economically self-responsible and, we all hope, politically self-responsible.

We hope that somehow, what's going to carry the day-- what we hope is that we don't end up with some huge, wealthy dictatorship in China that goes bad on us. That would be a terribly scary thing. So we hope that what happens is that we end up with political freedom and economic freedom tied up together. Those two things feed on each other; they feed each other. When you're politically free, you have a greater sense of possibility. You have a greater sense of control over your own life. When you're economically free, you have a greater sense of possibility.

So in effect, what we're seeing is the turning-loose of the creative capacity of hundreds of millions of people on planet Earth in an extremely short period of time.

There's not a single business anywhere in America that will remain untouched by this. And primarily that's because it's redefining the consumer. It is a FedEx, ATM world, folks. It's so fast. We are so impatient today. We have no patience. You frustrate me as a consumer, and I hate you. I don't want anything to do with you if you frustrate me. I don't have time for you to frustrate me. I want to get rid of you and find somebody who makes it easy for me and fast for me. And whatever you did last year, there are people this year trying to figure out how to do it better.

What do we mean by better? Prettier? Safer? More appealing in dozens of different ways. I hated the kiosks in the airport when they first started me on them. You know, I was one of those resisters. I'm 61 years old, what do you-- give me a human being. Now I'm so appreciative. I don't have to go stand in those damn lines now. It's, like, where's my kiosk? And when it isn't there! [laughter] Give me that! I go up, I put my card in, it gives me my boarding pass, and--

I had an experience coming here on Alaska Airlines. I bought the ticket through a Delta partnership. And because I was flying Alaska, I had to go through the line. And there was this surly, unfriendly person. And I just-- where's my kiosk? I want it back.

So the dynamic forces of change -- they're a massive accelerator on consumerism. You know, whatever it was-- there are two forces that are operating out there now today. Whatever I paid for this coat and whatever the quality of it is today, I want it cheaper and better next year. There are two dynamic forces that are operating in the world that affect your and my life as a consumer -- productivity and innovation. That's it. Those are the only two things that make a difference in standard of living, folks.

So we have to focus on those two things, period, if we're going to play in this world. It's not enough just to show up today -- "Well, here we are at another leadership conference. Let's see; this is the seventeenth of these I've been to in the last 12 years. Hope it's interesting." No. It is not enough to show up at work every day and think that what we can do is kind of run this piece of business machinery and somehow it's all going to work out. There are people out there today who are trying to figure out how to bury you. They're not interested in gaining market share; they want to kill you off.

And they're going to do it with productivity and innovation. The innovations are going to make it better, faster, cheaper, easier for me and the minute they do it -- because this is the free world we live in -- and because I get to discipline you as a business when I'm a consumer, I take my wallet out and I go vote. [Chuckles] And who I vote for determines whether you're going to be alive or dead in a few years. Every year, you have to win my vote by making yourselves more attractive to me than somebody else is.

I didn't like those Safeco company graphs very much that I looked at. That's got to be a bit sobering for everybody here. I don't know enough about your numbers, but the graphs weren't pretty.

People don't understand productivity. If I gave you a choice -- "You can have a 10 percent raise every single year for the rest of your life, but productivity across the world has to stay right where it is, there's no improvement any more in productivity." Or, "You can never make another cent of income higher than what you're making today but we'll have a 10 percent increase in productivity every single year," which would you pick? Now, most people, "Give me that raise." It buys you nothing because nothing new has happened. So you've got more money -- oh, labor costs went up, so actually whatever you buy costs more. It's a downward spiral.

On the other hand, if you're making \$50,000 a year today and you could only make \$50,000 for the rest of your life, but we could get a 10 percent increment in real productivity -- meaning, for every dollar that I spend, I get 10 percent more -- in seven years, your standard of living doubles. Those of you that know how math works, compounding 10 percent gets you to a doubled standard of living in 10 years-- I'm sorry; in seven years.

Where businesses get in trouble is--as a consumer I want every single other business working on productivity as hard as they can every single year; just don't give me that pressure in the place I work. [Laughter] Could you please protect me? Is there a government-- how about a subsidy, a tariff, price supports. There's hideously bad stuff today. You wouldn't know this, but 75 percent of farm income in North Dakota comes from government payments -- how about that? Get your wallet out. You didn't know that, did you? Even in a farm state where I grew up, in Nebraska, which is one of the richest farm areas in all of the world, approximately 50 percent of farm income comes from government payments. Shocking, isn't it?

Now, I would ask you, do you think that's making American farmers more competitive, or less? I don't think it's making-- you know what it's doing is it's making them fat, dumb, dishonest

(because that kind of dependency corrupts people), and noncompetitive. And there will be a day of reckoning. This is the first year that Brazil -- Brazil -- is going to out produce the United States in soybeans. Brazil.

So the day of reckoning-- you don't get to put it off. It's a global world, now. No business is untouched. The dynamics are now with the free consumer. The free consumer is going to drive. And we are not going to put fences up around the country. You wouldn't even-- you know, we look at Detroit -- it's so sad how many people are losing their jobs. How many people in this room are driving a South Korean or Japanese automobile? Raise your hands. Or European. Okay. If you care about their jobs, would you please get rid of those cars? [Laughter] But as a consumer, there's no way you would put up with that.

You know, you'd have to give up every product that comes out of some other part of the world -- at a-- comes to you at a lower cost. There are no shoes left being built in America today; athletic shoes...maybe a few by New Balance. If they were being built in America today and we had a tariff up that kept the others out or made them expensive, you would have to pay roughly \$25 to \$30 more for your athletic shoes. You're not going to put up with that.

As a consumer, what you want is you want to be able to go into the marketplace, let everybody put their goods and services in there best they can, and, using your own criteria of what's meaningful to you in your life, which touches on -- we'll come back to, but it touches on the most profound purpose of business. As a free consumer using your own criteria and your own wallet, you're going to go into that marketplace and you're going to pick the stuff that is meaningful to you. And nobody is going to stand by and tell you that you-- or, force you to spend your money differently.

So Terry has a restaurant, a really good one. I've been eating there for 15 years. And one day, my friend Paula says, "Gary, we've got to go down to Greg's place." "No, no, no, no. I love Terry's." "Come down to Greg's place with me. Just try it." I go in there. I go, "Oh, my goodness." And I found something that's more attractive at a better price or I just like it better. And what happens on that day to Terry's relationship to me as a consumer? What happens? It starts to go down. And all of a sudden, I've moved my allegiance from Terry to Greg.

And Terry would prefer to be a bit protected from that kind of competition, in her heart of hearts. What's happening? All of a sudden, business is going away. Well, it's going somewhere else. In fact, the market's getting bigger and business is going away at the same time. How in the world did that happen?

Well, it happened because people were taking their wallets out and they were going elsewhere and voting. That's how it happened, plain and simple. I ended up leaving Terry's business and going to Greg's. That's how it happened. I'm disciplining-- the consumer is left to discipline the business. This is a wakeup call for both people. When I-- first day I walk into Greg's restaurant, he looks up and goes, "I've never seen that guy before. All right." I'm voting. I'm disciplining him. The discipline is a positive discipline; I'm telling him he did something right.

The negative discipline to Terry is one day she goes, "I haven't seen Gary in a long time. Wonder where he is." One day, we bump into each other on the street. She says, "Where did you go?" And I'm sort of sheepish and I kind of let-- you know, 15 years I've been buying there. I said, "Terry, I don't want a long explanation. Would you just go eat at Greg's restaurant?" [Laughter] And she goes down and she walks in the door and goes, "Oh, my God." And on that day, hopefully, the competitive fire in Terry gets lit.

Hopefully, the opposite thing, called the deer in the headlights, is not what happens and she's not frozen with fear, unable to understand and respond to what's going on. By the way, everybody who works in her place, their jobs are now at risk. But we've got new people working over in Greg's place.

Now, those of you that know capitalism, you understand that this is called creative destruction. Greg gets to be creative enough to destroy her business and we leave him alone and let him do it. We don't interfere. When government comes in and interferes, it causes a world of problems. As soon as I-- "I'm going to be your daddy, Terry. I'm going to come in and I'm going to interfere. We need a kinder, gentler place so that Terry isn't so economically terrified." What am I going to do -- price supports, like we do in North Dakota and Nebraska? What we're going to do is we're going to put a dollar a plate support underneath-- we'll tax everybody and put price supports underneath your product so that you're buffered from competition. Sounds ridiculous, doesn't it? Do you know how much of that we have already in America?

Now, we're trying to get it out of there, but vested interests, of course, fight to the bitter end, lining their politicians' pockets, to preserve those kind of things. But on average, folks, we're in a world today...a movement toward free markets. And free markets are going to win the day; they're already winning the day. Markets for labor, capital, goods, and services. And the truth is, we're going to say to Terry, "Look, Terry. You right now have a business that's earned the right to die. And, yeah, we feel bad about those people who work there, but we feel very good about what Greg's created over here and we feel very good about the people who work there. And quite frankly, the people who work in your place are better off to be gone from it and go apply for a job over at Greg's." It's just that simple.

So the creative destruction that we see in business today -- what's different about it from 20 or 30 years ago? The speed. The pace. [Chuckles] The pace is different. It happens so fast today. You can be just kind of lazing along, thinking you're just all safe, and whammo, the carpet goes right out from under you.

What do you think it would be like to be Kodak? You know what I mean? You know that Nikon gave up making film cameras? There was an announcement a month or two ago -- they're not going to make film cameras anymore. At all. What? So how do you be in the film business, how do you be Kodak and adapt to a world where you were just going along and everything was fine? And the fact is, how do you even be Cannon and Nikon and Pentax and Minolta? Think of some of the dominant cameras out there in the digital world. Are they those names? Some of them

are. But who else is in there today? Sony, Top3, PointNShoot Cameras, Samsung. Cameras? So we have a world where really seismic change can happen so fast, so suddenly. And it happens through productivity increases and it happens through innovation.

One of my first big clients, in fact, was AT&T. And so, as you know, they owned everything back then. That was in, what, 1983, I guess. Look what happened in 20 years. I mean, it's just astounding. So we look at the pace of change and how much it's just accelerated. And the thing we can count on as we see that acceleration that's happening-- the thing that we can absolutely count on is what? It's going to keep going up.

How come? Well, because we know that, as you turn loose hundreds of millions of entrepreneurs with capital to work with, that means that every single day you've got very hungry people waking up trying to figure out how to get the productivity improvements -- meaning, delivering more goods and services per dollar the consumer spends. I like to chart productivity on the spending end of things. More goods and services, or better or faster or cheaper or all of the above per dollar that the consumer spends. And innovation.

There's no way for SAFECO to have a long future as a company without being quite good at both of those things. No way to have a long future as a company. And you never know, in fact, for certain that there might not be a danger in the short future; in the short term.

So we go back to that fundamental purpose of business -- what is it? It's the most incredible purpose in the world, in a way. It's the most do-good thing that's out there. The purpose of business is to improve the quality of people's lives using their criteria. How does it get better than that? That's what everybody out there in business is doing. Whatever Greg's criteria are for spending his money, that defines what's meaningful to him and he's allowed to go do that.

So what we know is there's a whole bunch of people out there with wallets and money to spend, and over here, there's a whole bunch of people trying to figure out how to provide goods and services that will cause them to do that kind of spending. And this pool over here of people that are trying to figure out how to get goods and services that will cause him to make that decision gets bigger and better and faster and more aggressive every year. And no business is untouched.

Now, what has that done to our consumer? Let me offer some examples. No, a little backdrop first. You have particular issues and vulnerabilities when your products and services are what I call non-attracting. By the way, as insurance, that's the business you're in. [Laughter] Non-attracting. So you don't have a customer that ever goes, "Oh! I want one of those." No.

I drove-- I rented a car-- for the first time I rented a Hyundai Azera -- A-z-e-r-a. I was stunned by this car; absolutely stunned. I don't drive sedans. This is a four-door sedan -- \$27,000 decked out. Leather interior-- I mean, just beautiful. It felt like being inside of a Lexus or a Mercedes or-- just so exceptional. \$27,000 -- wow. And I had that, "Ooo, maybe I want one of these" experience, because there's this whole qualitative package that felt like a value proposition to me. I had a little hard time scratching my head and asking, "If I can get a car like that for \$27,000,

maybe-- is there enough of an increment to the BMW to make it worth while to me?" Because it was harder to tell that difference.

Now, the products and services-- if what you're offering for sale is a non-attractive -- meaning, I'm not out there looking for it because I'm hungry for it because it turns my crank. So if we look at most of the professional services-- let me make it more simpler. Generally speaking, I hate it if I'm involved with my utilities, my insurers, my CPA, my attorney, my doctors, my dentist. These are not products and services that I go hunting for; right? For the most part, they're difficult and painful experiences. I'm with my CPA -- what am I doing? Tax preparation. I'm at the doctor's office -- what am I doing? I'm either getting a physical or I'm sick.

Here's the problem -- I'm at my doctor's office, and every time I walk in the door, they hand me that damn clipboard and make me fill out a form with a pencil. [Laughter] It is so affronting. I just want to walk in there—and say, "You've got a computer; I'm in your file. You should be able to go, Access, Select, Print." This should take 10 seconds. I'm showing up at your place ill and you hand me this damn clipboard. It's like getting my driver's license renewed, which I did recently. [Laughter] You know?

There's a reason why we don't like monopolies -- it's because we can't discipline them with our wallet. You don't like how you get your driver's license? Well, go down the street to the other people who sell driver's licenses? [Laughter] Right? We believe-- in general, we believe in free people making free choices in free markets. And that's exactly what you insist on every time you get your wallet out if you have any way in the world to do it.

And you hate being frustrated. You hate it if your utility isn't-- you don't even want to have to think about your gas company, electricity company, or water. And when you are thinking about it, it's because something went wrong. And then they call you and-- FedEx can deliver a package to Thailand overnight. They need 14 days and want a half-day appointment-- a half-a-day appointment span. And then they don't keep it. And as a consumer, you're just berserk with frustration and anger because you have no place to go.

This is how the consumer is being affected by this world, folks. I mean, we have bottlenecks today that people are so upset with. You get on the freeway and you're in a car that cost you \$80,000 and will go 160 miles an hour -- barely turning your wheels. And it just drives you nuts because you live in a FedEx, ATM, high-tech, fast-paced world. And you want things to work that way.

I want to share a personal story I'm in the middle of right now with my insurance company. I have some businesses that require a lot of insurance -- business insurance. I spend \$60,000 a year without -- not counting health insurance -- on my business insurance. Been paying it for ten years. One of our lodges got storm damaged -- 80-some thousand dollars of damage -- from water just coming inside. And my insurer is saying, "Well, no, that was a structural defect; it's not covered." Well, you know, there's, like, 27 pages of stuff in the details of the extended policy.

But in my world, just give me a one-pager that says two things on it. “We cover everything except fraud and wear and tear. Here’s your premium, here’s your deductible.” You ought to be able to give me that on a page. Sign me up right now; sign me up! [Laughs] I’m willing to pay an increment if you will just take the headache, the hassle, the ridiculousness-- I’ve got, “Oh, the actuaries are trying to figure out all the little itty bitty permutations,” and so on. But folks, today’s world isn’t always like that. I don’t want to think about my utilities, I don’t want to think about my- - I want to be able to buy an insurance policy and have it just be simple and never have to think about it. And I want it....

The other thing is, they made a mistake on the form. It had a \$450,000 lodge insured for \$45,000 because the zero was in the wrong place. So they’re telling me that we’re only insured on this place for \$45,000. This is after a ten-year record of buying insurance. Now I’ve got my attorney involved. And I know you guys would never do that to me -- this is a bad insurance company, not a good one. [Laughter]

But-- my point is not to share with you a personal complaint but I think you recognize, in my story, who you are as a consumer. I think you recognize in my story that that’s how our world is today. Now, we may say this pace and impatience is not healthy. But it is not going to go away. And the truth about it is that all of us are going to have to figure out how to have high-quality lives in this high-paced environment because it’s not going to go away. The reason I can assure you of that is because when you unleash hundreds of millions of dollars-- hundreds of millions of people and turn them loose to be capitalists and entrepreneurs and compete in the marketplace, they are going to do it. And they’re going to come up with solutions; they’re going to come up with stuff that works. That’s the world we’re in today.

It’s incumbent-- and it really-- even a geographic monopoly utility in America is not protected from those forces because they’re still dealing with consumers that are demanding in that way.

The fastest way to really learn and understand all of this is not -- fastest way to understand it really deeply, at least -- is to get on an airplane, fly to India or fly to China. And I promise you, you will not see the world in the same way when you come back. You visit one of those cities-- the factories in China are so state of the art that they exceed-- they’re as good as or exceed anything in America. And it’s a shocker to go and to see that sort of thing going on over there. And just to see it, be in it, and see it is just-- And right beside it-- Honestly, you know, anybody who’s ever been to Hong Kong, you know this. Right beside it, you’ve got poverty. But it’s all changing really, really fast.

So we’ve got this dynamism going on and it affects every business because it affects every consumer and it’s changing consumers’ expectations. The only thing I know about SAFECO is, to the extent that you’re going to be a successful company long term, it is now a world in which you must innovate or somebody else will. And it’s a world in which you must get productivity gains because somebody else is going to.

You know, I’ll brag about Paula a little bit. We’ve done some work together. You folks are very

fortunate. This is the best CEO I've been involved with in my 30-year career. I was hoping that she would end up at Delta because that's where I am right now. [Laughter] So you're quite fortunate.

But I'm going to tell you right now that you need to be prepared for a lot of demand on you because this lady understands how this world works. And you don't even need to wait for her to come and tell you that she wants an 8 or 10 percent increment in productivity out of your budget. There are a lot of ways to get that -- more revenue per dollar spent or lower costs per amount of revenue. But you're going to get there one way or the other. You don't need to wait-- I can tell you right now, don't even wait. You're a manager, you've got a budget, just as well sign up for a-- just sign up right now that your job every single year is to figure out how to get productivity gains in this company.

And I know this industry enough to know that you've probably got-- I'll bet you already know this. You've probably got-- at least 15 percent or 20 percent of your operating costs in this company are not adding value. It's your job to go find that stuff and get rid of it. It's your job to do that because somebody else is going to do it, and that somebody else is going to be your competitor. And when they do, and they come in with an easier, more accessible, simpler, lower-cost product, or however they bundle it all up, that's the day that Greg gets his wallet out and votes for somebody else. And that voting process is what lets you know whether you're on or off track.

This is the nature of the business world today; this is how it's changing. I am so glad that it is, and so are you. Because as a consumer -- and being a consumer is more important than being an employee, here -- as a consumer, all of those people producing all those goods and services better, cheaper, faster every single year is what changes your quality of life and your lifestyle, your standard of living.

And there isn't going to be any protection for you. You're not going to be protected from those forces, so you have to figure out how to play in that world and play really well. It's a little bit like the business world now, if you think in Darwinian terms. The Darwinian nature of the business world today is simply accelerated. It's just that a business can live and die, grow and fail, so quickly. And it just means we have to pay attention to things and do things at a pace and with an attention level that's different from what we're used to.

This is the toughest challenge for legacy companies is to understand the nature of the game and the way in which it's changed. So, I don't know your company well, but apparently you've been recovering from a fair amount of time here that required inward looking. And that's always a dangerous condition for a company because, as you all know, the way that companies thrive is they put their attention out there on the customer. And we're trying to understand what that customer wants and needs so that we can supply it.

I really want to recommend that every person in this room go buy the book *Blue Ocean Strategy*. And it'll help you understand how you craft a response to this. One author's name is Kim and the other one French-- L-o-u-something-something. Anyway, it's superb. So *Blue Ocean Strategy*.

And what it'll do is...it at least provides a framework and a map for thinking outside the box. I could stand up here today and say, "Look. Here's your assignment, Terry. Tomorrow, go innovate." "Well, that's a nice assignment. Let me write that down." How do you just go innovate? I mean, how do you do that? It's not-- it may be true that that's what's needed, but how does a big company go about innovating in that way? And in this book, there's at least a map and a template -- a pathway, if you want to think of it in that way, for thinking and doing. So it's a good place to start.

The amount of attitudinal and behavioral change needed inside of companies like yours is really substantial. You know, it's a different kind of demand. Now, think about this for a second. Over time, industries and businesses get dumb. What do I mean by that? I'm not going to say this to insult you -- I just want you to understand. Right now, today, SAFECO is in a dumb industry and is a dumb company -- with smart people in it. How do I know that? I know it because the industry and the business is fully patterned. It's a pattern thing. Everybody does the same thing. Everybody's doing the same thing. In the industry, it's all the same. Inside of the business, we're all going about trying to gain market share and cost efficiencies and some things -- we're all doing the same stuff.

That means that the industry and the business is ripe for someone to come along and produce some kind of a dramatic change in the delivery system, in the product, in the customer base, in the way in which customers think about buying -- something. But when you have a fully mature industry and a fully mature business, and people are in this red ocean environment, and you're just going head to head with each other and everybody's trying to figure out how to beat the competition, and everybody's got it all thought out in that way, you are well positioned, as an industry and as a business, to be attacked by somebody with some kind of a bright idea and the capital to go deliver on it. So that's where-- that's the way in which, over time, businesses get really trapped.

I'm working with a company, as you all know, in the airline industry. In its entire history, the airline industry has lost \$40 billion. So in all the history of commercial aviation, the net is minus \$40 billion. You didn't know that, did you? [Chuckles] How do they stay in business? Isn't that a puzzle?

Well, let me tell you how they stay in business. Shareholders keep financing people's tickets with shareholder wealth. Just in 1999 or 2000, Delta stock was trading as high as \$72. Millions of shares out there -- do the math. Here we are in bankruptcy; it's worth nothing. How much shareholder value got destroyed in that process? And how do you survive as a company with those kinds of losses? How did that happen?

Well, it happened because of this thing called Southwest Airlines. Thirty-one years of continuous profit, the only company in the history of the industry to consistently make money with a low-priced offering. I hate flying. And now Southwest has come to Denver. And so now we have the TV ads that we didn't have before. And the TV ad comes on, "\$49 Denver-Salt Lake." I hate

flying. I turn to Becca, I said, "Maybe we should go to Salt Lake; it's so cheap." [Laughter] That's how much impact it has-- I mean, I live on airplanes. I hate airports, I hate the whole thing, but it's so compelling for people. [Laughter] I mean, it's cheaper than a bus, it's cheaper than a car. How can you not go? [Laughter]

Well, there's no magic in it. You've got to stop and think for a second, folks. Let's see, now - - Southwest Airlines -- Airports, airplanes, pilots, cabin attendants, mechanics. Delta airlines -- Airports-- uh oh. Exactly the same stuff.

That's the risk to SAFECO. You can't sit still. Wal-Mart grew up in a mature industry. How did they do it? Well, they built a company with an incredible supply chain. We can't ever assume that nobody's going to figure out some way how to just whip us. I mean, that's the dangerous assumption that's in businesses today.

One of your guys lives right up here -- Andy Grove -- on this side of the world. Remember his book? *Only the Paranoid Survive* anymore. Intel reinvented itself five times now. Most people didn't know that either, you know, but they've really-- five different companies in their lifetime, now. Successfully. If they'd missed any one of those five, guess what would have happened.

So we come to the party. We understand that it's a global environment. And most people say, "Well, what that means is there's a lot of competition." It's accurate. The biggest impact is on how it changes the consumer. That consumer has so many choices that are so wonderful today at such a better price, and the productivity just keeps going through the roof. And so that's where we put our understanding.

Everybody who's an American should be very glad that the world is changing in this way. We want people to be free. We want them to be economically free, we don't want them to live in wretched poverty.

Here's another little bit of insight for you on the world scale. We now understand exactly how an economy works and how one fails. We now understand poverty. So what do we understand about it? Well, we know that poverty is caused by thuggish dictatorships, crackpot economic systems like communism and socialism -- including socialism, by the way. It's caused by tribal warfare. It's caused by spiritual poverty. Like, in America, we don't have material poverty anymore but we have a lot of people who don't live good lives and end up in trouble. All the opportunity is there. People find it hard to understand that I would say we don't have material poverty but 98 percent of households who live under the poverty line in America have a color TV and 50 percent of them have two color TVs. That's not poverty in the real sense of the word.

So we understand it's now quite-- there isn't any debate anymore. If we want to understand how things happen economically for people, we understand that you've got to turn people loose with capital and you've got to free up markets and you've got to give people some safeguards so if they go and create something they know they own it, they've got it protected; it's theirs. They can earn the benefit of it, and if they want to sell it, they can sell it. So you have to have some

protections for them.