

Dean's Executive Leadership Series - 2009-2010

Transcript of Q&A with John Coyne, president and CEO of Western Digital

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Start

Dean Linda Livingstone: Thank you so much, John. That was very insightful on many levels in terms of your leadership experience and how you developed the philosophy that you have as well as what's going on with Western Digital, and you'd be very proud of my family. We just got back from a trip from Egypt about a week ago and I think we took 500 pictures and video and we did you right by all the space we're going to have to use to save that on so--

John Coyne: I have 55,000 children. Thank you.

Dean Linda Livingstone: <laughs> It's interesting. As I was listening to you talk—and I've noticed this about Arif as well. You both have engineering backgrounds and when you started talking about how the drives have developed over time and how much you've evolved that and the size and all that, it's like you light up and you get all excited talking about it, and Arif is the same way. When he starts talking about the technical side and the engineering side because that's what your background was and how you started in the company and you could tell you still have a great passion for that. And so it's a very engineering-driven company with CEOs that have come out of the engineering side yet you use words like "collaborative," "transparent," "communication," and I don't think we always think about an engineering-driven company having that kind of a culture. So what is it about Western Digital through the years where you've been able to sort of meld—create a culture like that yet in a company that's sort of very technical and engineering driven with many people that probably didn't come out of training that was collaborative or communication oriented because clearly I see that in both of you as CEOs and it certainly drives the company in so many ways?

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John Coyne: I think what's most responsible for that is that the company has been through several cycles. We started out in the '70s as a semiconductor design and fabrication company, evolved through the first 10 years focusing that on storage markets. We then had to transition to a subsystem company so the '80s were spent putting those devices onto complete solution circuit boards that were sold to our customers so a big evolution in the skill sets and the requirements. And then again partly because of our own technology we basically developed solutions that allowed those interface boards to disappear and become embedded in the hard drive, and so we then made a decision we had to become a hard drive company. And we went out and bought a hard drive company and all of the existing folks needed to be retooled one more time to think about new technologies and a new market albeit the customer focus I mentioned when we transitioned from a subsystem to a hard drive company it was so that we could continue to serve the same customer base with a full solution. The alternative was to develop a whole new set of customers, which we didn't like, but during those processes not each of those transitions was easy and financially rewarding in the short term, so we went through several cycles of near disaster. And that tended to bring the teams very close together in a common look at adversity very close in the face, and I think that hardening by fire of the teams made us understand that a lot of posturing and politics and functional silos just don't get the job done. You can survive with those structures in the good times. You won't maximize your opportunity but things will muddle along. When you get into the tough times, people have to pull together to pull it through, and I think we've cycled through that a couple of times in the company in its history and that has become deeply embedded in the psyche of the people and I think it's one of the critical factors that helps us to foster this openness and the collaborative focus we all work on for WD. We don't work for WD design or WD operations or WD sales; we work for WD. And of course Arif was very strong on reinforcing that message; I'm very strong on reinforcing that message because we've seen close up over the 30 years we've worked for the company just how effective that boundary-less kind of operation really is.

Dean Linda Livingstone: And so as the company grew pretty dramatically over not too long of a period of time and grew globally as well, were there any particular things you did as you added more and more employees and as you added operations around the world to maintain that culture fairly consistently in different cultures around the world with people that come out of different backgrounds because you don't use a lot of expats as you said? How have you maintained that culture or spread that culture globally as the company's grown?

John Coyne: Some is in the embedding of the value set I mentioned, the PAAPI values thing. You'll go anywhere in the company; you will find not just one-month posters but you'll find posters, publications, videos, monthly magazines that all reflect that fundamental value set and repeat. I do a quarterly visit to all of the facilities, which I use in order to pump up morale but also take the pulse and spread the message. I do quarterly video conferences with all of the employees worldwide when we report our

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results each quarter, and so those kinds of things that—then I think the other thing that we do is we have a very strong system of collaborative meeting, routine meetings between U.S., Europe, and Asia on multiple levels: sales, marketing meetings, engineering to factory, that are—there's a set routine of daily, weekly, monthly meetings that involve people from all over the company in specific review and action activities on a very formal basis, and I think that's all the glue that ties the process together. And I think the other thing we have is that our compensation structure is heavily weighted towards pay-for-performance right throughout the company from top to bottom, and the pool that creates that performance pay opportunity is a corporate-level earning. It's driven off of the profitability of the company and then it gets distributed down and the pool is then distributed at the individual level based on individual performance against goals, but they know that to get rewarded, and significantly rewarded, not only do they have to perform their own gear in the machine but that the whole machine has to be effective. So I think it's, the structure is one that tends to foster collaborative success rather than individual focus.

Dean Linda Livingstone: That's a nice blend of the corporate-level system plus the individual accountability so yeah, a wonderful system. What question does our audience have for John this evening? Yes.

Woman 1: Based on your road rally analogy, it sounds like you're a bit of a Ferrari and you're out in front, and maybe the closest car behind you might be a Toyota with issues—

John Coyne: Oh—<laughs>

Woman 1: How do you keep from getting complacent and sort of say, "I'm on this nice drive and everything's going great and we're kicking it." How do you sort of maintain that position?

John Coyne: Well, that's actually one of the challenges we're about to face in that since—for the last 10 years we've been the little guy getting bigger as the big guys have either gotten smaller and disappeared or stayed steady. And so we've been number five and then number four and then number three and then number two, but we've been number two for a long, long time now, and from an ease of objective setting and an ease of motivation, number two's probably the best place to be. We're about—Last quarter we got within half a million units of our largest competitor who is the leader, and that's going to be a tough place to be when we pass him out because he's currently focused on maintaining market share and improving profitability whereas we're focused on profitable growth. And so that's my biggest current challenge is to work out how to stop folks driving with their eyes glued to the rear-view mirror once we're in front and

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continue to keep looking out the windshield at what the opportunity set is ahead of us instead of getting fixated on trying to keep a gap to the guy in the mirror.

Dean Linda Livingstone: Other questions. Yes--

Man 1: I sat through the webinar on being smart consumer but I can't think of the name, with the exception of the Mac store. I really couldn't come up with a competitor, honestly. I walked by a software company and they had this whole bunch of WD hard drives out and I asked them what they were doing, and I guess they were backing up servers, I guess. And they'd buy them for 69 bucks now for a 500 GB hard drive. But I was blown away by the price tag and it's more than enough—I guess you would want a hard drive per server to keep everything backed up. But I was just thinking about this consistent 30 percent cost market, but in my history of owning hard drives they tend to go down and down and down and down. I'm just curious. Is there a predictable formula or is there based on the cast. I'm curious as to what that is.

John Coyne: I mentioned the 40 percent areal density increase, which is we can put 40 percent more on a disk each year, so in two years that means we double the capacity of a disk, and typically each year we sell a single disk hard drive for the same price even though it's 40 percent bigger in capacity each year. We try to sell it for the same price. It does tend to drift down a little bit so we're giving our customers a 40 percent increase in value every year, and we've been doing it for 50 years as an industry and that's because it's extremely technically challenging but it delivers great value. And one of the benefits of that is there are few competing technologies that keep us awake at night because we drive the core of our own technology so aggressively.

Man 2: I guess from my perspective, it's key PR, in our company. I don't really care how much money you spend , but I want to know the quality and the price is going to be consistent.

John Coyne: Yeah. We focus on quality for two reasons. High quality is low cost. Focus on design for high quality results in designs that yield very well and flow through the factory very well in a one-time flow and end up in the field and stay in the field. So for the past five years we've had the lowest warranty expense in the industry, roughly half of our nearest competitor, and that's from a focus on quality as an enabler to low cost, and again we're not altruists. We don't do it 'cause it's a nice to have. Right? It's because it's a necessary to have to have low cost on the one hand and repeat customers on the other hand.

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Dean Linda Livingstone: Yes, Jeff.

Jeff: When you talked about the earlier part of your career and you talked about making the leap from when you managed very technical team, it seems like a massive leap no matter when in your career it occurs, so I was just wondering how you dove in on the sales and marketing and business development at that point and then how today what tools do you use to keep an eye on all these other areas that are still probably not your core but people who've worked in the business.

John Coyne: Well, one of the tricks is that you get good people who have technical competence in all of the functions, right, and know just enough about it to be able to call them out when they need calling out. Right? So my folks would probably say I know just enough to be dangerous and not enough to be helpful, but—

Dean Linda Livingstone: Back here and then we'll come back over here. Go ahead.

Man 3: Back to the cost issue, what's next for the cost issue? Everyone is in China now, and you mentioned quality associated with that?

John Coyne: I think the two things—Well, cost starts by design so cost leadership starts with cost being a fundamental deliverable from your engineering team as well as functionality, right, and we've done very well in building in that expectation in our engineering activities over the years so we spend our op-ex number, which is engineering plus sales plus GNA. We spend eight percent of revenue. Our nearest competitor spends over 12 percent of revenue. We have an essentially equivalent rate of launching new products. We're bringing our new products to market faster. So we're efficient from an engineering perspective. We've developed that by focusing on product families and core technologies that are leveraged from each other so one fundamental technology design can be applied across multiple products, and then by designing with cost and quality in mind you enable lower cost manufacturing because you make the stuff go—it's designed for single pass manufacturing. And of course you put—I spoke about variable compensation that was focused on results and you tie that—the individual element of that is tied to success on these metrics and so you incentivize people to deliver the broad-spectrum solution that you're looking for, technical performance, allied low cost. It's very easy for an engineer to design a high-cost solution to the technical challenge, not so easy to consistently produce low-cost solutions to very high-technology challenges—

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Dean Linda Livingstone: A question here and then we'll go back here and then we'll probably have to close.

Man 4: On the manufacturing, distribution, and other costs associated with your product, what do you do in the area of infrastructure and overhead focusing on those costs?

John Coyne: We try to under-provision and overachieve so we have—we've developed a pretty firm model of what we think the spending needs to be as a percentage of revenue in any particular area of the business and we manage that spending very tightly so our eight percent, our stated range is actually nine to 10 percent of revenue in op ex. We've just been growing so fast for the last nine months that I haven't been able to spend that much money in those categories, but we will settle out somewhere around the nine percent when growth rates back off a little bit, but within that then there's allocations to sales, there's allocations to GNA, there's allocations to R&D and within R&D there's allocations to each separate strand of activity, same thing in our cost of goods rollup in the factories. There's fairly rigid understanding of what percentage of the budget goes to each activity broadly, and we challenge all of our people to live within those budgets and deliver the outsize results and when they achieve it they get to share in the benefits. We distribute in the variable comp system the payment by result thing distributes about 12 percent of the company's profits.

Man 5: Following up, you focus on things like shared services, organizational outsourcing, are any of those part of your strategy?

John Coyne: Oh, yeah. We look at criticality to function and certain things we keep inside. Our manufacturing is internal because we believe we're at a scale that is that—having direct ownership and operation of that manufacturing where every person is focused on the well-being of WD and we're at a scale that makes it feasible and practical and that's the best solution. Many people are using the third party manufacturing model today in many high-tech and electronics industries, medium-tech electronic industries, and I think if you're of significant size that's a highly dubious model because the folks who are doing all that work for you they're not really focused on your well-being; they're focused on theirs. So when fine decisions need to be made they take a look at their badge; it says Flextronics; that's who they're going to make a decision for.

Dean Linda Livingstone: One more question right back here.

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Man 6: I want to first thank you for sharing your experience with us. I have a question about what are your thoughts about cloud computing in regard to more businesses relying more on cloud compared to relying on traditional PC hardware, etc. Are you guys planning to capitalize on the cloud computing market?

John Coyne: Sure. We're in the cloud, right. The cloud is run on our products so that's the great thing about digital content and it's stored at both ends of the pipe and multiple times, that even outside America people have three-car garages and three cars in the driveway and no cars in the garages 'cause they're full of other stuff, right, and so we love those habits. In theory the cloud is meant to de-duplicate all of that and make only one copy of everything. That will never happen. There are multiple copies in the cloud and multiple copies at home and multiple copies in the office, and we love it all and where our vision is taking us—Somebody mentioned the WD branded products that you see in Best Buy and places like that. We're developing solutions to create personal clouds in the home and in the office that are more personal than this remote, amorphous cloud that you're a little concerned about security and privacy and so on enabling all of the devices that create, consume, manage and process content in your—initially in your home and then in your family circle and your friends' circle that you actually have full control over the storage of all of that content in your own private cloud. And our job is to make that as easy as it sounds and once we accomplish that we've got unlimited opportunity.

Dean Linda Livingstone: So John, just to close because we need to be respectful of everyone's time and your time this evening, you clearly are very passionate about what you do and that's one of the values in your PAAPI value statement, but as you kind of look to the future, and you talked a little bit about this, what's the one thing you're most excited about that you have to look forward to at Western Digital that you—I don't know if it's something about what's going on in the culture or a new product or—What is it that you are just really fired up about that you see coming down the line in the next few years?

John Coyne: The most satisfying thing is seeing the development of the people and seeing people who—having been with the company a long time, seeing people that you hired straight out of college 20 years ago or 10 years ago, even five years ago, doing all sorts of outstanding work. It's just amazing to see. When you get to be the CEO of a 55,000-person company, not that I know them all personally, but I know several thousands of them and to see that rate of development and competence grow across the organization that's probably the most satisfying piece. And then looking at where the world is going in terms of the creation and consumption of content that just continues to offer us opportunities as long as we can continue to execute and stay out of our own way, just an unlimited opportunity to continue to offer those people career growth and opportunities to be the best they can be and that's what does it for me.

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Dean Linda Livingstone: Wonderful. Well, thank you so much for your time and this has been videotaped and stored I'm sure on a Western Digital drive somewhere, and it will be available through our web site on iTunes University, Pepperdine's iTunes. We also did a podcast earlier that was an audio discussion so that will be available and John will be available for pictures and videos later that you can take home and save, but we're glad you were here. We appreciate you taking the time to be here, hope this has been a valuable and interesting evening for you. We hope to see you again soon at one of our events coming up in the weeks and months ahead so thank you, John, so much for being here.

####End ####

