

Speech for Rotary Club of Milan, Jan 31, 2012 Final

Thank you, Cesare, for the introduction. Scusatemi se non parlo in italiano ma non ho abbastanza parole per tutto quello che vi voglio dire. Pardon me for speaking in English, but my Italian is not yet good enough.

What a delight to be in one of my favorite cities in the world, Milano, where Renzo, Lucia, Don Abbondio and L'Innominato were imagined and created in the great mind of Alessandro Manzoni, in his great epic, I Promessi Sposi. What fun my wife and I have had giving this book to friends and telling them it is one of the special secret ways into Italy and the Italians. Along with Il Gattopardo, these two modern novels for us set the highest standards in literature.

Davos

From the gathering at the World Economic Forum in Davos, Switzerland I will give you what I think are the highlights with a few of my thoughts.

In my conversations with participants, at first there was a sense of pessimism and gloom that was slowly dispelled by an emerging sense of optimism for Europe, the US, certainly for Asia and for Africa and parts of South America. While government officials and academics tended to be more cautious, it was business leaders who were clear that they saw problems, of course, but that things were moving along for them.

Eurozone economic growth is predicted at a slower 3.3% down from 4%. There was large consensus that for Europe to get through the current crisis, three components will need to be activated: Fiscal consolidation, EU governance in the form of a proposed fiscal union, and, the so-called firewall. Mario Draghi, President of the European Central Bank said progress made in the Eurozone has been outstanding, while Christine Lagarde Managing Director of the IMF warned that every country will be affected by this crisis if it is not resolved adequately.

For the firewall to work it needs proper funding to ensure the future and to restore confidence. The same applies to contributions from around the world to the IMF.

It is this confidence that is key everywhere.

Europe is very close to concluding the convergence compact, but the subject of Euro bonds stirred controversy, as many saw them as an unnecessary step that would likely not get agreement.

Olli Rehn of the European Commission along with other ministers said he was very confident that an agreement on debt restructuring for Greece was now very close and that the outlook for Spain and Italy was also positive.

Germany's Minister of Finance, Wolfgang Schauble and France's Minister of the Economy Francois Baroin were clear in their solidarity and approach to resolving the debt crisis, which was reassuring to hear.

David Cameron, the Prime Minister of the UK in a forceful address very strongly urged Europe to resolve the crisis by dealing with needed “fiscal discipline, bold action and real political will,” but felt vital progress was being made. There was concern that he was abandoning Europe after not voting for the last agreement, but he made it clear the UK is a part of the community.

He was adamant about one wrong approach to raising revenue that Germany and France are talking about, with a financial transaction tax, a dumb idea that will push financial centers out of Europe. He is right. It will not stop in-and-out traders either, just drive them to other markets like New York.

Speaking of Italy.

-There is for me a disappointment with Berlusconi not just once but twice elected but leaving no legacy. He could have done so much. A number of Italian businessmen agreed. You have a great new president and cabinet, so support them and work with them.

The recent ratings reduction will make the task ahead harder here, while the restructuring imposed by the ECB will be necessary to keep Italy's place in the EU. Welcome it.

Always, better is to reduce regulations, like the onerous restrictions around starting a business. Entrepreneurs go, as do sources of capital, where they are welcome.

Economists, professors and ministers agreed that the US dollar is likely to remain the world's dominant currency for the future, and that the euro will remain in place, despite some call for its break up. In spite of the crisis, there is a very fierce high-level determination that the euro will not be allowed to disappear.

At Forbes, our sales from Europe in 2010 to 2011 were up 140% and we are looking at another strong year in 2012. I see it when I call on clients to advertise with us, mostly in the finance and luxury fields. They are looking for ways to grow their businesses, and are willing to spend to do so. They are mainly very diversified and have presences in many countries so are not tied to one place for their revenue. For instance, LVMH is going beyond China and into Africa and some Baltic states, growing their brands as these countries develop wealth. Or, look how long Zegna has been in China, 20 years, and now has a presence in Mongolia.

Our visits with a number of clients in Milan these past two days confirm the positive outlook.

My point is that there is lots of business going on in and from Europe.

China is the driving force in Asia, and will continue on this path, though there was a split opinion on how much it will grow and how it will weather its own internal problems.

Asian ministers felt that if the troubled countries in Europe had imposed the strict austerity measures called for in 2008, perhaps the current problems would have been avoided. Now, because of the shrunken trade with Asia, there is a level of uncertainty. There was also a sense that China needs to start looking to grow its internal markets even further.

One hope is that when the communist party convenes and puts a new leader in place, that we will see a more serious approach to the world.

China cannot have it both ways, first as the underdog trying by whatever means possible to grow, with little regard for intellectual property, pushing boundary and natural resources disputes with its neighbors, and imposing trade restrictions as needed; or, second, by being the second largest economy in the world and therefore feeling it should be treated as a world leader. China will need to learn how to act like a leader if it wants to be respected as one.

At the same time, they face their own problems of population, currency control, export slowdowns. But they are determined, and I welcome the competition and interdependence with them. For us, we have a fine partnership there in Forbes China.

So the outlook in Asia is good; this region overall will continue to grow; China at 8% India at 3-4% and Indonesia at 4-5%.

The Arab spring may sadly turn out badly, as the moderates who led the way are pushed aside by religious extremists, who wish to impose a more severe form of Muslim life on everyone. They are basically replacing one repression with another, but one that does not recognize that the world is no longer in the 9th Century, or that women can actually be productive members of society and not just to be used for reproduction and cooking and cleaning. They lose the contributions that 50% of their population could bring them.

Syria will likely fall this year, but in general, I worry that there will be more and more repressive regimes put in where old despots have been thrown out.

There was hope voiced that with the power of social media in this region, a better balanced life could be promoted.

The US was represented by Treasury Secretary Tim Geithner who said US economic growth would be between 2-3%, depending on “how the world unfolds.” He too urged the European financial firewall as a way to prevent problems from spreading.

He feels US optimism is rooted in the robust business sector, which I found was reflected in talks and presentations with CEOs there, many of whom would like to see a more pro-business attitude from Mr. Geithner’s boss, President Obama. They of course didn’t agree with his statement that more regulations would be good for business.

Let me add a few more thoughts.

US growth of 2-3% is nowhere near what it could be.

One hope for this year, especially into 2013, is getting back to backing the dollar.

Last year in Davos, the Treasury Secretary told me point blank that he supported a strong dollar, but the world knows this is not the case. Time to change that misguided and shortsighted policy.

There are tremendous piles of money, sitting on the sidelines in the US in private and corporate bank accounts waiting for less uncertainty and more direction before being unleashed.

The housing crisis continues, but it will stabilize this year. Though it is easy to berate the banks for this problem we are all suffering under, please remember it was bad social policy implemented during the Clinton administration that started it all by requiring banks to make loans to those who could not really afford a mortgage, calling them subprime.

Even the US jobless rate could begin to unwind a bit.

-The mergers and acquisition market will pick up even more steam; in 2011 it was up 187% over 2010, a sign of health.

-One of the biggest IPOs ever to happen in the US will be Facebook, now valued at about 80- 100bn.; we hear the announcement for it will be Feb 1st, tomorrow, so it will take just a few months to get to market. I talked to their COO, Sheryl Sandberg, and she was excited about what the company is doing to create profitability. The IPO will give a huge boost to people's belief in the financial markets, as I think there will be immense interest in owning shares of it around the world.

-Oil and gas extraction from rock and shale, known as fracking, will gain acceptance; alternative energy sources, while nice as an idea have a long way to go before being practical. Wind and solar are sort of green but are hugely costly to establish and run. In the meantime, the US and rest of the world still need combustible fuel, and instability in so many places with abundant supplies will only get worse. Even the mullahs in Iran are threatening the passage of oil through the straits of Hormuz. The US has clearly signaled it will not let this happen.

For the US to pick up steam, again, confidence is key. The possible change of president, the gathering strength in the stock market, increasing spending by businesses, should make for a better scenario for 2012.

In a gathering like Davos, economies are not the only areas treated. A big topic is technology and how it is affecting our lives. In business, as you all know, if you don't adapt to it you will simply die. Technological innovation evolves, so it is imperative for successful CEOs to stay up to date. Be ready to reinvent yourself and your company.

Social networks are also redefining the landscape, giving executives great opportunities to listen to constituencies while at the same time they need to be aware that mistakes can and will be magnified because of the social networks. You are in a two-way conversation, like it or not.

These networks will also allow for more and sudden upsets of business by their very speed. The young people at Davos have no doubt that they are ready to change the landscape.

So in business, you need to manage across the large generational gaps, and be aware that the newer generations have different needs and expectations.

Authenticity of message is more and more the standard these young people and others demand.

Socially responsible companies are the ones likely to attract the best talent now. Just making money is not enough.

US Elections

The US elections will be of great importance not only to the world's number one economy but to all countries.

A strong US is good for all markets. Hopefully, we'll have no more apologizing, no more lack of understanding how to behave with our allies and partners.

Romney will be the nominee, but his Vice President choice will be critical in the race.

I believe he will beat Obama, because the US is tired of the lack of leadership and especially the direction Obama is taking the country. Americans are simply not willing to embrace the social contract that is prevalent in Europe. In Davos, most of the Americans there agreed.

Obama has made a fatal mistake by bashing the American dream, giving anti-business speeches, and by stirring up class warfare, an ugly political tactic. An example is his stopping the Keystone oil pipeline, a huge job creator and a needed source of energy, but distasteful to environmentalists whose votes he cherishes more.

If the economy picks up steam and real jobs are created he will be harder to defeat.

On a personal note, I found that many Liberal friends are very disappointed in Obama and won't vote for him this time.

On the Business of Family Business

We at Forbes now have over 20 local language editions of the magazine in small (Kazakhstan, Turkey) and large markets (Russia and India) and are slowly rolling out websites with our publishing partners as well. The hunger for business information and the Forbes take on it is very gratifying.

Doing this expansion of the brand was a decision we as a family reached. It was my Brother Tim's idea, but he presented it to us, as family members and as shareholders. It is how we operate. While we may have varying degrees of ownership, we all have one vote on the big issues, my 4 siblings and me. We worked out our differences and needs many years ago as we concluded a shareholder's agreement, and one fundamental rule we have learned is that for a family business to survive, you must meet regularly, and best is once a month.

Communication is crucial. Without it, a family enterprise will fail. Emotions, lingering resentments over perceived slights, power struggles, generational needs, expectations and wishes, can lead to crippling problems, all of which can be solved by talking together, consistently. It is really the most important effort you can make.

We hired outside help to get us through some tough times, and we are a close family. We still have them meet with us, to give us continuing council, encouragement and expertise as needed. Expertise means accessing the points that are known as best practices. Every family situation is as different as each family, but there are common ways to deal with them.

In a family business, as in most businesses, you cannot be good at everything. So do not be afraid to ask for outside help.

In Italy as in the US, it is small enterprises and family affairs that are the staple and lifeblood of the economy. Not asking for help can result in disasters: the dissatisfaction and fracturing of families and fine business brands can be avoided.

Take a common problem, such as when there are a lot of family members who want to join the enterprise. For this, set up rules that all family members agree to.

I know of one top Italian company where the family had many of the next generation eager to join, but there simply wasn't room for them all. So the family worked long and hard with outside advisors to figure out how to bring in the next generation. The rules they agreed to were to set up strict parameters: the candidate must have an MBA, must work outside the family business for at least 2 years, and when it is time to vote on their joining, their parent may not vote. So far, it has worked. So far this company remains strong, and expands every year.

Another problem: perhaps the next generation is female and there is a reluctance to let them in to a former all-male world.

Be aware too, that sometimes it is time for change, rethinking the goals, expansion perhaps, that can cause conflict.

Sometimes it is time to let go. The founder and patriarch must retire. Only through careful preparation and communication can this get done smoothly. Older executives are often reluctant to step down, not believing anyone can run it as well as they did. Weighing the needs of the family against the health of the company are part of it.

Or, maybe there needs to be a monetization of assets and a distribution of money.

-Is there enough to buy out family members who want to have cash?

-Is selling assets to do this really in the best interest of the company?

In our family, we sold a minority shareholding to do just that, to help us financially with estate planning. We worked almost 2 years on it, but it came out well in the end.

And when it is time to sell, then do it. We have seen last year here in Italy two old family firms be sold, Brioni to Francois Pinault's PPR and Bulgari to Bernard Arnault's LVMH. Family pressures can lead to this.

These pressures can be many, often more than in a publicly held company. The foremost point to remember, though, is to communicate. Otherwise, the road ahead will be a troubled one.

One of the ways we have expanded our brand is taking on a new extension, Forbes Financial Services, part of which is a family office that helps wealthy families plan, strategize and invest.

New Publishing World

Forbes was started by my grandfather in 1917, and it has been through many cycles, wars, and recessions including the Depression of the 30's.

Never has there been more tumult in our industry, though, than today.

Newspapers are dying slowly but surely.

TV has more channels than you can flip through in an hour.

Magazines – are they relevant any more?

Let's take a quick look at this right now. Where do you get your information:

How many here get your news at the beginning of the day from the internet via computer, tablet, or smart phone? Please, raise your hands.

From a newspaper?

Radio or TV?

It is a new world of information gathering and dissemination, driven by the internet, the World Wide Web. Books are in the same position, struggling to find a balance between author, publisher and reader.

As I said, the web has turned everything on its head that we have known all our lives, and it is going to keep doing it. Like true capitalism, it is destructive creativity on a massive scale. As technological leaps are made, more possibilities open up to us.

A friend in the media business told me that he asked his very smart 18 year old daughter why she didn't read a newspaper, and she replied, because it only comes out once a day and it leaves ink on my fingers. There it is in a nutshell.

The internet has created what we call social media, and its effects are changing so much of what and how we live our lives.

Raise hands again please: How many of you are on Facebook?

Tweet on Twitter?

Are LinkedIn?

Each generation approaches it differently. For the young, it is as natural as breathing and they could not conceive of a world without instant messaging, email, updates on Facebook, trading youtube spots, playing games and sharing photos.

Italy, according to the latest numbers, has 93% social media penetration; 80% of the population are online users, with a Facebook penetration of 32%, and a 6.8 hour average daily usage, just above the world average of 6.5.

Even if you are not using social media, just think about life without your telefonino. Inconceivable. That is the way newer generations feel about their connected world.

How many of you read books on a tablet of some sort or on a smartphone? And if you don't, I am sure your children do. It is a wave of change that is happening around the world, making us more connected with access to more information than we can handle.

At Forbes our internet model is free content, paid for by advertising.

We have chartered a new course in publishing that is unlike anyone else. We embraced the social media model for what we do, on our website and now in print as well.

An editor writes a story and asks his group of bloggers to weigh in with their thoughts, and then readers will quickly add theirs, with the editor or blogger responding. It is a curated dialogue now that our audience loves, especially our famous lists of wealthy people, now in many countries, chronicling growth via this metric, showing and inspiring others.

A year ago, our traffic ran at about 17 million unique visits a month; with our new approach we are up to 28m a month and climbing. With our print and online we reach 40 million people in business worldwide. This is more than a critical mass to sell advertising against. They like our overarching message that has been our DNA since we started, that free market capitalism and entrepreneurialism are the best way to prosperity, with rules, transparency, and less government at the core. It is about the brand being not just an old one, not just a current one, but one that is looking ahead.

2-3 poems from each book

I am a businessman and a believer in free enterprise, therefore I am an optimist.

Leading a balanced life as an executive, I am fortunate to have published two books so far with a third coming out this fall , aimed at children but also meant to delight adults.

When I go to schools and libraries to read to them, I come away with that optimism refreshed.

One of the great joys I have with the kids is talking about imagination, words, and the pleasure found in reading. In fact, last spring I spent the day at The American Overseas School of Rome, reading to the 4th and 5th grades.

So let me share with you now a bit of what we did.