

## Citizen of the Year Award Ceremony

*John F. McDonnell's Remarks*

*Saint Louis Science Center*

*May 26, 2009*



For more than three decades from the 1960's into the 1990's St. Louis was home to a very powerful, stable group of large corporate headquarters. Much of the charitable giving and civic leadership in the St. Louis region came from those corporations. But then something distressing happened beginning in the mid-90's. Starting then most of those headquarters have since left town along with much of their giving and civic leadership, leaving St. Louis as a greatly diminished business center. That is the perceived situation.

In the next eighteen minutes I will convince you that the reality is very different from that perception and that St. Louis is in a period that 25 years from now will be looked back on as dynamic and constructive.

But before I lay out my case, I want to express my deep gratitude for being selected to join the ranks of the St. Louis leaders who sit on this stage today and all the others who have been selected since 1955 as Citizen of the Year. I am awed by the accomplishments represented in this group of citizen leaders, and I am deeply honored that you have selected me as a peer. I also want to thank all of you here today for making the effort to thread your way through the maze of highway construction to be here at this ceremony. I am honored by your presence.

I have been privileged to serve on the boards of institutions – not-for-profit and for-profit – which have been leaders in their fields and important to the economy and culture of St. Louis. In each case the institution has had outstanding leaders (a number of whom have been St. Louis Citizens of the Year) who have made their organizations unique and from whom I have learned a lot.

The Saint Louis Science Center, in just 25 years, has grown from a small under-facilitized museum to a vital science education resource for our region by continually renewing and expanding its vision, mission, and role in the community.

Washington University in the past 40 years has gone from being a fine regional university to one of the top research universities in America with a worldwide reputation and outreach. It is considered probably the fastest rising research university in the whole U.S. during the past decade, and its School of Medicine is consistently ranked as one of the top three or four.

Barnes-Jewish Hospital is one of the top academic hospitals in the United States, and its parent, BJC Healthcare, is one of the nation's finest healthcare systems and the largest employer in this region. Its blending of leading academic

hospitals with outstanding community hospitals and its partnership with the Washington University School of Medicine makes it unique among healthcare systems.

The Donald Danforth Plant Science Center is a younger organization, but in its 10 years of existence it has become a highly respected institution performing ground-breaking research in fundamental plant sciences. That research should contribute to a second green revolution in the coming decades.

In a somewhat different vein the Federal Reserve Bank of St. Louis, representing one of the smallest among the 12 Federal Reserve districts, has for decades played an outsized role in U.S. monetary policy as a maverick and intellectual leader.

Turning to for-profit corporations, obviously the one with which I have been most involved is McDonnell Aircraft leading to McDonnell Douglas and then merging into The Boeing Company. It has had a 70-year history in St. Louis marked by major job creation and civic leadership.

On the Ralston Purina board I learned of the power of carefully crafted consumer brand management and creation of value through acquiring businesses in seemingly disparate, but actually very complementary, markets.

The final board on which I was privileged to serve is The Zoltek Companies. That is a story that is still unfolding. It has pioneered major new uses for carbon composite fibers based on greatly reducing the cost.

To paraphrase an old saying, "You are who you associate with," and I have had the luck and privilege to be associated with and learn from the many outstanding business and civic leaders who have taken those organizations to higher levels of achievement.

Let me now describe why we should get over mourning the loss of corporate headquarters past, revel in corporate headquarters present, and look forward to a bright future. I'll begin with a brief primer on the life cycle of businesses and industries. This is Business 101 according to John McDonnell.

First is the start-up phase where the business or industry is populated by entrepreneurs with a vision of what might be and a drive to make it happen. They are searching for and identifying good matches between products and markets.

For those who accomplish that goal, there is next the growth phase, in which the business or industry is rapidly expanding and covering the identified market with one or more products or services. During this phase the number of companies in the industry is also growing as new entrants try to grab market share.

Then comes the maturity and consolidation phase. In this phase while some innovation and product differentiation continue to occur, scale and cost control

become determinant. The low-cost producer usually wins, and the low-cost producer is usually the one that best covers the market and has the greatest market share. In this phase mergers and acquisitions are quite common in order to achieve low-cost producer status. The number of companies in the industry declines significantly, in some industries to as few as two.

With that background let me review what has happened to the six St. Louis headquartered companies that were among the Fortune 500 largest companies throughout the 1960's, '70's, '80's, and much of the '90's. Of course, Emerson is the one whose headquarters is still here. It continues to grow in a maturing industry by transforming itself in the past 15 years from a predominantly domestic company to one that now has more than 50% of its business outside of the U.S., with China being its second largest and fastest growing market.

I would argue that three of the companies whose headquarters have left St. Louis as part of consolidations in their industries – McDonnell Douglas, Monsanto, and Ralston Purina – are actually success stories for St. Louis. In each case our region is still the headquarters for major elements of the successor companies. One-half of Boeing's business, the Integrated Defense Group, is headquartered here and Boeing's current St. Louis employment is probably greater than McDonnell Douglas would have had at this time. With more than 15 thousand employees, including 4 thousand engineers, it has the second largest corporate payroll in St. Louis, behind only BJC HealthCare.

In the new Monsanto, spun off by Pharmacia in 2003, St. Louis has the headquarters of a major growth company in a young high-tech business. Even in today's market turmoil, Monsanto's current market value is several times greater than old Monsanto's all-time high. In addition, at least for now Pfizer has a major R&D center here in the fields of biologic therapies and new drugs for arthritis.

St. Louis is the headquarters of Nestle Purina, which oversees all of Nestlé's North American pet food business. In addition, Energizer Holdings and Ralcorp – spinoffs of Ralston's battery and cereal businesses – are both successful, growing corporations still headquartered here.

The other two of the six long-time Fortune 500 companies headquartered in St. Louis were Anheuser-Busch and Pet, Incorporated. In the case of the recent acquisition of Anheuser Busch it remains to be seen what long-term role St. Louis will play. Of the six, Pet was the clearest loss because it basically dissolved into a number of small pieces.

Other leading companies whose headquarters have exited St. Louis within the past 15 years are May Department Stores, A. G. Edwards, Southwestern Bell, TWA, Mallinckrodt, Edison Brothers, General American, Mercantile Bank, and Boatmen's Bank. I'm sure there are other names I have missed.

It sounds pretty discouraging, doesn't it? Well, that's business. As industries mature and consolidate, companies get acquired, merge, or just plain go out of

existence. Furthermore, that life cycle is accelerating, not slowing down. So don't expect the appearance of stability in the future like we had back in the bygone days. Losses of headquarters are inevitable. The real test is whether new companies are growing to fill the vacuum.

Well let's see. In addition to Emerson and the new Monsanto, we have the headquarters of a long list of companies which were either not around 15 years ago or were too small to be major players: Express Scripts, Sigma-Aldrich, Edward Jones, Peabody Energy, Arch Coal, MEMC Electronic, Savvis, Centene, and World Wide Technology, plus a number of successful, growing regional companies such as Ameren, Commerce Bancshares, and Schnuck Markets. Many of those companies are already or growing into civic and charitable leaders. I'm sure I've overlooked many other outstanding St. Louis companies.

Even more amazing, contrary to perception, St. Louis is now the headquarters for just as many Fortune 500 companies as it was during the "golden decades" – namely eight. The big difference is that back then it was the same companies decade after decade with no new ones appearing on the Fortune 500 list. The fact that six of the eight this year did not make the list as recently as 1995 is a strength, not a weakness. As I described in my primer on the business life cycle, companies and industries start, grow, mature, and consolidate. That's the way it is. Fifteen years ago St. Louis was the headquarters of Fortune 500 businesses that were predominantly mature in consolidating industries. Now St. Louis is the headquarters of Fortune 500 businesses which are predominantly still in their growth phase. In fact seven of the eight this year were higher on the Fortune list than they were last year, so they are almost all growing faster than average.

In addition, as they say in the TV infomercials, "But wait, there's more!" St. Louis right now has more Fortune 500 company headquarters than all but six other U.S. cities, ahead of San Francisco, Charlotte, Los Angeles, Philadelphia, Pittsburgh, and on and on.

And, oh, by the way, there is one other company headquartered here that would not have shown up 15 years ago but would now be well up the Fortune 500 list except that it is private – Enterprise Rent-A-Car. It is a huge success story of becoming the world's largest and most successful company in a very competitive, mature industry; and as we all know, Enterprise Rent-A-Car and the Taylor family are tremendous civic and charitable leaders in St. Louis.

Let me now take a moment to talk about how St. Louis is doing in corporate charitable giving. For this I will use the United Way as a proxy for overall corporate giving. Fifteen years ago the top six corporate givers and their employees contributed just under 28% of United Way's total amount raised. All six were headquartered in St. Louis in 1993, but none are still headquartered here.

Sounds ominous, right? Well, in 2008 the top six corporate givers and their employees contributed almost 25% of United Way's much larger total. That three percentage point drop in corporate giving is actually a better result than almost any

other United Way around the U.S. achieved in 2008 vs. 15 years before. Furthermore, in both years St. Louis ranked near the top of all United Ways in the percentage of corporate giving. In other words, St. Louis had and still has a very generous and vibrant corporate community.

We should count our blessings that we do have a strong business community; we should be celebrating their successes; we should be asking ourselves what can we do to improve their chances of continuing to succeed; and we should be working hard to build and improve our business and educational infrastructure to enable new businesses to start and grow in St. Louis, and to attract other businesses to move to St. Louis.

One area in which we have a tremendous opportunity for business leadership is in the plant and life sciences. Between Washington University and Saint Louis University, St. Louis is a center of health sciences research. In addition, St. Louis could become the leading center for plant research when you add Monsanto, the Missouri Botanical Garden, and University of Missouri-St. Louis capabilities to those of the Donald Danforth Plant Science Center and Washington University. This was demonstrated in April when Washington U. and the Danforth Plant Science Center each received major grants totaling \$35M from the U.S. Department of Energy to perform research on photosynthesis and conversion of algae into clean energy. Of 46 grants announced by DOE at that time, there were only three other awards based on plant science. So St. Louis is already establishing itself as the leading center in that area of plant science research.

For the past eight years the Coalition for Plant and Life Sciences, under Bill Danforth's leadership, has been coordinating an effort to develop the infrastructure needed to build a flourishing industry. Much has been accomplished in identifying and commercializing promising scientific research breakthroughs, and making available seed funding, incubator facilities and support, wet lab facilities for lease, attractive building sites, venture capital for growth, and probably most important an attractive environment to entice entrepreneurs to move to and remain in St. Louis.

However, much more needs to be accomplished before we will have a self-sustaining entrepreneurial culture that will spawn an on-going stream of new companies. We all recognize that it will be a long process which will require considerable governmental and charitable resources, risk-taking investors, and above all perseverance, creativity, and commitment to adapt to changing circumstances. Nevertheless, I believe that 25 years from now plant and life sciences will be the leading engine that will be driving the region's business economy – just like the fur trade, shoes, beer, and aviation have in turn led it during various past eras.

I know I've thrown a lot of statistics and data at you, but, hey, I'm an engineer, and I like numbers. Summing it all up, however, I would argue that today St. Louis has a more vibrant business community than it had 15 years ago because then most of the major companies were mature and subject to consolidation

whereas today more of the major companies are still in the growth phase of their life cycle. And we are beginning to have an entrepreneurial environment that will spawn new companies at a considerably greater rate than in the past. I believe that in the field of plant and life sciences we are on the verge of a tremendous explosion of entrepreneurial growth just like Boston and Silicon Valley were four decades ago in electronics, IT, and communications.

So the headquarters exodus beginning in the mid-90's may turn out to have been, not distressing, but a wakeup call to St. Louis to prepare for the future instead of resting on its past laurels. I believe we in St. Louis are heeding that wakeup call and can look forward to our best days if we in this room are wise, diligent, and committed in our efforts to make it an increasingly better place to live and work.