

Change Equals Opportunity

An Interview with James W. Keyes



James W. Keyes

EDITORS' NOTE James Keyes is a global business leader, philanthropist, educator, artist, musician, commercial pilot, and modern renaissance man. He is the former CEO of two internationally recognized Fortune 500 companies, 7-Eleven, Inc. and Blockbuster, Inc. His other business interests cover a broad range of industries from retail, consumer products, technology, healthcare, cyber security, new space, energy, and advanced nuclear. He sits on several public company boards and serves as a board adviser to a venture capital firm and a number of start-up companies. Keyes' philanthropic initiatives have an equally broad focus, including serving a three-term seat on the Board of Governors for the American Red Cross, acting as the former Chairman of the Dallas Symphony Orchestra, and serving on the board of directors for institutions such as UT Southwestern Medical School, Cooper Institute, St. Jude Children's Research Hospital, Dallas Performing Arts Center, SMU Cox School of Business, Columbia Business School, and his alma mater, College of the Holy Cross. He has had a lifelong commitment to education, serving as a founding director of the Dallas Education Foundation, and is the founder of the Education Is Freedom Foundation. He was inducted in 2005 as a Member of the Horatio Alger Association of Distinguished Americans.

Will you discuss your career journey?

The one distinguishing factor in my career has also become a personal "brand" of corporate leadership – the idea that "Change equals opportunity." Growing up in a hardworking family, where college wasn't an option, I found that education and learning were the pathway to opportunity. My early years were riddled with changes, many catastrophic, that gave me a strong sense of independence and self-determination. I learned at an early age that my future was in my own hands. Setting out on a path to become a lawyer, the intervention of a professor in college encouraged me to pursue a JD/MBA degree at Columbia University. A summer internship at Gulf Oil Corporation provided an opportunity for full-time employment and caused me to finish the MBA first, then accepting a role in the Corporate Planning Group of Gulf, working M&A analysis for their CFO.

When Gulf merged with Chevron in the 1980s, another door opened to join Citgo Petroleum, a newly acquired division of The Southland Corporation (parent company of 7-Eleven). At The Southland Corporation, I led a turnaround of the new Citgo Petroleum division and a roll-out of the Citgo brand across all 7-Eleven stores. My career was on a strong trajectory when Southland completed a leveraged buyout, taking on \$4 billion of (junk bonds) debt at 17 percent interest. By 1991, the company was in Chapter 11. Once again, "Change equals opportunity," and the success of leadership in gasoline operations led to a role as head of strategic planning to help the company emerge from

bankruptcy. Execution of a successful turnaround plan upon emergence from bankruptcy led to my appointment as Chief Financial Officer at the new company, now named 7-Eleven, Inc.

The successful turnaround of 7-Eleven was due to one fundamental change, instilling a culture of "change" within the company that caused us to completely reinvent the product assortment at 7-Eleven, bringing new levels of convenience to our customers. This transformation led to 40 quarters of improved same store sales and a dramatic improvement in earnings for the company over the 10 years post-bankruptcy. During my tenure as CEO of the company (2000-2005), we enjoyed a 10x increase in shareholder value leading to the sale of the company to Ito-Yokado, our Japanese licensee, at the end of 2005.

The successful transformation of 7-Eleven caused me to look for similar companies who could benefit from the use of technology and access to data to accelerate their evolution. Blockbuster was a natural choice. The transition to digital streaming video was inevitable, but simply a matter of time and execution of the plan.

I joined Blockbuster in 2007 with the support of lead director, Carl Icahn, armed with a transformation plan that would use the physical stores as a platform to facilitate the eventual evolution of customers from physical to digital access to media entertainment. My first move was the acquisition of a company called Movie-link. Movie-link had been created by six major studios (Viacom, Warner, Sony, etc.) to build

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a platform that would consolidate digital rights and streaming access with a one-stop shop. The studios saw Blockbuster as the preferred partner for this digital transition. We then had a program called “total access,” offering DVD’s in-store, via mail, via kiosk, and online, basically providing customers with the most convenient access to media entertainment. We were very well positioned to compete with Netflix’s very limited movie availability and selection.

Our Achilles heel was the balance sheet. Following the relaunch of Blockbuster as a public IPO in 1999, the company was carrying over \$1 billion of debt. One third of this debt, over \$300 million, was due to be repaid in 2009. Anticipating the need to refinance this debt, our plan was well underway. By the end of 2008, we had positioned the company for streaming capability, reduced costs, improved store performance and nearly doubled EBITDA. Moody’s granted a two notch upgrade in our debt rating that would pave the way to a refinancing, but in the same press release they announced that we “could” be a liquidity risk because of the recent collapse of Lehman and the distressed financial markets. This announcement, unfortunately, created an inevitable decline in our equity value and a panic among our creditors which ultimately forced the company into a Chapter 11 restructuring. During these challenging times, however, I had been lining up strategic partners including Google and Dish Networks. Dish would ultimately prevail in the purchase and restructuring of the company. Netflix did not crush Blockbuster, the balance sheet did. All of this created significant learnings in the importance of managing and responding to change. I adopted a quote from Nelson Mandela – “I never lose, I win or I learn”. Blockbuster was, indeed, a learning experience.

How did your early years growing up in poverty in Massachusetts impact your career?

At an early age, I learned that adversity made me stronger. Growing up with a broken family and economic hardship gave me a sense of independence and self-sufficiency that I didn’t see among my peers. I knew that no one would take care of me if I didn’t take care of myself, so I set out to gain all of the skills needed to survive. In school, this became a drive for

academic success that would fuel opportunity and open doors. I discovered that the harder I worked, the more success I could enjoy and the more opportunity would be presented. Today, when speaking to underprivileged youth, I try to impart this knowledge that adversity can be a strength and that it isn’t the adversity, but rather our response to that adversity, that counts.

Will you elaborate on your experience leading two iconic brands, 7-Eleven, Inc. and Blockbuster, Inc., and your views on the need for companies to continue to innovate and adapt to survive?

Every corporation, just like people, have a life cycle. They have a period of incubation, they grow, they mature and then they experience a period of decline and possibly death. In the case of humans, the death part is inevitable, but in the case of corporations, the life cycle can be extended indefinitely if the company is able to reinvent itself by responding to change. Adaption to change is the lifeblood of any corporation and the prerequisite for it to extend its life cycle to remain relevant to its customers.

7-Eleven found itself in exactly this situation. In 1991, the company filed for Chapter 11 bankruptcy protection. In my new book, *Education Is Freedom*, I tell the story of meeting with the Chairman and learning that the company had faced this earlier in its life cycle. 7-Eleven started its corporate journey as an icehouse, selling large blocks of ice until they faced the

challenge of new technology in the form of a refrigerator, threatening their ice sale business. The company pivoted and recognized that it wasn’t in the business of selling ice, but instead was in the business of selling convenience. Ice had simply been a convenience item. They began to look at other convenience items and today’s convenience store was born. In 1991, we had stopped being relevant to convenience customers. We sold beer, soft drinks, and cigarettes, but so did others. My mission, the Chairman told me, was to find things that people needed conveniently in the 1990s and beyond, and that if I was able to do so, then the company would survive. Indeed it did. We created a pipeline of new products that continues today in over 80,000 locations worldwide. The company today is always searching for new convenience items to delight the customer and remain relevant.

In the case of Blockbuster, we faced a similar change. New technology in the form of streaming video was going to displace DVD rentals. The company had already demonstrated the ability to pivot to new technology when it changed from VHS rentals to the new format, DVD. My first step when joining the company was to acquire a streaming video company that had been created by the major movie studios to enable digital streaming. The company was called Movielink. We acquired the company in 2007 and changed the name to Blockbuster on Demand. Unlike Netflix, we were able to offer a wide variety of new release movies as well as older movie favorites. It was not technology that killed Blockbuster, but instead it was the economic upheaval of 2008 that caused the company problems. Blockbuster had \$1 billion of debt with one third due in 2009. In spite of our progress in doubling earnings and adapting to streaming video in 2008, the collapse of Lehman Brothers in 2008 caused a banking crisis that made it impossible for Blockbuster to refinance its debt. As a result, we were forced to take the company through a Chapter 11 restructuring. Still, we were able to salvage the company through a sale to Dish networks who still own the Blockbuster brand and may, yet one day, bring the brand back for a better streaming video opportunity.

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What interested you in writing the book, *Education Is Freedom*, and what are the key messages you wanted to convey in the book?

I have always been inspired by the ability to help others find their path to success. The book was intended to provide a road map for young people to see education and continued learning as an enabler of opportunity. I have a broader mission for the book as it relates to humanity at large. I believe the future of democracy relies heavily on an educated citizenry. In these days of increasing polarization,

we have forgotten some of the basic principles of learning such as responding to change and confident, critical thinking. Instead, we often take news or absorb information at face value without striving for true understanding. As a result, fear can take the place of confidence, anger can take the place of understanding, and violence can threaten our peace. Much of our anguish today is based in fear. The news is filled with fear. Our politics are driven by fear. When we were children and were afraid of the dark, our parents turned on the light to help us see that there was no monster under the bed.

Knowledge is the same as turning on that light, helping us recognize that there is really nothing to fear, no reason to hate, no purpose for violence. This is why I ask the rhetorical question, “where does humanity go to school?” Well, the answer is in our hands. It is up to each of us to embrace the transformational power of learning, both individually and as part of humanity.

What do you see as the keys to effective leadership?

Leadership is about adaptation to change. Without change, why would we need anyone to lead? We would all be comfortable with the status quo and leadership would be unnecessary. It is change that causes us to look for direction, hence to seek out leadership. It is the leader who steps up to collect as much information as possible to make an informed decision about the necessary response to change, and to take the group in the most responsible direction. For this reason, I’ve coined the expression “Change Equals Opportunity” or CEO. This is, indeed, the role of a chief executive – to use whatever resources available to anticipate change, to leverage the collective knowledge of the group to craft a response to that change, and then to execute a plan to insure the most favorable outcome.

What are your views on the role that leading corporations have to be good corporate citizens and engaged in the communities they serve?

I believe that there is no difference between increasing shareholder value and social good, and that both can be complementary. I also believe in the power of leadership to do more than increase shareholder value, but also to increase the value of the enterprise within its respective community. Most companies are made up of people and those individuals want to have pride in their work and pride in their company. When a company demonstrates collective compassion by demonstrating responsible citizenship, then it creates a favorable attitude among employees that supports employee retention and commitment. One can do more good for society from the helm of a corporation than any individual able to write checks for philanthropy.

What advice do you offer to young people beginning their careers?

My strong advice to those beginning their career is to adopt the first three of my nine C-suite Learnings:

Embrace change...and see it as opportunity to grow.

Confidence...is the best antidote to fear and uncertainty.

Clarity...or simplicity, is essential to both understanding others and to effectively communicate with others.

These three elements are what I describe as “what” to learn before true learning can even begin. They are the “gift” that I willingly share with others and represent the most important attributes that have allowed me to live the American Dream. ●

