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Donnelley's CEO quest no easy task

Company course uncertain amid printing's slump

By Barbara Rose
Tribune staff reporter
Published August 3, 2003

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Wanted: CEO to run a Fortune 500 company. Must put one foot in manufacturing, the other in digital services. Essential: Ability to impress old-line board.

Finding a replacement for R.R. Donnelley & Sons Co. Chairman and CEO William Davis won't be easy.

The tall, no-nonsense executive, who turned 60 last week, plans to retire from the world's second-biggest commercial printer without having groomed a successor, at a time when Donnelley's printing business is in the dumps and its newer digital services have yet to take off.

There's no question he leaves the 139-year-old company better off than when he was recruited six years ago from Emerson Electric Co. He restored financial discipline and brought modern manufacturing methods into Donnelley's plants.

But Davis' contribution isn't reflected in Donnelley's sales or its stock, partly because his tenure at the Chicago company coincided with a punishing printing industry recession.

"The industry has been in a tailspin and Donnelley has been lurching this way and that to fix problems, many of which are beyond their control," said Morgan Stanley analyst Douglas Arthur.

"My feeling is that Davis walked into a situation that was more difficult than he assumed it would be. He's done a good job under very difficult circumstances."

Now Donnelley's board is faced with finding a CEO for a commercial printing industry leader that still has a long way to go to deliver exciting returns.

Like manufacturers such as Eastman Kodak Co., Donnelley is a conservatively managed company in a mature industry that is being forced by technology to reinvent its business.

"Kodak is trying to do its own transformation to a technology play, and the jury is still out," said recruiter Peter Crist.

Davis' longtime predecessor at Donnelley, John Walter, made largely unsuccessful forays in the early 1990s into areas such as e-commerce before bolting in late 1996 for a brief stint as CEO of AT&T.

Davis restored Donnelley's focus and added new businesses such as logistics. Now it will be up to his successor to push more changes.

Donnelley's future lies not in printing magazines, books, catalogues and telephone directories, a business that even in good times registers 3 percent annual growth.

Growth lies in using Internet technology to provide services that make companies more efficient. An example is accessing a manufacturing company's databases to produce, print and distribute materials such as user manuals and product promotions, or producing employee benefit packets.

Davis leaves little doubt about the importance of taking Donnelley beyond printing and binding.

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"From my perspective, the next person's got to understand the importance of content management in a very persuasive way," he said.

A different job description

For that reason, the CEO job description will be very different this time from when Donnelley's board hired Davis, although the board retained the same search firm: Heidrick & Struggles International.

"The real challenge then was finding somebody who brought some manufacturing discipline," said Heidrick & Struggles Vice Chairman John Gardner in Chicago.

This time, Gardner said, the board is looking for a leader "who can fine-tune the strategic course and make sure the operational excellence continues."

Gardner is joined on the assignment by the firm's senior chairman, Gerry Roche, in New York, a recruiter with a fondness for General Electric Co. candidates who doesn't hesitate to recruit across industries.

For instance, Roche dipped into GE's talent pool to place Robert Nardelli at Home Depot and Jim McNerney at 3M Co., both in CEO slots.

Candidates Heidrick & Struggles may pursue for Donnelley, according to other recruiters, include Automatic Data Processing Inc. Chief Operating Officer Gary Butler; John Rice, CEO of GE Power Systems; and David Calhoun, CEO of GE Aircraft Engines.

An outside possibility: ServiceMaster Co. Chairman and CEO Jonathan Ward, 48, who was Davis' No. 2 executive before he quit to join ServiceMaster.

The most likely internal candidate is John Campanelli, 46, whom Davis recently promoted from president of logistics to oversee Donnelley's large commercial printing business.

But analysts said an external candidate is more likely.

Jim Drury of James Drury Partners, which specializes in CEO and board searches, said a recruit from a company such as ADP would be a good fit.

Drury's ideal candidate: "Someone from a business-to-business service company with as much bearing on information management content as you can find, coupled with the right sort of personal leadership characteristics that are always important when you're trying to introduce change."

He and others said Donnelley would benefit from an outgoing personality who can schmooze customers as well as rally Donnelley's employees.

Donnelley's former CEO Walter fits that description. "He was very sales and marketing oriented," said Morgan Stanley's Arthur, "but he took the company in a lot of different directions, many of which ended up backfiring."

A diverse search committee

Donnelley's board no doubt will be cautious. A four-member committee was formed to oversee Davis' succession in January.

The committee represents diverse industries: Bide Thomas, retired president of Commonwealth Edison Co.; Stephen Wolf, non-executive chairman of US Airways Group; Judith Hamilton, retired CEO of Classroom Connect Inc.; and Thomas Johnson, Chairman and CEO of GreenPoint Financial Corp. They declined to comment or could not be reached.

Whoever follows Davis will be hard-pressed to deliver an immediate turnaround. Donnelley's printing contracts run three to five years, and current contracts were written amid price wars when the industry's sales were declining.

A recent survey by Virginia-based Printing Industries of America suggests the worst may be over. U.S. printing sales were up 2.2 percent in the first six months after declining last year, according to the survey.

Even so, "the overcapacity is going to continue into 2004," said analyst Kona Shio of MGP Media Asset Management in Montreal.

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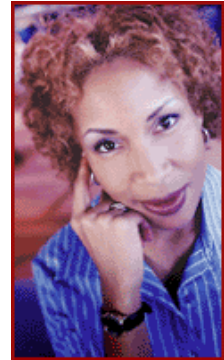
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Merrill Lynch Global Services analyst Karl Choi estimates Donnelley's second-quarter earnings will be \$1.27 per share, up from \$1.24 per share last year. The company is scheduled to report second-quarter earnings Wednesday.

Sales this year will total \$4.7 billion, Choi estimates. That's less than the company's \$5.1 billion in sales in 1997, the year in which Davis was hired.

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