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Sitting pretty: John Chen, at the center of the relocation to Sybase's new headquarters.

# DESIGNING AN INDUSTRY

## JOHN CHEN REBUILDS SYBASE WITH AN EYE ON NEW MARKETS AND INCREASED PROFITS

John Chen's colleagues at **Sybase Inc. (SY)** believe he holds the land speed record for a round of golf—18 holes in an hour and a half. Chen (who claims a 14 handicap) moves fast as chairman, CEO and president of Sybase, too—and he doesn't agonize over his shots. He joined the database software company as president and chief operating officer in 1997, its third money-losing year in a row. By the time he entered the corner office as CEO in September 1998, the company was struggling to hold on to just 4% of the database market, and, recalls Chen, the board of directors was ready to sell Sybase.

That year Sybase experienced a deficit of \$93.1 million on declining sales of \$867 million. A year later Sybase had returned to profitability, earning \$62.5 million on revenues of \$871.6 million. Those numbers were no fluke. In 2000 the company again reported profits: \$72.1 million on sales of \$960.5 million, the most profitable year in its history. Ask Chen how Sybase's turnaround happened so fast, and he says: "I am not a patient man."

Chen explains that he came into office with a two-pronged plan to stabilize the company and return it to profitability. The first phase was to cut costs and conserve cash to stem the losses. Phase two was to focus on revenue growth by leveraging the core database technology

to create new products in vertical markets for the 45,000 existing customers and to develop new markets throughout the world, particularly in China. Phase one is complete, Chen reports, and he and his team are midway through the second and are now financially strong, with \$347 million on the balance sheet to make acquisitions and to cushion any downturns.

"Sybase had lost its way and it didn't find itself until John arrived," says board member Richard Alberding, a retired executive vice president of **Hewlett-Packard Co. (HWP)**. "He and the management team he created get the credit for the turnaround."

### EARLY CHEN

Chen, 46, a compact, energetic man who dresses Silicon Valley style in polo shirt and khakis, has a blunt charm that is part of a forthright determination to succeed. He was born in Hong Kong in 1955, the oldest of three children, to parents who had fled the Chinese mainland in 1949. "My father was an accountant, but we were struggling when I was growing up because Hong Kong was populated by refugees," Chen recalls. He watched his father learn English at night to get ahead in what was

BY JULIE CONNELLY | PHOTOGRAPHS BY MELANIE DUNEA



# CHEN BUILDS HIS TEAM

Billy Ho, e-Business senior vice president and general manager, is a loyal Chen colleague.



"I BUILT A MANAGEMENT TEAM PRETTY QUICKLY," says John Chen, "and I have a philosophy about it that people find intriguing because it's very logical. I map out a strategy of how I'm going to organize the company. Then I count out the number of people that I need.

"I want the first third of my direct reports to be people that I didn't know before Sybase, people I've never met before in my life. I want people who have new ideas. I don't need internal people telling me, 'Oh, it was always done this way, and it

was great.' I don't need the reminiscing, because this is not a wake. It is a going-forward."

The next third of Chen's management team, those he calls the "doers," is made up of people with whom he has worked before. Many engineers have followed Chen from Unisys, through Pyramid and Siemens. "These are people like Raj Nathan [senior vice president and general manager, enterprise solutions division]," Chen says. "He and I have been working together in three different companies for 18 years. So if I blink, he knows why. He trusts me enough and vice versa so that if I have decided something, we don't need to debate it anymore."

Billy Ho of the e-Business division has been with Chen since both were grad students at Caltech. "It was a personal challenge for me to see how I could help John run Sybase," Ho says. "He can provide leadership, and I wanted to be part of this."

Chen promotes the third component of his team from within, primarily back-office management such as Daniel Carl, vice president, secretary and general counsel, whom Chen relocated from Europe. The reason for this third, says Chen: "I don't have time, nor do I have any desire, to rediscover all the skeletons, let alone find the closets. These people all know where the skeletons are, and all the closets."

then a British colony. "He was 30 years old and learning his ABCs," says Chen. "I found books at home like *The Adventures of Tom Sawyer*, in which he had looked up every word and written the Chinese characters on top. He studied it page by page—I admired that."

By the time Chen was a teenager, his father was a prosperous dress manufacturer, able to send his son to Northfield Mount Hermon, a college preparatory school in Massachusetts. Chen wanted to go to an Ivy League university and figured his chances of getting in were better from the U.S. than from Hong Kong. That, he says, "is how I ended up in Massachusetts, having never seen snow in my life."

Chen has fond memories of his year at the school: "I learned to be independent, and I left literally with tears in my eyes." He was one of three Asians in a student body of 1,400, and while he could understand English from his studies in Hong Kong, going to Mount Hermon "was probably the best choice I ever made, because it forced me to learn to speak English," he says. Today Chen speaks rapidly and colloquially, and insists: "Now I have the reverse problem when I go to China. Because I think in English, I actually speak slower in Chinese."

Mount Hermon was followed by four years at Brown University, where Chen graduated magna cum laude and then spent a grueling year earning a master's degree in electrical engineering from Caltech. His father wanted him to return to Hong Kong and run the dress business, but Chen told his father, "I don't design clothes; I design chips." He went to work for Burroughs Corp., which ultimately became **Unisys Corp. (UIS)**, where he stayed for 13 years and then moved on to Pyramid Technology Corp., where, as president and chief operating officer, he negotiated its sale to Siemens Nixdorf Information Systems A.G. in 1995.

At Siemens Nixdorf, Chen ran the \$3 billion server hardware division so successfully that the company wanted to transfer him to London. But by then his wife was pregnant with their fourth child—the long-awaited son after three daughters—and he realized that his life was in the U.S., where he had become a citizen and had developed a social infrastructure.

Chen learned about the opportunities with Sybase while on the golf course playing a round with the company's former CFO, John Acosta, who remains a member of Chen's

weekly golf group. Having spent his entire career on the hardware side of information technology, Chen was intrigued by the idea of trying to rescue a fallen software angel. Besides, he figured that the risk of failure was low: "If I didn't succeed, no one would blame me. They'd say that this company is in so much trouble that it couldn't be fixed."

## BUILDING A NETWORK

Chen credits Sybase's fast turnaround to his choosing the right people to help him execute his growth plan. "I'm a good user of resources," he says. Those who know Chen say he's very thoughtful and systematic in his methods and, as a result, inspires tremendous loyalty in his employees. "I want one-third of my direct reports to be people I don't know, whom I recruit from outside and who

when other technology companies are retrenching, Sybase has moved into a spacious 14-acre campus setting and become Dublin's largest employer. Roughly 1,000 of the company's 4,960 employees are housed in two six-story buildings with bridges that connect their second and third stories.

In addition to being state of the art, Sybase's 420,000-square-foot facility is built to enhance worker productivity. The design provides for natural light in every office, conference room and work station to help make the work process more efficient. The Sybase campus also includes child-care facilities, a fitness center and a cafeteria with outdoor seating.

Chen's enthusiasm for the new space is apparent, not only for its design but for what it means for Sybase. "The move to our new, state-of-the-art headquarters appropriately parallels Sybase's continued growth, momentum and

# "I DON'T DESIGN CLOTHES, I DESIGN CHIPS."

bring in new ideas," Chen says. The next third also come from outside, but he hires them because he has worked closely with them before, knows they're operationally strong and doesn't have to explain himself. The final third are promoted from within.

Chen is proud of the fact that since he's been at Sybase he has expanded the management team from 12 to 16, and even during the height of the dot-com euphoria, when no one could retain good workers, only one of Chen's hand-picked executives quit. "It's the same gang, and it's why we're so productive today," he says.

Peter Goldmacher, who follows the company for **Merrill Lynch & Co. Inc. (MER)**, notes that "there is not much turnover at Sybase—and that's unusual for a tech company."

In fact, the only recent turnover is the move in January from a cramped office building in Emeryville, Calif. to new headquarters in Dublin, Calif., a developing community about 20 miles away in San Francisco's East Bay. At a time

profitability over the past years," he says. We've created a world-class work environment to promote continued innovation and success."

## STRATEGY FOR GROWTH

Chen may have joined a floundering company in 1997, but he found a company with a good reputation for technology and without long-term debt—and, "as long as I'm here, there won't be any," he says.

But Chen says Sybase was also suffering from a declining share of the market where it had made its mark in the early 1990s—selling database software to corporations—and a lack of direction. Executives say the company took its eye off the customer in the mid-1990s, and aggressive competitors such as **IBM Corp. (IBM)**, Microsoft Corp. and Oracle Corp. snatched up its market share.





Chen regards himself as a cultural bridge between China and America.

# DOING BUSINESS IN CHINA

JOHN CHEN'S INTEREST IN CHINA, WHICH HE VISITS EVERY THREE TO FOUR WEEKS, IS CLEARLY PERSONAL. Sybase's CEO speaks several Asian languages, including Mandarin and Cantonese, and says he thinks of himself as a bridge spanning the cultural differences between the Chinese and Americans.

As an emerging industrial nation, China can benefit from access to U.S. products and services but needs continued efforts from various resources to improve its conditions, Chen says. Such exchanges can also help China address the social concerns that inevitably arise from industrial and economic development.

"I would like to see a more successful China and its people living more comfortable lives," Chen says. "That only comes from modernization and technology. And being Chinese-American, I believe that this is something I can help do—not to mention that I can help Sybase make a good business out of it."

As a director of The Committee of 100, an organization of prominent U.S. citizens of Chinese descent—including cellist Yo-Yo Ma, architect I.M. Pei, STAR TV's former CEO Gareth Chang, and Anna Chennault, widow of Claire Chennault, commander of the Flying Tigers, a Pacific War volunteer-defense group with shark-faced airplanes—Chen has broken bread with many prominent leaders in Hong Kong and Beijing. Describing itself as a team of "cultural ambassadors," The Committee is geared toward helping improve economic, cultural and business relations between China and the U.S.

But Chen remains philosophical about the difficulties of concluding deals in a country that is often at political loggerheads with the U.S. He recalls being in the middle of negotiations a year ago when the Chinese captured a U.S. plane said to be spying. "Being an American across the table in a negotiation at that time almost guaranteed that you were going to lose the deal," he recalls. Last fall, however, after President Bush's successful trip to Asia to urge the Chinese to take part in the war on terrorism, "was a good time to be an American in China again," he says.

Chen's advice to Americans wanting to do business in China? Stay out of politics and focus on business. He emphasizes the importance of understanding that sometimes politics will overshadow business and require backing off to pursue deals when the climate improves. "The first try does not have to be the last," he says.

Chen says that upon becoming CEO, he asked the board to remove the "for-sale sign" and give him time to implement his strategy to return the company to profitability. He began by cutting costs and closing or selling businesses in which the company wasn't making money or didn't have solid reasons for continuing. "This was not even economics 101; it was common sense 101," Chen says.

The new CEO hit the road to persuade customers that his strategy of cost cutting combined with product and market expansion would work. "I personally went out and talked to hundreds of customers in the first 12 months," he recalls. "Most didn't believe me. They thought I was talking in platitudes, but when they started seeing the results—that we were making a profit like I had promised—we started earning credibility."

Chen felt that Sybase had two areas of product strength. The first was the company's reputation for innovative technology—it had largely created the database business. So if engineers could create another cutting-edge product or service, customers would buy it. The other strength was Sybase's open architecture, which allows its products to work with the installed databases of other vendors, differentiating Sybase from competitors that tie their architecture to their specific products.

Sybase's historical strength with financial-service databases and software for processing securities trades gave the company its first vertical-market opportunity: electronic trading and online banking. In December 1999 Sybase acquired Home Financial Network and renamed the financial group Financial Fusion, because it offers its customers a fusion of major financial services, platforms and technologies.

"This was a different idea for an enterprise-software company that had never built anything that couldn't be sold horizontally," explains Michon Schenck, president of Financial Fusion Inc. "Software companies used to emphasize generic applications meant for a broad spectrum of industries. Engineers think there is something wrong if your program is geared only to one industry."

Today Sybase claims 90% of the world's securities firms and 60% of its banks as customers for online trading, trade processing and banking. "Financial Fusion has been a hidden gem in Sybase's portfolio," says C. Gregg Speicher, an analyst at Stifel, Nicolaus & Co.

Sybase's subsidiary iAnywhere Solutions has helped extend Sybase technology even further beyond database management.



# "I AM NOT A PATIENT MAN."

Now Sybase's largest contributor to revenue growth, iAnywhere says it has 68% of the market for applications that allow remote workers (such as traveling salespeople) to use their laptops or personal digital assistants (PDAs) to retrieve information from corporate databases and send it back to headquarters.

Terry Stepien, iAnywhere's president, remembers the day he met Chen, nearly four years ago: "He had a very clear vision of how to expand beyond the database business by identifying growth areas like mobile and e-business."

## THE CHINESE CONNECTION

Sybase's cash cow remains the basic database business, which accounts for a reported 69% of the company's total revenues. Chen cannot permit any erosion of this business because it funds all the others, he says, so he's been busy emphasizing international sales to create new markets. Currently the company gets 40% of its revenue from overseas, but "in

three to five years I want the international revenues to be 60% vs. 40% for domestic—and I want us to get to 60% by not shrinking the 40%," he says.

Chen is making his big push in China, where Sybase has been doing business since 1990, and which produces about \$40 million in annual revenues. Within this gigantic, underdeveloped tech market, Chen hopes to build the database business and eventually sell Sybase's vertical-market products.

Today Sybase says it accounts for 20% of China's overall database market and 45% of its telecom database market. The Chinese courts (all 4,000 of them), the ministry of tobacco, the ministry of taxation, the ticketing system for the country's railroads and the billing system for **China Unicom Ltd. (CHU)** use Sybase's database software, the company reports. Says Chen firmly: "We will be No. 1 in China."

A man driven to break records, John Chen feels too many opportunities remain before he'll consider his job done, including his goal of breaking the \$1 billion revenue mark reached in 1996. "Breaking \$1 billion is not an if, it's a when," Chen says flatly. "We've got a shot in 2002, but definitely by 2003."

His other goal: to make Sybase the No. 1 enterprise infrastructure software company in the U.S. Under the determined Chen, Sybase says it is closing in on it. □

# BEYOND ENTERPRISE SOFTWARE

Building on its enterprise-software technology, Sybase expanded vertically in 2000 (in financial services, health care, telecommunications and business intelligence) and added mobile and wireless. Last year the e-Business division came on board. By the end of 2002, the company anticipates nearly one-third of its business coming from new divisions.

Source: Sybase Inc.

