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C O R M T S   A L L - I N - 1   S Y S T E M

Date: 5-Jan-1989 12:22pm EST
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Subject: Reflections on a Recent Executive Committee Meeting

At a recent Executive Committee meeting we had three presentations proposing or reporting on new or recent investments -- Consilium, the Japanese Investment Plan, and the ACT's. In all cases there were high returns associated with the investments.

Almost all of the investment proposals we see have very attractive returns, and we usually approve them on that basis. Yet overall we can cite as a reason for our profit decline the fact that we have made investments that haven't paid off. Many investments we see are justified on the basis of incremental volume, as were Consilium, the Japanese Investment Plan, and ACT's. But more often than not we don't even achieve the volumes on which initial product investments are based, and in many instances I suspect the initial product programs don't anticipate later investments that are made and justified on the basis of incremental volume. So we end up investing more than originally planned and selling less.

I believe there are two reasons for this: (1) as we have discussed many times, we are generally too optimistic in our volume assumptions, and (2) we have many "independent business units" that are goaled to achieve the same dollars of revenue -- i.e., that justify their budgets on overlapping sales to overlapping customers.

Geographies, industries, applications, channels, products organizations, and other components of the company are all chasing revenue and many times it is the same revenue. Most of them also have budgets and make investments to achieve "their" revenue goals. When we look at investment proposals, we don't have any way of relating them to other investments that are counting on the same revenue for providing their return, because we don't have any way at the moment of defining the overlaps of all the spenders. Further, we usually don't have any way of knowing after the fact which investments are paying off and which ones aren't -- or which managers are being successful and which ones aren't. If we do well in the factory, for example, is it because of the ACT's, Consilium, the base products, industry marketing, or certain geographic sales organizations? Somebody is responsible for each of these areas and

we give them budget money to spend, but we don't really have a good way of evaluating their individual proposals or trade-offs among them.

I believe the solution to this problem lies in a simpler, more elegant organization which has fewer "independent business units" -- fewer units that are "responsible" for revenue and whom we empower with budget independently to make investments. I believe this would not only improve decision-making but would generate substantial overhead reduction and cost savings opportunities. We should continue looking at the business every way we can think of that adds to our understanding of it, but we should move toward having fewer organizational business units that independently spend money. The few that remain should be in a better position to make trade-offs among investment proposals that are aimed toward the same or overlapping revenue opportunities.

Jim

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