Speaker: **Harry Volande, EVP and CFO**
**Siemens Energy & Automation, Inc.**

Title: **"Achieving Growth Through Strategic Restructuring"**
Place: **13th Annual CFO Rising Conference**
**Orlando, Florida**
Date: **March 20, 2006**

Speechwriter: **Erick Dittus, 678-354-2805**

Thank you Mary for that kind introduction.

**Good morning…**

It's ***always great*** to be back in the adopted hometown of Mickey Mouse and the great Tiger Woods…

While it's hard for us, as CFOs, to gain many worthwhile business insights from studying Mickey, or Goofey … We certainly can gain a few pointers from a quick study of Tiger's approach to the business of winning golf tournaments.

Like ***Best of Brand CFOs*** – Tiger knows the playing field ***is constantly changing…*** and that ***the innovative technique*** of five years ago is the <u>everyday approach</u> of today.

So, in order to stay ahead of a pack -- ***that keeps getting better and better*** -- Tiger Woods has to <u>constantly</u> improve**…** restructure and realign**…** his approach to winning.

Remember back in 2003 - 2004 when Tiger almost seemed ***mortal?***

Vijay Singh took the World Number One ranking away from him, while Tiger didn't win a major.

TV commentators went ***on and on*** about his "slump"… and a few even hinted that he was, at 29, <u>over the hill</u>.

***So, <u>what did</u> Tiger do?***

Still being the best player in the world in 2002 he revisited his basics… revamped his swing and enhanced his game with new technology by switching from steel shafts to titanium**…** ***and once again went <u>to the top</u> of the leader boards.***

If we are to succeed at what we do – ***and <u>consistently</u> deliver to our stakeholders*** -- we <u>must</u> be ***as nimble as Tiger*** in our practices… ***and <u>constantly</u>*** be looking for ways to help our companies stay ahead of the competition.

Staying in the game requires us to retool – to rethink how we go to market and work with our partners to build market-driven solutions.

On my first day on the job at Siemens Energy and Automation in 2001, the company was losing over a quarter of a million dollars <u>every day</u>. I knew that without ***significant re-structuring…*** the bill would ***<u>soar</u>***.

The unrealistic forecasts that enabled the Y2K and Internet busts**…** as well as the telecommunications fiasco… all played a role in the development and ultimately the undermining of Siemens Energy & Automation**...** or as we ***affectionately call it***, SE&A.

The common belief in Alpharetta, Georgia was that the company did great before the recession**...**

But ***the primary cause*** of SE&A's decline ***was not*** an economic correction that nawed at the global economy.

***It would have been great, for us… if it was that simple.***

But while the economy played a role, SE&A's inefficiencies, lack of productivity and its less than stellar approach to its markets were ***the primary culprits***.

In 1998 with revenues around 1.7 billion dollars, SE&A's leaders created an extremely optimistic five-year plan with 2.5 billion dollars revenue as a goal for 2003**…** Not backed by clear measurements, it was a goal driven by ***the irrational exuberance*** of the late 1990s.

From these unrealistic growth projections, local managers built out a sprawling… decentralized organization, ***complete with redundancies***, to support their programs. At its peak in early 2000, the company was up to about 2.2 billion dollars in revenue. In 2005, as a more focused re-sized company, we're turning two billion, with ***real sustainable profits***.

While the incumbent SE&A management team talked about re-inventing SE&A, back at Siemens global headquarters as we reviewed the plans and the numbers, we realized the need for ***a major restructuring***.

How did SE&A – an organization that's ***a valued part of the Siemens worldwide family of companies*** -- manage to drift ***so far*** off course?

And what could we do to make it achieve ***significant*** – and ***realistic*** fiscal goals?

Part of the problem came in the very origins of the company**…** SE&A was a creature ***driven by acquisition***.

The strategic acquisition of companies can do ***wonders*** for the balance sheet.

But only through ***well-managed*** **growth** can a conglomerate of companies continue to achieve long-term success.

***And that's where SE&A's management failed.***

At its Pre-Dot Com bust peak**…** SE&A consisted of over 40 businesses with 12,000 employees assembled under the Siemens banner**...** Today there are about 20 focused businesses with a workforce just below 9,000.

In 2001, they lacked a working knowledge of a company-wide program at Siemens called Top-plus.

The Top-Plus program embraces the sharing of best practice learnings gained from across our global organization. It contains great methodologies for Asset management, Supplier management, Benchmarking and other business improvement tools.

In every aspect of their businesses from planning and procurement to manufacturing to selling, SE&A went to market as ***a federation of inefficient fiefdoms*** rather than a centralized, ***well-planned*** enterprise.

Redundancies ***proliferated*** – and productivity ***declined***.

While the various businesses had common procurement needs and clients, before 2002, SE&A failed to coordinate buying and selling activities.

As a result, we didn't leverage our purchasing power and our ***considerable*** companywide market expertise. And…when it came to interacting with our clients, we showed them ***too many faces***.

It's estimated that **just our inefficient decentralized procurement** cost us **25 million dollars a year** more than it should**…** It's difficult to quantify how much sales opportunities we lost because of a poorly coordinated go-to-market approach.

When looking back at 2001 and ***the miss-direction of SE&A***, a conversation between Alice and the Cheshire cat, in *"Alice and Wonderland,"* comes to mind**…**

**Alice:** Would you tell me, please, which way I ought to go from here?
**The Cat:** That depends a great deal on where you want to get to…
**Alice**: I don't much care where.
**The Cat**: Then it doesn't matter which way you go.
**Alice:** As long as I get ***somewhere***.
**The Cat:** Oh, you're sure to do that, ***if only you walk long enough***.

Unfortunately, it's not difficult to ***imagine*** similar discussions taking place at SE&A**…**
But…perhaps worst of all, these businesses ***couldn't share vital information***. We had 31 legacy IT systems, and *all 31 of them* **were incompatible**.

*The results?*

How about three separate shipments… from three separate divisions on the same day to the same customers… followed by ***three separate invoices*** with three different terms of payment.

*And what were the consequences?*

Credit exposure, higher logistics costs for us and the customer**… much higher** process costs for us and the customer. And **those are** only the **financial** impacts!

More often than I care to remember, we received purchase orders in one system that did not communicate with MRP systems.

In the good old days, this would have ***just driven the accountants crazy***.

Today, with ***wonderful*** Sarbanes Oxley on the books you could earn one ***very unwelcome visit*** from an employee of the Department of Justice…or in our case… And…***even worse for us***… an ***unhappy*** visitor from our global headquarters.

Up until late 2001, as long as its revenue climbed, SE&A was allowed to maintain what some saw as a local "American character."

Few of SE&A's senior managers had deep roots in Siemens. Some even ***openly discounted*** the need to utilize the Siemens's Top-plus approach.

But SE&A's low productivity and poor financials said the organization clearly needed to be ***re-connected*** to Siemens Top-Plus best practices.

With that in mind, I came to Georgia, and joined a small, ***trusted team*** charged with driving the restructuring.

At that time, SE&A's management was still unsuccessfully ***attempting*** to reinvent the organization.

Quite frankly… knowing what I did about the company's dysfunctional processes and under-productivity, I asked, "Why spend money on reinventing?

"Just ***copy and paste*** from what we already know about running a company well."

Two months before my arrival, a restructuring Program Office opened for business at SE&A.

The Program Office was put in place to analyze the deficiencies and ultimately oversee and constantly measure the progress in the realignment of SE&A…

And… its time tested, numbers-driven methodologies showed the need to reduce SE&A's overhead.

So, during my first week on the job, I met with the CEO and his team, for ***the unpleasant task*** of explaining the need to lay off about three thousand people. I asked them to immediately identify where the cuts would be made.

They said, "We can't do that ***during Christmas***."

My response was, "I'm sorry, but if we wait until January we'll need to lay off ***200 more people*** in order to make up for the ***additional financial losses***."

***Remember,*** we were losing ***over a quarter of a million dollars every day!!*** So, in one month we'd lose about another ***eight million dollars.***

Not grasping the cost to SE&A – ***or its soon to be laid off associates*** -- they ***still*** insisted on the one month delay.

Unfortunately, that was just the first of several run-ins with the CEO. He couldn't embrace the Siemens 4-Eye principal that essentially puts the CEO and CFO on equal footing.

Despite very clear messages from the Siemens Board about the need to support the 4-Eye approach, the CEO, who'd previously worked for a very large US-based competitor where the CEO is supreme, couldn't ***– or wouldn't*** -- accept the concept.

So what exactly is Siemens's 4-Eye principal… and how does it work?

The Siemens management-governance model grows from a European tradition stressing cooperation…

The CEO and CFO work ***in partnership*** with one another… The CFO ***does not report to the CEO…*** rather they both report separately to the board of directors.

At Siemens, both the CFO and the CEO own business strategy. So, if it fails, ***both are responsible***.

This insures that there are two people – ***of equal authority*** – who can verify that the strategy is working – or that it needs to be changed.

The CFO, while working closely with his CEO partner, must continually ask the question, "Is this procedure, strategy or tactic good for our business ***from a financial point of view***?"

During the Enron and WorldCom *implosions,* employees across Siemens companies in the USA expressed concern about governance and financial transparency.

They wanted to know if there was a potential for our books getting cooked. An explanation of the Siemens 4-Eye principal… ***and how it protected employees and shareholders…*** alleviated their fears.

In May 2002, Aubert Martin, with whom I'd worked with on another Siemens assignment… became the CEO of SE&A. (And trust me, I had a BIG say in that!)

Our actions showed colleagues that the Siemens's 4-Eye principal made governance liabilities highly unlikely at Siemens affiliates anywhere in the world.

In Germany, people scratch their heads about Sarbanes-Oxley. ***At Siemens, we don't need it…***

We have the 4-Eye principal… complete with the checks and balances that come with its ***segregation*** of CEO-CFO duties…

With the 4-Eye principal in place, employees quickly learned that the new CEO and I would work closely, ***as a team***, as we did during our previous assignment.

This partnership quickly sent a very positive message, making the importance of teamwork ***clear to everyone…***

And… While sticking to our process, we actively communicated with employees.

We told them "it will be tough, but the work we're doing to realign the company is going to give the company – ***and all of its winning team*** -- a better future."

And…early on… we changed the name of our process from reinventing to restructuring. Twelve months later, with the company well on the way to a solid recovery, we renamed our course of action, ***"Winning team."***

When talking with colleagues at the beginning of restructuring, I often compared what was going on inside our walls to something that was happening up at Lake Lanier, a huge 38,000 acre man-made lake in Georgia just a few miles North of our offices.

When the water level is high, it is a beautiful, recreational center. But this was a year of a serious drought.

I asked associates "have you been at Lake Lanier lately?"

The universal response was, "No, and why?"

I told them, "Go see what a lower water volume ***exposes***."

You see the reality that's below the surface: the tree stumps, rotting dock pilings, wrecked cars and other useless junk, just laying in the muck.

***A similar phenomenon*** takes place when a company experiences an economic downturn.

With reduced volume we see the poor performers, the redundant processes, the deficiencies and inefficiencies, hidden by volume in the good times.

In order to more than just patch a few holes and ultimately end up back in the same place again, a company needs to have a ***strategic plan*** for restructuring.

We've used the Siemens "V-Approach." A Top+ strategy, its first step is cost reduction. In working to achieve this goal, we ***enhance productivity*** … and achieve new levels of efficiency.

It is designed to ***seriously*** analyze processes along ***the entire supply chain*** and find ways to increase efficiencies and productivity while **reducing** cost.

While cutting cost out on the ***front side of the "V"***, we create approaches that will be implemented on ***the backside of the "V" …*** after cost is brought under control.

We postponed sales stimulation ***until*** we reached a sustainable cost position.

Situated on the left side of "The V," the Program Office played an ***essential role*** every step of the way.

As I mentioned a moment ago… it set targets… focused initiatives… drove coordination of restructuring, monitored and measured progress and challenged our divisions to achieve productivity goals and utilize our top plus, best practices.

Across SE&A, in all divisions, we put managers on restructuring initiatives focused on setting and achieving productivity targets… setting-up sales increase initiatives… and driving productivity improvements.

And, the Program Office… ***with a web-based Productivity Tracking Tool which methodically tracks activities that impact productivity***…, made all these managers ***walk the talk***.

In taking this ***V-approach,*** we made sure our businesses… unlike some beleaguered corporations recently appearing in the headlines… ***did not*** use sales and increased volume ***to cover*** the need for restructuring.

Yet… it isn't a case of simply waiting until cost comes in line and then sending the sales force out to sell widgets.

If the market is in a state of upheaval, we withdraw from low yield markets, and place our sales resources in market segments that show ***significant promise***.

**(Short Pause)**

The first year we focused on cutting in every division. But while we were reducing overhead, we ***also planned for future organic growth***.

While cutting the expenses and focusing on the reduction of the complexity and size of SE&A… we decided to invest 80 million dollars, over the next four years in standardizing our IT platform on SAP.

Without this SAP investment, we could not have gone forward with the successful realignment of the company.

We consolidated plants... And we brought process improvements and lean manufacturing to the remaining US operations. In parallel we built up solid offshore strategies and execution capabilities.

In the front, downside of the "V-Approach," we set criteria for evaluating whether a business was a core or non-core business.

We frequently communicated across SE&A that we were going to close or sell all ***non-core*** businesses.

It was not a question of fixing non-core businesses…

Some of these businesses were performing well. However, we sold them because we needed to ***focus on our core businesses and reduce complexity***.

For example, we sold a ***profitable*** custom electronic manufacturing center in Johnson City, Tennessee because it ***clearly was not*** a core activity.

Other ***unprofitable*** businesses, with small mediocre volumes didn't give us operational synergies. They weren't sales channels for our core products, so we got rid of them.

In 2000-2001, we closed or sold about fifteen percent of our core volume. Not a huge value reduction, but it reduced complexity… while cutting overhead.

In addition to focusing on core businesses, we reduced our redundancies by centralizing human resources, accounting, procurement, and other non-core services – which had been scattered across the SE&A federation.

In 2005, four years into our winning team process, our centralized procurement functions saved us nearly ***19 million dollars that year alone.***

While this saved us money, it also allowed the divisions to ***focus on their core activities***.

Today, we are increasingly moving jobs ***that do not directly support the core*** to a Shared Services Group of Siemens Corporation, our US parent company.

Our rethinking of SE&A – and its role in the marketplace, also resulted in restructuring the SE&A sales organization. This was ***a major piece*** of revitalizing our company.

We consolidated our sales groups… cut the number of sales support centers from sixteen to eight… while upgrading the quality and capability of our sales force.

Unlike some of our global competitors… ***regardless of the economic climate…*** Siemens emphasizes the continual training and upgrading of our employees' abilities to contribute.

With improved training – ***including a greater knowledge of technology*** -- our sales force can bring even more value to our clients.

Previously, they'd broken the sales down into ***way too many*** areas and regions.

There were physical ***and mental disconnects*** between our disjointed sales organizations… We merged them… and brought them into one building… ***and really under one roof***.

Confident that we'd established strong relations with our clients, we shifted headcount out of markets where we were number one or number two.

We moved these associates into markets where we were in a fourth… fifth… or sixth position… and wanted to move-up to first or second.

In a downturn, it's wrongheaded to pull out of areas where we're on the brink of growing.

That's the time to move, especially with new technologies coming on-line. Customers want familiar and trusted partners to deliver technologies that increase productivity… ***and save money***.

We also have improved distribution channels and costs to enhance customer satisfaction and expectations in doing business with SE&A.

We invested very carefully in certain industries and markets.

We created centers of competence organizations around key industry segments like automotive… food and beverage… oil and gas… chemical… and pharmaceuticals…

All to prepare for additional growth opportunities that we ***could not take advantage of*** under our previous structure.

Today, we're filling gaps in our portfolio with ***strategic*** acquisitions**...** It's the backside, or upside of ***the V curve***.

When we went down the curve, we right-sized our structure and fixed processes**…** Now, as we're coming ***back up the V***, we expand incrementally**…** adding on capacity and integrating businesses ***that promote our core***.

In order to achieve sustained… ***and profitable growth***… while gaining a leading market share in targeted markets, our sales channels now provide both upgraded products ***and improved solutions***.

And as I mentioned a moment ago, in order to meet the real needs of their customers, our salespeople are receiving more training.

***With the aid of improved technology and communications***, we're also improving our customer support across the organization.

Over the past four years, we've made considerable progress in sales. In 2006, the average SE&A salesperson sells about **25 percent more** of dollars in Siemens goods and services then they did in 2002.

As we've moved forward with this process, we've learned a great deal about SE&A and the process of restructuring.

But what was our most important learning?

For me, ***that's simple***.

Make ***more tough decisions quickly… even faster than we*** did. The organization will follow. If you don't, ***you extend the pain…*** and it costs ***much more*** money.

Looking back, I can see where I should have made ***faster, more decisive* moves** on process improvements**…** factory consolidations**…** and relocations during those two years when the economy was down.

There will be more factory consolidation. We started with 31 manufacturing, assembly, and distribution locations. We're now at **22** and we'll be down to 15 before our five-year process is through.

But we're also creating jobs… and hiring people as we fine-tune SE&A and grow revenues. And as we progress, we're pushing ***a lot of responsibility*** for maintaining productivity down through the ranks.

*That's also a core Siemens tradition…*

***So, just where are we in our winning team process today?***

The "Winning Team" at Siemens ***continues to move forward***, while focusing on ***actively integrating*** Top Plus-ideas ***into daily practices***, and we hold bi-monthly meetings and progress reviews.

Employee incentives link employees from our headquarters to the shop floor with achieving ***clearly defined***… companywide productivity targets**…**

We're still – and ***always will be measuring***, and while we're growing faster, we're still focused on our processes and maintaining efficiencies and reducing complexity.

As our five-year plan nears completion, we know our goal of increasing productivity and efficiency, while meeting ***real market needs***, can never really be achieved**…**

Regardless of the progress we make – and at SE&A ***we've made substantial*** progress – I'm ***always*** telling colleagues, "When I begin to see comfortable people around me I get ***very nervous*…** Because that's the beginning of ***a need*** for the next restructuring."

At Siemens, we understand that like the great Tiger Woods, ***if we are going to keep on winning, we must constantly improve our game*.**

**Thank you.**

*##CFO-Rising-Conference##*