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Message 29:
From bernardv Mon Feb 18 14:41:48 1991
To: eurogm
Subject: LONG MAIL
Cc: bernardv chrissm jeremybu
Date: Mon Feb 18 14:41:39 1991

FY92 Budget Profitability Guidelines

Fact 1
The dollar value in all European countries has decreased to an all time low. It can be assumed that the current levels are somewhat 20% lower than the "economical" parities. Many financial institutions believe that those low levels will be maintained over the next several months. As a result, our local prices, compared to the US base, have raised to high multiples and we face pressure from multiple sources to decrease our prices.

Fact 2
Our competitive position varies vastly from country to country and from product to product. We could assume that when our market share
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is dominant and reaches levels well above the 50%, we couldn't probably gain much from reduced prices, however we should consider the price weapon in cases where our market share is low and when we face better entrenched heavy competition.

Fact 3
Over the next several quarters, with a target date of Jan. 93, we intend to converge both our prices and our Distribution Terms & Conditions in Europe.

Starting with this budget we should start this process that will bring us to discounts to distributors of 50% maximum (feasible if we can bring back street price up, to no less than 85% of recommended price).

Over the same period, prices for English product should target the 115% to 130% US list bracket and prices for localized products should end up by 1993 in 140% to 160% US list bracket.

Fact 4
The Corporation has a number of strategic objectives as presented in Jeremy January memo (33% market share for LanMan, leadership in WP
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and SS, staffing of PSS, etc.). They must be taken into account when one start budgeting. We do need to plan all resources needed to achieve them and budget results accordingly.

FY92 assumption

Prices

Based on the presented facts, I feel that it will be "safe" to budget some sort of price decrease for FY92. Whether we independently decide to do it, or react to competitive pressures we will have to plan to be at the same time competitive and to generally limit our localized prices at 180% US list and our English products at 140% US list.

You will have to consider each product individually and decide about the new price. The overall average price decrease should not be more than 10% from current list.

Discounts

In order to start our evolution toward 50% max to distributors, we
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will have to plan reducing somewhat our discounts for FY92. You should plan to reduce your average discount for FY92 by 1% minimum from its average value during FY91. This is already started in the countries (Gmbh, AG, AB) that have reviewed their distributors discounts down in January 91.

Operating Income

Price reduction and discount reduction will have important effects on the Operating Income of your subsidiary. In order to "test" for the proposed criteria, you might have to budget in tow passes: the first one with existing conditions price list & discounts, the second one with the new reduced prices & discounts.

Operating Income guidelines are the following:

Compared to FY91 budget, assuming no price change, your operating income in the retail channel as a percentage of net retail sales should increase as follows:

Ltd	+5
AB	+5
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Gmbh	+3
AG	+2
Sarl	+3
Srl	+5
BV	+5
Spa	+5

Operating Expenses

Retail expenses as a percentage of net retail sales, assuming no price change, should improve by 3% for Ltd, AB, Gmbh and Sarl and by 2% for the others.

In particular, it will be particularly important to see "People Expenses" go down over the years as a % of retail sales.

Headcount & Productivity

Considering the strategic decision of staffing "services" like PSS and Operations to supply first class service within two years, the traditional "productivity per person ratio" looses its significance.

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However, it is important to consider the "productivity per retail person", "retail person" being anyone involved in distribution sales (direct or indirect) and/or marketing, including managers but excluding F&A, Operations and PSS. That is the productivity ratio (in local currency (or dollar) per person) that you will need to increase significantly over the years. You should calculate its value for FY90, FY91 and plan a FY92 increase of at least inflation plus 25%.

Marketing

A marketing expense matrix has been prepared and is being sent separately. On a general basis the maximum allowable marketing expenses (as a % of sales) is slightly decreased for the largest subs, facilitating the requested reduction of operating expenses.

The hard copy of this memo will be sent today.

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