

MANAGEMENT TECHNIQUES: A PRESENTATION

Mr. Thomas A. Voss and Team

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Reviewed by Col E. J. Ingmire, USA on 4 February 1964.

INDUSTRIAL COLLEGE OF THE ARMED FORCES
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Management Techniques: A Presentation

24 January 1964

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Reporter: Albert C. Helder

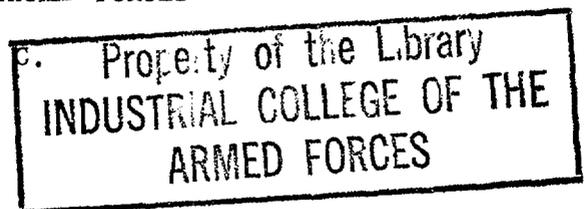
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INDUSTRIAL COLLEGE OF THE ARMED FORCES

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MANAGEMENT TECHNIQUES: A PRESENTATION

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GENERAL STOUGHTON: This morning, as we take a look at management techniques in a large corporation we're fortunate in having a team here from the Chrysler Corporation. They're going to talk to us on budget and profit planning systems as used in a fictitious corporation. I think it wouldn't be giving away any corporate secrets to observe that probably some of the principles and practices you'll hear about have been used successfully in the Chrysler Corporation.

I'd like to take this opportunity too to welcome the large number of visitors we have this morning. We're very happy to have them here to share with us this presentation. Those of you who are still struggling with your management decision-making game and haven't quite made those millions you are trying to make, will probably pick up some gems of wisdom this morning.

This team consists of Mr. Thomas H. Voss, who will actually make the presentation; and Mr. Connors who is here in the auditorium; and Mr. Sutton who is functioning in the booth. You'll have a chance to hear from all of them during the question period, but Mr. Voss will actually make the presentation.

It's a pleasure to welcome this team and to present them to the audience. Mr. Voss.

MR. VOSS: Thank you, General. It is both a pleasure and a privilege for me to be here this morning as a representative of the Chrysler Corporation. On behalf of Chrysler and my colleagues who are here as your guests, I want to thank you for this opportunity to appear on your program. We

consider it a particular honor to be able to add our name to the imposing list of speakers who have addressed past sections. All of us at Chrysler are enthusiastic about our accomplishments in the recent past. Particularly yesterday; I think our stock rose another two points. We are equally enthusiastic about our prospects for the future. Thus, we are pleased with this opportunity to outline our profit-planning and financial control system for you.

At the conclusion of our presentation, which will consist of a short introduction followed by a slide presentation, the three of us hope to field all of your questions. I usually do a solo performance with this type of a presentation; however, after learning from Colonel Blackwell, that the audience would consist of over 200 Colonels, Generals, and highly-placed civil servants, I decided to invite Mr. Connors and Mr. Sutton to share my forward command post.

It has been 20 years since I was exposed to a saturation barrage, and so I anticipate the need for support. Having fortified myself with the proper moral support I would like to set the scene for the presentation by explaining the conditions and the circumstances which give rise to a comprehensive profit-planning system. The competitive situation in the automobile industry, and in particular, in business in general, has put a premium upon industrial efficiency. Today there is only the slightest hope of survival without efficiency in the use of the resources available to a business enterprise.

Each resource, whether it be human or material, must be used conservatively so that no more of each is used than is required to manufacture the product, bring it to market, and provide sufficient and development to per-

petuate the enterprise and see that it expands satisfactorily. Expenditures in excess of these basic requirements represent not efficiency, but inefficiency; in more crass terms, just plain waste. Establishing efficiency is a commendable objective. It is an institution that should take its place alongside of home, the flag and mother. But where do we start? It is my opinion that we must first understand the size and scope of the organization which we are trying to make efficient. So, let's take a look at it.

The Chrysler Corporation is a dynamic and aggressive organization of over 115,000 people who produce products with a sales value of well over \$3 billion in 1963. Automotive units, for which the company is best known, are fabricated and assembled in over 30 plants from coast-to-coast for the domestic market. Outside of the United States, domestic-type vehicles are manufactured in such far-flung places as South Africa, Argentina, Mexico, Belgium, Venezuela, Turkey, Greece, England and Australia. And recently, as you have probably noted, we have invested in Spain.

In addition to these foreign locations Chrysler of Canada is a substantial factor in the Canadian market, and we are further represented in the world automotive market by our 64% interest in the Simca of France. But, automobiles are not our only products. Other products contribute substantially to our total activities. Air-Temp air-conditioning and heating units ranging in size from room coolers to applied systems for skyscrapers, come from our Dayton, Ohio, plant. Our Amplex Division is a major manufacturer of compacted metal parts for the various industries, under the trade-name "Oil-Light."

The Chemical Division produces a range of products from brake-linings

to engine additives; car and windshield cleaners; sealants, etc; soluble oils; working compounds; lubricants; and many other products. Marine and industrial products comprise a division in themselves, producing a wide range of engines for commercial and industrial application. Plants in Scranton and Detroit provide the military with their sole source of tanks, and later this year Chrysler will assume management of the Cleveland defense plant. And if surface transportation doesn't quite fill your requirements for mobility, our missile and space division can furnish you with some high-speed transport in either region.

This short description of our activity range will serve to emphasize why our budget, profit-planning and analytical work must be precise and definitive. Our system is used throughout the organization and is designed to be flexible enough to fit all of the varied conditions.

Next, how do we approach the problem of attaining optimum efficiency in an organization this size? Certainly, there is no panacea that will automatically establish efficiency. An efficiency formula cannot be lifted intact from a textbook. It is not available for hire, nor is it going to come to us just by wishing. Efficiency must be striven for by a coordinated effort of every employee and every operating entity of a particular enterprise.

To bring order to our corporate-wide interests and efficiency in financial control our program breaks down into three main categories - long-range planning; annual control programs; and current operating reports. Let me go into each of these in a little more detail.

The long-range plan consists of two main features; first, the forward cost control which is a constantly-changing effect on profits, of design

changes, or changes in product offerings proposed by our product-planning and engineering staffs for two, three, or more years ahead. The capital plan which is the corporation's proposed program of expenditures for facilities - machinery, tooling and related expense for the next three years into the future - this and the forward cost-control program are then covered by a source and application of funds statement which informs executive management of its cash position several years into the future.

Our annual control programs consist of several different tools to establish revenue, cost, and profit objectives for the immediate model years. Among the most important tools in our annual kit are the manufacturing expense budget, the general and administrative expense budget, the product-cost studies, and our annual profit plan.

Third, operating reports compare the actual or forecasted results against these plans as proposed and adopted for the year. They tell how our operations are performing in relation to our plans; the time that could be spent on an exhaustive discussion of all of our control tools would be limitless. I have therefore chosen to discuss only the annual profit-plan and current operating reports today with you. This choice was made since the annual profit plan represents really the dollarization of all of the operating plans of the corporation, and establishes the model-year profit objective.

Whereas many of our other control tools such as manufacturing budgets are flexible in terms of volume and cost, the profit plan is fixed and represents a constant reference point against which current conditions can be evaluated. The key to this control tool is the effective use of a four-month forecast. By means of this technique, management is able to recog-

nize deviations from plans sufficiently in advance to concentrate management action in the areas which will yield the greatest return, or, in other words, to maximize the profits of the corporation.

We would like to emphasize at this point that the managements at all levels in the corporation participate in the annual control programs affecting areas under their operational control. To illustrate the analysis and the evaluation of a profit plan I'd like to review with you a slight presentation of a company which, in this case, is called the "Able" Corporation. The Able Corporation is a hypothetical company created by my office. It is designed to show the results of a comprehensive budget and profit plan. The presentation is divided into two distinct sections. The first section reviews and analyzes a proposed profit plan as it would be presented to the top corporate executives. The proposed plan is then compared to last year's plan and last year's actual.

Based on the comparisons and the evaluations the executive might direct that; (1) an additional task be assigned to the sales organization, to increase revenue; (2) additional task be assigned to manufacturing, to decrease costs; the plan be adopted without change. The second section will illustrate the periodic financial reviews or the profit plan results that are made after the plan has been adopted and is in use. Specifically, the monthly reports over actual periods plus a four-month forecast on which is placed great emphasis. These reports first compare actual and forecast costs and profits with planned costs and profits; they analyze the reasons for variance from the plan; they identify which variances are controllable and which are non-controllable; and they pinpoint the specific areas for action with emphasis on the forward periods.

Much of the effectiveness of the entire program lies in the identification of problems which lie in the forecast period. Through means of detailed forecasts management can concentrate actions in the areas which will yield the greatest return. As we review the Able Corporation please remember these points. These will be the conventions we use. All figures are in millions of dollars unless otherwise designated. Bracketed numbers will be unfavorable to profits. And all figures are before corporate income tax with the exception of the one place where we speak of earnings per share, which will be after tax or net income.

The annual periods covered are automotive model years; not calendar years; and all plans are developed on a conservative volume which we call "control volume."

I'd like now to go into a slight presentation, please. This is a profit plan; we developed the profit objective for a year. It will provide a tool for financial control. It will establish the managerial responsibility for profit performance. It's also a mechanism for planned and improved profits, allowing for comparison of actual results and planned results, and provides the signal for corrective action.

Now, let's take a look at this Able Corporation and see what it is composed of. We have the Able Corporation here and it has four main operating divisions. We have an automotive division which has its sales organization, its manufacturing plant, its defense division with aircraft plant and submarine plant; the international division with a Canadian operation and Latin American operation; a diversified division which has a heater plant, a cooler plant, and an instrument plant. Today we'd like to track down from the corporate down through our division level here on the diversified

and then take a more detailed look for example purposes only, of a cooler plant of this hypothetical corporation.

Taking a look at our profit plan we think the important way of analyzing it is first to find out what did we do last year. That is, in 1962 actual, to the 1962 plan. And then let's take a look at how we did last year compared to what we plan to do next year. In other words, how did we do against how we said we'd do, and now what do we say we're going to do next year.

Taking a look at 1962 actual we find in 1962 we had a profit of \$485 million. Our plan called for \$465 million, or we had a favorable variance of \$20 million. By organization the automotive division was \$17 million better than their plan; the defense division was \$5 million better; the international division was \$7 million; and the diversified division missed their plan by \$10 million.

Our next slide will take a look at some of the reasons for this difference from the original plan. Again, we have \$165 million for the total corporation. Our \$485 million that we actually made, we find that \$31 million of it came because of volume. Mixed accounted for \$17 million. That is, we sold bigger cars or bigger air-conditioners than what we had planned on in the original plan. Our warranty and policy costs were up above the plan by \$8 million. Economics were favorable, \$5 million. In this case we had planned on some increases in material costs which did not come about either through purchasing activity or the economy itself did not rise. Our special tool costs were up \$6 million. Our manufacturing people missed their budget by \$34 million. Selling and administrative expense was \$12 million favorable, to account for our total \$20 million. We see here it

is spread out by each of the individual divisions.

Well, let's take a look at where we stand profit-wise in this corporation. In 1957 we had a profit of \$252 million which rose in 1958 to - in '59 we had a bad year and fell back; but since '59 we've been steadily improving. In 1962 we achieved \$485 million. Today we'd like to propose the review of a plan which should produce \$550 million in profit in 1963. I'd like to find out where is this coming from. Well, to start with, our sales from our sales budgets would be developed with our economists and our sales groups. The direct material costs would be developed by our cost accounting people working with the engineering bill of material. Our direct labor costs would come from our direct labor bill which was worked out by individual plants developed by industrial engineering.

Our indirect labor costs would be developed from our pricing out of our tables again as we develop with our industrial engineering personnel. The manufacturing expense would come from the other manufacturing expense budget. The special tools it takes to build our cars would come from the tooling bill as developed in cooperation with our engineering staff and our purchasing department. The selling and administrative budgets would come from the selling and administrative budgets. Warranty and policy would be the developed warranty rates as developed in cooperation with our quality control staff.

Miscellaneous sources would be from several areas - such things as interest income, miscellaneous incomes of one type or another, giving our total extent to \$4.7 or approximately \$550 million.

Now that we've seen where it comes from and we've seen the size of these numbers, I think we ought to take a look a bit closer and see how

good they all look. Taking a look at our comparison, now, from '62 actual where we made \$485 million, against the plan we are proposing today of \$555 million, we find that this is a \$70 million improvement. By organization we find our automobile division claimed an increase in their profits of \$35 million. Our defense division is calling for \$5 million. The analytical division, \$4 million. And our diversified division has a plan for \$25 million improvement, or a very substantial improvement over their last year's experience.

Taking a further look at this as to how do we anticipate or plan on getting this, this would be done in order to check the validity of the profit plan. How do we get from here to there; can we get there reasonably; and are these paths attainable? Well, we finally thought of increasing our budget by \$38 million. We plan on enriching our mixed by \$20 million. Because of improvements in our manufacturing techniques we feel that policy and warranty costs will be down around \$10 million. Economics have gone up \$15 million; we anticipate an increase in steel. Our special tools are up \$8 million before the introduction of new models which really reflects itself up in a more favorable mix.

Our manufacturing people feel that they can have the variance they had last year improved by \$15 million. Selling expense will be \$3 million, for a total of \$70 million.

Now, over here we have our diversified division. They're going from \$56 million to \$81 million, and they're improving \$13 million in volume, \$6 million in mixed. Warranty and policy will see a \$5 million improvement. They expect some losses in economics; improvements in manufacturing cost performance; and they're going to spend some more money in selling

and administrative expense. That's a sizeable gain. Let's take a little closer look here at the diversified statement as to how they plan to achieve their \$25 million.

The diversified division, as you may recall, had three plants - a heater plant, a cooler plant and an instrument plant. Last year they generated \$56 million of profit, and they're programming this year \$81 million. The improvement comes from the heater plant \$8 million, the cooler plant \$15 million, and the instrument plant \$2 million.

I think we ought to take a closer look at our cooler plant, and now we would be getting down into the plant itself, their own individual plant. In the cooler plant last year they had \$10½ million. They're programming \$25 million. They expect to get this improvement by \$7 million in volume; \$3.6 million in mixed; a million improvement in engineering changes. Their selling and administrative expenses will improve a million. They plan on going up and advertising sales promotion. Their special tool bill will be slightly higher. They do plan on improving their manufacturing costs performance by almost \$4 million, and their warranty and policy costs, \$2 million, for a total of \$15 million.

Looking at our total variance here we find that a good portion of it - \$10 million; 2/3 of it - is in the area of volume. So, we think we'd better take a look at how do they expect to get this; what plan do they have? Taking a look at their industry we find that in 1960 they sold 480,000 units as an industry. By 1963 the industry forecast by their economists was agreed upon for 600,000 units here. So, we see that the market that we're going to be doing business in is a bigger market than we had last year.

Looking at our own ability to sell in this market, for instance in 1960 we had 23%; 27% in '61; 28.9% in '62; and for '63 our sales people are projecting a gain of 1% of penetration. So that, we might say that of the total improvement of \$7 million on volume, \$5 million of it is coming from the fact that we are dealing in a larger market, and \$2 million of it is because our sales people are going to do a better job in that particular market. Based on that we feel that in doing this, probably an attainable task is reasonable to expect that it will come about.

Taking a look at another item that substantially went up, was our advertising and sales promotion. We spent \$6.4 million in '61; \$6 million in '62; and we're now planning on \$9 million for '63. In reviewing this particular plan we were discussing it with our advertising staff and also our mail people, and they feel that this is what is necessary to invest in advertising to achieve the increased penetration that they're planning. It's also interesting to note that they are going stronger into direct mail, and they are also going to increase their participation in television. They feel that they have not had enough exposure on national television programs, and this year their advertising people are going to obtain some spot announcements.

In the case of warranty rates we find the history of warranty rates is on room coolers. We paid \$31 a unit in '61; \$20 a unit in '62; \$17 in '63. So, we're planning an improvement there of \$3 a unit. We find the same thing true with our attached units and our split systems, and our custom installations, which gives rise to an improvement of about \$2 million. or \$1.7 million. Last year we paid out \$6.8 million, and this year we're planning, if these rates are achievable, of paying out about \$5 million.

This has been discussed with both our quality control staff and with our manufacturing and operations staff, and both of them feel that now that they have had another year of experience in the manufacturing of these units, these rates are attainable and can be achieved.

Taking a look at the summary of this corporation which we've been looking at some of the details of, we find that in 1961 we had a 9.6% return on sales; '62, 10%; and this profit plan that we propose today, if it is attained, will give us 10½%. On return on investment in '61 we had 6%; in '62, 11%; and in '63 this proposal will give us 14%. Earnings per share will be \$1.78.

Taking a look at some alternates to this we find that at the control point of 100%, with the volume at which this plant was built, we would earn \$1.78 per share. However, if the sales do not materialize and we only achieve 85% of that sales level, we'll still be able to report to our stockholders, 86¢ a share. As a break-even point we have 71%.

Over on the other side of the coin we find that by a little bit more effort, if we could increase our sales by 15% we should be able to turn in \$2.70 a share. At this point the meeting would probably be turned back to the president of the company or the chairman of the board, whoever was directing that particular review meeting with the Executive Committee, in addition to some questions that may be asked along the route, as to specific questions on the charts that were shown, each of the vice presidents would be asked for their comments. If everybody was in agreement and it was an acceptable plan, it would then be approved as the official financial plan of the Able Corporation for 1963.

Well, that's very fine; you could end it right here. You could put

the plan in a drawer and take it out next December and find out how you made out. If you made it you'd pat yourself on the back; if you didn't you'd wonder where you missed it. But we don't think that that would be very good planning because you've only done half the job. The real job to be done now is to constantly follow up each month. We have established our basic point here, and to determine how are we going to make out against that.

Next, I'd like to go into the reporting phase of profit planning. This financial review presentation, although it has been developed on the type that would be presented to the Executive Committee of a large corporation, in one form or another, the same type of review and analysis would be developed from the very plant right up through to the total top corporation. And all of our management would be looking at the variances and their performance against their portion that they had originally committed in the first plan that we had seen and reviewed.

So, we set off with a financial review here and we find that on this particular trend chart, that we again had our plan for \$555 million; that we now are looking at only \$522 million, or a slippage of \$32 million. The chart is so constructed that this period here is the actual period. So, we have August through March as being actual reported or accounted costs and profits. The gray or cross-hatched area represents the four-month forecast period as what our various activities are forecasting will happen in the next four months.

This particular information would be available to our executives about April 25th; in other words, about the third week in the month they would have available to them how did they do against the actual, and what are the

people forecasting through the end of the month. At the plant level this would be available to the plant management much earlier. It would be around the first week of April. Well, here we see we have a slippage of \$32 million and I think we'd better identify who is responsible for it. Let's take our next chart and see where it comes from.

Now we're going over to a variance-type chart and find that of the actual period the \$12½ million unfavorable, with \$32 million for the year, \$20 million of it is going to occur in the forecast period. Again I'd like to call your attention to the fact that the complete emphasis is on the forward period. This is what we keep spelling out to our executives at all times, because they can only wring their hands about what happened here. This is the area they can do something about. This is the area in which their decisions can be taken after action is taken and decisions made which will improve profits.

Taking a look at the organization we find that the automotive division is actually going to be ahead of their profit commitments by \$7 million. However, for the forecast period they'll be off \$6 million. I should have mentioned that in the development of this plan, obviously in order to evaluate it we would have to develop the plan not only for the year in commitment, but also by month. So that, this reflects how they're doing cumulatively, and how they're doing against the individual months.

The defense division is off about \$1.4 million, and there were \$2 million in the forecast period. The international division is going to be off \$2 million, and \$½ million is in the forecast. Our friends in the diversified products division, though, have a little problem; they're \$36 million off and \$12 million of it is in the forecast period. So, let's take a little

closer look at the diversified division and see who is having the problems.

This is the total division trend chart, and again we find the \$24 million off through March; \$36 million through July, against their original commitment. By individual organization we find that the heater plant has a planned profit of \$36 million; they're only going to make \$21 million, and they'll be off \$14 million. \$1 million of this \$14 million is in the forecast period. The cooler plant had a commitment of \$25 million, and they're way down. They're only going to turn in about \$9 million; they're off \$16 million, \$10 million of which is going to still occur within the forecast period.

The instrument plant has a plan of \$20 million. The forecast is \$14 million and they're off \$5 million, of which \$600,000 is in the forecast period. So, now let's take a closer look at our cooler plant and see what problems they're having. You can see here that our cooler plant has had trouble since the word "go." They started missing their plan in the first month and they have consistently missed their plan as it was progressed along. They're off \$6 million and they're planning on being \$17 million off by the end of the model year.

Taking a look at this by region we find that during the actual period we were off our plan by \$6 million - 2.7 of it was volume and mix; a half million dollars for direct material; a half million for direct labor; \$300 thousand for indirect; \$700,000 for general and administrative expense; about \$1.6 million for advertising. Now, looking at the forecast period we see that during that period we're saying that we're going to be off another \$2 million in volume. Our direct material is going to continue un-

favorable at \$200,000. Direct labor is going to be off \$200,000; our indirect labor \$100,000; G&A expense is off \$300,000; advertising and sales promotion \$1.6 million; and inventory and obsolescence adjustments of six, \$200,000, for a total of \$11 million.

We talked to the plant about this particular problem. We noticed the \$6, million here for inventory and obsolescence adjustment, and we found that the Chief Wheezebeak there, or probably more formally known as the "accountant," had determined that the production schedule not coming out as he had originally planned, he decided to set up a reserve for possible obsolescence. This is a real problem in our business. If our sales and our programming don't work out we end up with a lot of parts left over, and these parts aren't very saleable. As a result, along about this period of time that is in this plan here it is very normal for the accountant to take a look at where he's at, how the programs are set, and what the volumes look like, and determine if it looks to him as if we are going to incur any substantial losses due to inventory and obsolescence.

To the degree that something can be done about the volume and mix factor, or improvement of sales, obviously it would cut down on our loss or indicated loss here.

Let's take a look at what our volume problems are. We find that the history of the corporation here in terms of penetration is over here by individual year. You recall we have approved a plan of achieving a penetration of the industry here at 30%, and here is what our actual performance was. But at no time did we actually even in our sales organization penetrate what we had committed for in our original profit plan. Nor do we anticipate now that we will attain it; we will still miss it, even in

the last month, by 2/10%, being 29.8. And obviously, to achieve it for the year, at this point in time we would have had to swing substantially over in order to average out.

Here are some performance charts on our labor. We find that our direct labor was coming down after the break of the models, and then they had a balance of their lines. They lost ground and went up again. They started to make improvements and they're coming down very well. And now again as a result of the recent sales forecast they're going to have to rebalance their lines and will suffer a turn-around penalty.

The manufacturing people are programming some improvements during this period, but unfortunately we note that they will take all of this period to get back to where they vacated here, 4% off-standard, which was \$52,000 in that case. The difference between these dollars represents a lower base that you're applying your percentages to.

We see the same thing true of the indirect labor, although fortunately we did have some very good programs going in this division to improve during the whole first part of the model year their performance in indirect labor; the effect of rebalance of these lines has really set them back and they've been planning on ending up at 4% off on their commitments, or being \$18,000 off for the month of July.

Taking a look at our selling and advertising expense, we recall we had planned to spend \$9 million, but it looks as if our sales people panicked a little bit here and now they're planning on talking \$12 million with a \$3 million variance, in spite of the fact that they have not been able to penetrate the market. However, this is a case where both the sales and the advertising people know that if we are to achieve the volume, even

pessimistic volumes included here in this forecast, if they are to achieve those volumes they must get out and spend some more money, particularly on spot newspaper ads and local markets. They want to mix some heavy with some spot television advertising to see if they can't generate more sales to cut their losses down a bit.

Taking a look, now, at the total corporation, we have a summary chart here, and though we have planned for \$555 million - \$522 million - it looks like our actual will be a \$32 million variance. We find that the variance per volume is \$18 million. Just down the line here manufacturing costs will be off \$8 million; selling and administrative, \$4 1/2 million; price changes unfavorable, \$3 1/2 million; and all other \$4 million.

We note here in the forecast period the \$20 million spread, \$6 million being in the volume area. Economics going against this are \$2 million; special tools we expect \$2 million; manufacturing costs \$4 million; and all other at \$7 million, which, if you recall, on one of our private charts we indicated the accountants had slugged in about \$6 million against us for the planned obsolescence.

At this point again, the president will probably turn to his vice presidents and they will individually discuss, I'm sure - the Vice President in Charge of Diversified Products will probably have several statements to make. And then, based on this discussion one of several things could come about. No. 1, the president could request of his staff sales vice president that he take a look at this thing and determine what could be done to improve

his volume. What can be done in his advertising campaign to try to upgrade the mix of the volume we will sell?

Another item that could be gotten into is that the purchasing vice president could be asked, "Do you really think that you could sit down with some of these supplier firms that we have and maybe hold them back for a couple of months on their request for relief on economics?" And to the degree that he could do that, obviously he could improve profits.

The manufacturing vice president might be asked to take a look and see if there isn't a program he could get into, particularly like in the diversified products that the cooler plant there had, where we saw the penalty dealer paying to rebalance their lines. Now, to the degree that their management would take some action in that area, he could cut some of his costs down on this loss he had.

Obviously all these actions would have an effect on that provision that was put in there for inventory and obsolescence. I believe at this point that would close the meeting with the Executive Committee. They would leave the room and I'm sure there would be some actions taken. Sometimes the staff finance department would be requested to follow up and get additional commitments from these people. They would report back to the president on what actions had been taken, so that he doesn't wait another month to find out that he's still in the same shape.

Taking a look at ingredients for successful profit planning, we'd like

to think it takes a responsible organization. By that we mean that to have a good and successful plan you must assign responsibility and it must be understood by the individual that it is his responsibility. You must have a developed accounting system so that you have some way of determining how the man you say is responsible, performs. You must have research and analysis to be able to take a look at the raw numbers or accounting reports in dollars, of how he made out, and isolate or determine what is controllable; what is not controllable, and what are the problems. And obviously you cannot have any kind of good profit plan or a budget program unless you have the support of management.

Thank you. That completes our presentation today.

QUESTION: Sir, you've given us an insight into the planning after you set your goal. How about the planning leading to that goal of \$555 million?

MR. VOSS: This would be worked out. For instance, right now we are looking at an anticipated volume for the next three years. So that, at the time we come to build these plans we have probably been reviewing these volumes for two years already before we publish them to the field. It is done by our economists in cooperation with our sales people in trying to determine; (1) What is the industry? (2) What is our ability to penetrate that industry? And we develop marketing plans to achieve those goals.

They're reviewed with all of our executive personnel to be sure that

everybody is keyed in and in agreement that these are an attainable and realistic program.

QUESTION: Mr. Conners, as the comptroller for the Able Company Cooler Division, what action do you take on your own to look into these unfavorable variances before making a determination?

MR. CONNERS: Well, my job involves all that is involved in accounting. But it's much more than that. We are constantly looking at all elements of cost; comparing them to standards; comparing them to what happened last year; comparing the costs of each plant with the best plant. And any time that we feel the costs of a given plant are out of line we generally get with the general plant's manager, explain the situation to him, and he in turn gets with the plant manager and suggests corrective action.

As part of this planning technique that Tom was talking about, we have typically on a monthly basis a cost meeting at which the plant manager and his staff meets with the group staff and presents what's going to happen over the next four months; what variances they expect to incur; and what positive corrective action steps they are taking to insure that their performance for this month and the coming month is going to be better than what happened the previous month.

If they are ^{not} anticipating something better, then they've got to have specifics as to why they do not anticipate further improvements; they're having labor difficulties; the union's about set to strike; and sales needs the additional units and they have to back off temporarily.

QUESTION: Going to the Able Corporation, in the last four months of the year it shows your automotive division not quite making it. Could you tell us how much leeway in that situation you give the presidents of the individual auto companies making up the automotive division? In other words, they're behind and Car A's president says "Give me a little more steam and I can put it out." And Car B says, "I can't do much." How much leeway do these individual presidents get?

MR. VOSS: The automotive industry is in cycle. It goes by model years. Up until about the last 60 days we have quite a bit of leeway. But somewhere it reaches a point where the parts have to be fabricated by the supplying plants. So, I would say up to the 60-day period they have substantial changes in volume, and then at a certain point it's more or less a frozen thing because of the inability to have parts fabricated in that short time.

QUESTION: Excuse me; is that the last 60 days of the fiscal year, or the model year?

MR. VOSS: It would be in the model year.

QUESTION: In other words, in the four-month period you could do something about it?

MR. VOSS: Yes, you could.

QUESTION: I was wondering what the problem was in this company. Didn't anybody get a Letter of Commendation for going up \$30-some-odd billion in profit from the previous year? It looks like all the divisions

contributed to this. The planning, perhaps, was unrealistic.

MR. VOSS: Well, you have posed the answer we get from the operating people. We're kind of a hard-hearted bunch and we say that once you are committed to a plan we want you to meet it, and we take these things very seriously. It's just as bad to miss these plans by \$30 million plus as it is to be \$30 million low, because obviously - well, let's say I'm giving you the finance staff's opinion. I'm sure the stockholders would not concur with me today.

What I'm trying to say is that the planning cycle is, we want to get our planning down so that with the exception of very strong outside influences we want our operating divisions to be able to develop plans and reasonably attain those fairly closely. Now, if you can do this and develop your forecast techniques to that point, then you can move into your forward years with assurance of your ability to expand, build new plants, grow internationally, and with the realization that there will be profits coming along.

Obviously, major changes in the economy and outside influences you can't always predict.

MR. CONNERS: I think what Tom has said in effect is that he expects all the operating groups to come in with fairly tight plans. A plan that calls for a goal that isn't too easy to reach and if you substantially beat your plan it could be an indication that the plan was a little loose in the first place. Although, Tom doesn't generally let that happen, and I've

never received any complaints when we've exceeded our objectives.

QUESTION: Mr. Voss, this has to do with advertising. Costs seem to be significantly high compared to plans. The costs were much greater than you anticipated. Even in view of the fact that you increased your advertising by so much do you consider this the responsibility of the corporate level - or, the division level - and who can determine when you're going to put more into advertising? Can the division level do this, or is this a corporate level decision?

MR. VOSS: We do have a corporate advertising staff that does review the advertising plans of the individual divisions, but the basic responsibility has to rest with the man who has been assigned profit responsibility. In other words, is the division vice president responsible for that activity? That decision would rest with him and his people. The staff, being staff, would always be in the position to advise and counsel.

Now, I recognize that occasionally they feel that the counsel portion is a little strong. But the intent here is that it would be up to that division to determine; talking specifically about the variance being rather large, you do have a problem because you're constantly evaluating. You're in sales, for instance, and you feel that by spending a million dollars in advertising you can pick up a net of \$3 million, which is a little bit like playing the odds. These are the decisions that are left to the division people to make.

Obviously, it's like any game you play; if you misjudge on that it's

going to show up in the figures. But, it is left to the division.

QUESTION: Sir, you referred to the annual contemplated being fixed. Now, considering this in relation to your four-month forecast which I assume is a progressive thing done every month, would you elaborate on the fixed content? Is it fixed in total?

MR. VOSS: Let me say that this technique that we reviewed today is an evolution process that we've been seeing going on in industry. But as we've presented it to you today, basically it's about 10 to 15 years old at the most, to our knowledge. They used to make annual forecasts, and there are a lot of companies that do this today. We run into it all the time in some of our contracts, in which they constantly revise their profit plan as conditions are changing. In other words, if the sales are falling off they just make another forecast. They are continually reforecasting the 12 months.

We believe, then, that at that point the plan is really just an up-dated forecast and is not a control tool. We tried to take a weave together the forecasting technique and accounting technique, and have a control tool. We believe that under that kind of concept, then, that once you agree to a profit level that has to remain constant. And any variances to that profit level are then reported as variances and analyzed as to the reason for them, as differentiated between a galloping forecast or one that's changing all the time. The actual will change as it progresses. But once the plan is set it's locked in.

QUESTION: Gentlemen; would you discuss the part that prices play in your plans? For example, I didn't see the prices up there, but I did see in volume you were going for more advertising on the radio. Aren't prices as important an index as the volume?

ERS:

MR. CONN/ Prices are important, definitely. Traditionally in the automotive business the big three - Ford, GM and Chrysler - have priced on a competitive basis. The differentials, model by model, are reasonably small. And unless there are major cost changes, Chrysler can't afford to change prices because they would be non-competitive with Ford and GM. In the past five years prices have been relatively constant , and I personally don't anticipate any major changes in the overall economic situation; that remains constant.

If steel went up \$5 a ton obviously that would effect the prices of our new models. Whoever introduced first would have to establish prices first. Let's say that our typical models went up \$15 or \$20 and we announced this publicly, because based on our cost and maintaining the profit position, etc., we had recovered \$20 more; if General Motors and Ford came out and decided that somehow they were going to swallow that \$20 per car cost change, Chrysler in due turn, in order to remain competitive, would have to cut their prices back.

MR. VOSS: Bob, might I add to that too that I think you have reference that during the model year or during the selling period there may be some price adjustments. Well, you must realize that we sell to dealers who

then sell to our consumers. The way this is handled, really, is in the form of a sales promotion and incentives. Now, you can put incentives on several different bases, but the contract that our ultimate consumer makes is really with the dealer. If you've recently bought cars you know you can go to one dealer and get a different price than you can from another.

The way we stimulate the dealer is to be willing to sell for less by having sales contests and sales incentive programs in which we might say, for instance, "If you sell more than 20 cars this month we'll let you have the V-8 engine for free in the sixth car," or something like that. And so, effectively you are at times offering inducements to the dealers. Now, whether they pass it on to the consumer is left up to them, because the whole intent of sales promotions and incentive programs is like advertising; to stimulate your dealers to move more of your product.

But the base price, as Bob says, is competitively priced and it's constant.

QUESTION: During the time you've engaged in this profit planning, how often have you found it necessary to plan for a decline in profits because of the general economic situation?

MR. SUTT/^{ON:} I don't know whether I can answer exactly how many years - there were a few times in 1958 and 1959 when this was quite prevalent.

MR. VOSS: Larry, I think you might point out that that would be from plan to plan we would show a decline. But from actual we would always

be showing improvement. Obviously, if we're a large organization and some capable people were not willing to stay still with what we've achieved today, it has to be better. If we don't achieve that the following year we still set the goal higher.

QUESTION: In preparing the planning process, what types of guidelines do the department offices put out? I'm referring here to the policies perhaps in shooting for an increase in sales, of 10%; for cost reduction; for automation; for plant improvement, etc. Do the department offices put out the guidelines to the planners before the planning process starts?

MR. CONN/^{ERS:} I'd say it's very general in nature, and the specifics aren't too often given. In all of our elements of cost we have standards, and we're trying to get the off-standard cost elements down as rapidly as we can. I would say a minimum improvement effort should be something in the vicinity of 3% to 5% of what you have been doing. However, if you have been incurring substantial off-standard expense in the previous year, then they would expect a substantially larger improvement to be reflected in your forward model plants.

But specifically, targets aren't too frequently given. I just might mention that the entire profit planning and budgeting system is set up from the low levels. It starts there. So that, each activity has some sort of goal or target to establish rather than looking at it from one big lump at the top.

The plan is supposed to be developed by local management, so that, it becomes their plan; their commitment which they're going to strive to meet. It comes from local management to group or divisional management to corporate management. It isn't corporate management's plan which is imposed upon the operating groups.

MR. VOSS: That's right. We don't usually set the formal targets, Bob, but I think - and Bob mentioned too - that there is just a general understanding. You wouldn't bring a plan in unless you had some improvement in it. Because, you'd know darned well that we wouldn't accept it and we'd go to the mat first for a couple of days. At each level it's being built up. It's reviewed and discussed. Bob goes over his division plans and he makes improvements in them and then they come into the corporate office and we go over them. We either agree or request further improvements, and so it's a constant reviewing and approving cycle.

But the main feature we wish to be sure is understood is that when the plan is finally locked in it's not a dictated plan to the individual. There may be some arm-twisting, but I mean it's their plan and they have to agree - the division manager - that this is his plan and he is taking full responsibility to attain it. If you don't have that, of course, you've lost the advantage of responsibility.

QUESTION: For the plan to be useful it must be fairly realistic. It seems to me that forecasting costs should be a fairly mathematical process compared to the forecasting of sales, which seems to me more like

looking into a crystal ball. I wonder if you would comment on the means you use to get a fairly realistic forecast of sales?

MR. CONN/^{ERS:} Well, we, in building these plans - you may have noticed up there that we had what we call "control volume;" I think it showed up on a couple of charts. And again, the wheezebeaks get together and we work with the economists on what we believe the market will be and what our sales will be. Then we take a look and we may cut that down slightly to what we consider more realistic. Sales people usually are optimistic. We can't afford in finance to be caught being too optimistic in missing the goal, because these become commitments eventually to our Board of Directors.

They're aware that this is what this company is planning on doing. We also indicate to them the sales potential. And on the particular presentation here I would liken it to that 115% to the 100%, the 115% probably being what our sales people really believe we can do, and 100% being what we said; "Well, you may make it but we're going to plan this thing just a little lower, to be sure that we have a satisfactory profit for our stockholders."

QUESTION: Well, does it wind up with a historical projection of sales trends?

MR. CONNERS: No.; the economists sit down - and we just went through this last week; we did some of it for the following three years - and they actually take the industry total. They start with the industry and the gross national product and they do a study on them. They also do a study on the

cars in use and the population. And then by a correlation of all of these facts they try to determine and get an agreement as to what the industry will do.

Now, you've probably noticed in your papers that General Motors will get out and announce that there is going to be an 8 million-car year. Ford usually announces it's going to be 7.5 million. And usually we're pretty close with Ford. GM is usually a little more optimistic than we are. This used to be a pattern over the last three or four years.

But we do establish to the best of our knowledge, with our economists, that what we believe the market will sell. And then we develop our penetration of that market or our sales ability to penetrate it. Obviously, if the market doesn't come about you can either overcome it by increased penetration of a smaller market, or you could actually cover up your own sales failure by giving a lower penetration of a greater market. This is why one chart was in there; we constantly watch our penetration commitment, because we hold our sales people for penetration.

We say, "If you sold more cars because you're dealing in a larger market you've got to get, friend, you haven't done too much."

QUESTION: How do you determine how much to put into marketing? At what point do you reach a decision?

MR. SUTTON: Well, we boxed this thing out and we have a pretty good idea historically of what we've expended in marketing. We know pretty much by some checks and that what is being spent on marketing by the in-

dustry. Then we take a look at what our marketing people are planning, and if it's substantially different we correlate that to what they say they will get for the added expenditure. And we make a judgment decision on whether the increased marketing costs are justified by the marketing plans to establish a better sales picture. It becomes one of fine balance and also becomes one of opinion, and many times will end up in the president's office.

Obviously, volume being the one key to all businesses, your marketing problems and your setting of your volume are one of your first stages and one of your most important jobs of running a business. You can have the finest cost system in the world, but without any volume you're dead.

QUESTION: Do you apply the same control and planning mechanisms to your overseas operations, and if so, do you find they're apt to vary in many ways because of the peculiarities of the other countries?

MR. VOSS: We make every attempt to apply the same type of controls and system into our overseas activities. Probably the physical nature of some of the facilities etc. make some modification necessary, but the general pattern is still the same.

QUESTION: Could you tell me how you relate executive and top-management incomes in your annual profit plan?

MR. VOSS: I'm sorry, that is not one that I can answer, except in this vein; we have a salary administration group which, competitively, supposedly, is the reviewer of all our executive classifications and their

compensation. Occasionally, people will be under contract at the request of the president. In addition to that - peculiar, probably, more to the automobile industry than other industries - we have a supplemental compensation plan which, based upon our return on sales, has so much money put away into a kitty and then this is divided up, or called a bonus, for the executives. This bonus is related to your performance. Each year as we come up - in about November - every manager or supervisor of executive personnel makes out a performance rating chart on his individuals, and this is tumbled in with a lot of other variables.

One of the things that is considered is the individual's performance in his particular assignment; the outcome of profits or the profitability of the organization in which he is; and then his number of years of service and his salary. So, there are a whole host of variables put in the hopper, and it's run through a computer to arrive at a return. But, yes, the incentive count that we get is related to our performance either as individuals or as part of a profit organization or division.

QUESTION: Can you identify any management techniques, or techniques that you have used recently to account for Chrysler's fine performance? Has there been some change of what they do, or something different?

MR. CONNERS: I think Lynn Townsend can take a heck of a lot of credit. And I don't know if the fine reports you've been reading about in the newspaper are accounted for by any single factor. Lynn Townsend

joined the company as corporate comptroller in 1957, and his rise has been very rapid. His leadership - many of the things that he initiated in 1957 are just beginning to bear real fruit in 1962 and 1963. Lynn Townsend believes very strongly, being a finance man, in a good financial control system. And the kind of system that you've seen described here is relatively new - within the last 10 or 15 years.

We have made changes in key personnel. We've made changes in styling. We've made changes in sales. And we've tried to put the best man we could get our hands on in the right spot, and he's held accountable to produce. If he doesn't produce we try to find somebody who does.

I'd say that the Chrysler Corporation is fortunate in having an aggressive, intelligent individual such as Mr. Townsend, as president. The financial control system is only one of many things he has done that have combined to produce the spectacular rise in Chrysler's fortunes over the last year.

I guess it takes about five years for a financial control system to be installed and to really get working and for everybody to understand it.

MR. VOSS: I might add that Mr. Townsend has a very interesting way of using this presentation that you saw today. He has a copy of this same type for all of our operations, on his desk, with the variance summaries. And I suspect lately from some of the reports I'm getting that just before he goes down to the officers' dining room he just opens it up to whatever page he comes to and he sees what variance is on there. And at lunch he

may turn around as he's leaving the room and say, "Bob, what's the problem out there with your indirect labor?" And he's out the door before you can even answer. Or should I say get his excuses or the reasons. With the result that the fellow goes back and worries all afternoon, wondering what he meant. I happen to know this because I've started getting calls from some of our vice presidents, saying, "Did you tell Townsend something today about our operation? He asked me about indirect labor; what was he talking about?"

I say, "Go look at your rate book; maybe you can pick it up there." So, it's very effective needling he's using. He's using this vehicle here and it's interesting; the fact that he usually doesn't stay long enough for them to give him an answer. He just plants the seed and goes.

MR. CONNERS: I'd like to just add a few things to that. Any financial control system isn't worth a damn unless your management uses it. Lynn Townsend does use it and he has taught his group executives to use it. He is constantly asking questions - why, why, why. The answers aren't easy to come by, but sometimes in your attempt to provide the answers you stumble across a better way of doing things.

QUESTION: I'd like to know what you do about inflation. Do you put down a reserve for depreciation, or a fund for expansion? And also in your figures, showing your profit. Your profit dollars are inflating 2% per annum. Do you ever refer back to 1957 to see what you actually did?

MR. VOSS: This is the problem; that in replacing your assets today

the inflated dollar has made your costs quite different than they were when your plants were originally built. I think this is recognized when we make our facility planning; that any new facilities today will cost more than they did 20 years ago. And as such, in our forward planning we do recognize that this added cost will have to be provided somewhere from the cash reserves.

QUESTION: How about the statement of profit?

MR. VOSS: I might say in addition we do provide here, if you notice, economics. So, we do know what the effect has been on our profits on economics. We know how we made out against the economic provision in many cases. Because, we tell our field to provide at a constant economic level to build their plants. We give them the economic factors to be employed. And we may add a further provision at the corporate office, on top of that.

In addition, in the evaluation of budgets - for instance, the manufacturing budget - in the basic evaluation we do take economics out and review the budget improvements at a constant level. And we do go back on that a number of years to determine what our improvements are. So that, you can have a condition where you are showing constant improvement by the management. But the true improvement in absolute dollars will only be the amount that they exceed the rise or the economic factors that are incurred each year.

Again, this gets back to the question we had earlier as to whether there

are any targets. We do try to strive at all times to achieve at least a minimum amount that would be acceptable and that would be a sufficient improvement to offset your economics.

COLONEL BLACKWELL: Well, gentlemen, on behalf of all of us, thank you very much for being here with us.