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Emerson Electric's Chuck Knight and Team: Efficiency Isn't Everything, it's the Only Thing

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Emerson Electric's Chuck Knight and team

Efficiency isn't everything, it's the only thing
Today's Chase.
Emerson Electric: Efficiency Isn’t A Goal; It’s A Religion

A rare closeup look at one of the most successful companies in the U.S., at the man who built it and his handpicked heir.

By PHYLLIS BERMAN
with Richard Greene

This is a story about an impressive company, but, underneath, it is the story of three tough, driven men and how they interacted. Wallace R. (Buck) Persons, 68, is a former football coach and electrical engineer who left Lincoln Electric to head Emerson Electric Co. in the early Fifties when it had sales of just $45 million and was in deep trouble. The second character is Charles F. (Chuck) Knight, a lean, handsome man of 42 who took over Persons' job at age 37. And finally we have Chuck Knight’s father, Lester, 72, owner of the international consulting firm that bears his name. The elder Knight, who never actually worked for Emerson, nevertheless played an important role in its growth. The action and interaction of the three men on each other explains a good part of the success that has built Emerson Electric into a $1.8-billion company whose growth and profitability are the envy of U.S. industry.

St. Louis-based Emerson is a truly unusual outfit. It remains a growth company in a time when few large companies can still claim the title. Lay a ruler on a chart of Emerson’s earnings per share running back to 1957: a few peaks but no outstanding dips, and by and large the line ascends smoothly at an almost monotonously steady rate—not only year by year but quarter by quarter. It is almost too good to be true. Only it is true. In the fiscal year that ended last September, Emerson earned $2.47 a share on sales of $1.8 billion. That was a gain of 21% in profits and 19% in sales. For Emerson it was hardly an extraordinary year. In the first quarter of fiscal 1978, earnings per share were ahead 19.6% and sales 22.3%.

Here is a company with a relentless, almost heartless devotion to the true bottom line: return on investment. Buck Persons has been compared to the late Vince Lombardi. Emerson’s motto, to paraphrase Lombardi, might well be: Efficiency isn’t everything; it is the only thing. Here is a company that does not hesitate to throttle back sales growth in the interests of a higher return on capital. Control, discipline, tough-minded decision-making are hallmarks of Emerson. And the payoff is a five-year average return on capital of 17.7% that placed Emerson well up in the ranks of large manufacturing companies in Forbes’ Annual Report on American Industry.

It takes an extraordinarily driven man to maintain this kind of momentum, and Chuck Knight is driven indeed. How did he get that way? What makes Chuck Knight run? Forbes asked him. He recalled the summer his father drove him to Orillia, Canada to work in a foundry

Controlled Energy: The overwhelming impression Chuck Knight gives is of controlled energy—taut and ready to spring.
owned by one of Lester Knight's clients.

"Everything that happened to me that summer is as vivid as if it happened yesterday," he recalls. "I simply wasn't prepared for the experience. Not socially, not workwise, not in any way. The fact that I survived that summer has always been a miracle to me. It has structured my personality, given me the confidence to take on anything." Sink or swim. Somehow, the adolescent swam.

Chuck Knight pauses for a minute: "I always thought the old man was lucky that something didn't happen to me when I was up there." Knight's teenage years were filled with more of the same—summers spent working in Argentina, Switzerland—but that summer of his 16th year in Canada was his baptism by fire.

What the elder Knight apparently failed to consider, however, was that once his son was self-sufficient, that independence would affect him as well. At 21 Chuck Knight decided to marry Joanne Parrish, who is the mother of his four children. The elder Knight was opposed to the early marriage. Chuck went ahead and got married and supported his young family while he was in Cornell University's business school by coaching freshman football, teaching plumbing at Cornell's hotel school and graphics at the engineering school.

After graduation, 24-year-old Knight went to Zurich to oversee Lester B. Knight's European operations. Even then, however, the elder Knight didn't let up on his son. In 1963, after he had been in Europe for four years, Chuck got a cable from his father: "Be in St. Louis Monday morning or you're off the payroll."

That same Monday, Knight reported to his first U.S. client: Emerson Electric. Over the next dozen years he would spend over one-fourth of his time consulting for Emerson and Buck Persons, who was already something of an industrial legend. Arriving at Emerson in 1964, Persons had moved it from a problem-ridden maker of understyled, over-engineered fans into a company able to compete with General Electric.

Persons redesigned the fans and then the whole company—with the help of consultant Lester B. Knight and others. He set in place an elaborate planning system. "I was a hands-on manager, in every detail," Persons recalls. "He ran a one-man show," says E. Lawrence (Larry) Keyes, now Emerson's president.

By the early 1970s Buck Persons had built a big company, but he had one big problem: succession. Says Keyes, his administrative assistant for five years, "That problem consumed him." With the help of Lester B. Knight & Associates, Persons reviewed 150 potential candidates over a two-year period. The final choice: Chuck Knight himself.

Why not? Knight knew the company intimately at the highest level. He'd been on the board of its largest division, Emerson Motor Division, an electrical motor manufacturer, for over four years. He was eminently qualified in every respect: forceful, intelligent, handsome, with an impeccable background—like Persons himself, an avid wildlife hunter and football player—a Cornell M.B.A., management and engineering consultant for such U.S. companies as Caterpillar Tractor and Standard Oil of Indiana.

At first Chuck Knight turned down the offer. The problem was that Lester Knight had sold his company to his son five years before. How could Chuck over. Lester and I are great chums; we even play golf together.

Having stood up to his own father, Knight now had another strong, talented older man to deal with. It wasn't an easy situation. "Chuck accepted the fact that we didn't want somebody to come in here and overhaul Emerson's whole management system," says Persons. "Improve it, that's okay, but not say, as many of the potential candidates did: 'I'll come in for six months and then I'll let you know what I'm going to do.'"

"I didn't revolutionize," admits Chuck Knight. "I'm sure that's one of the reasons I was chosen." Yet Knight is ambiv-

Forceful Persons: Buck Persons was strong enough and clever enough to make Emerson run like a Swiss watch. He found a successor who promises to do the same.

Knight abandon his own business to work for somebody else?

But in time Knight realized that Emerson was an opportunity he couldn't pass up. In 1973, at 37, he became Emerson's president, and the following year its CEO. Says Knight, "My father was nice enough to leave an opening for me to come back to the business within three years."

That deadline has long passed. Lester Knight created the perfect manager. Buck Persons took him away.

Lester Knight was bitter, says Persons. "It really was rough at first. Lester went around telling anyone who would listen to him that I had really turned the tables on him. But today it has blown alent on that point. He gives full credit to Buck Persons but wants no mistake made about his own contributions: evolutionary, if not revolutionary, changes in the company's basic planning system as well as more substantial changes in its international operations and a repositioning of its basic business in the U.S. More than that, he brought to the company the energy a young man can bring to his job, the kind of drive that had been missing in Persons' last years.

Chuck Knight's greatest contribution to the company is his cool, rational mind, his ability to anticipate problems lurking in the corporate woodwork. Today Knight spends half of his time on corporate planning; he attends almost all the
divisional planning conferences of Emerson's 42 profit centers.

Emerson's planning sessions are among the most sophisticated in U.S. industry. The planning is done within a broad strategical framework that calls for doubling earnings every six years, which is an average of 12.5% earnings gain every year; no more than 10% of revenues from defense; no more than 20% to 25% from international; and $200-million worth of new products to be developed through corporate research and development by 1980.

Knight's attention to detail would do credit to Harold Geneen. Each division is required to complete fat planning books detailing every one of its products—its sales, profits, market possibilities and growth opportunities.

Browning Corp. is one of the 42 profit centers, a 92-year-old industry leader in mechanical power transmission equipment like speed reducers, gears and belt drives. Last January Knight was in its Spartan offices (which sit in the shadow of the Appalachians in tiny Maysville, Ky.) for the most important of about 25 meetings in which executives of each division participate throughout the year.

"Chuck and I were trying to thrash out how fast we could expect our markets to grow," says Bob Browning, president of Browning Corp. "I estimated they'd grow about 2.6% next year. Chuck didn't buy that. He said the market would be growing at the rate of 4%." So Browning had a problem.

Like every division president, he is expected to come up with substantial growth each year, no matter how slowly his base market expands. This year Browning's target is 15% growth. "We don't plan like GE," says William Rutledge, vice chairman of the board, and a former GE employee. "There's no such thing as harvesting a business around here." In short, Bob Browning couldn't just say: "Be happy, Chuck, with the profits we are already throwing off." That is no response at all at Emerson. Failing to meet the 15% goal could jeopardize growth, 5% short of his goal. The shortfall is what the company calls the gap, and Bob Browning must present a choice of "gap fillers" to Knight. Among Browning's gap fillers this year: the addition of over ten salesmen, a new distribution warehouse in the South and an extension of one product line—enclosed gears for high-stress machinery.

Browning's specific problems are, in essence, the same as those of the parent company. Nearly 70% of Emerson's revenues are derived from its domestic core businesses which are in mature industries; in fact, the average growth of Emerson's core from 1965 to 1975 was only 7.9%. To keep the company growing faster than that, it is Bob Browning's job to gain market share by capitalizing on his competitors' weaknesses or identifying new market niches where he can compete profitably.

Even such rigorous advance planning doesn't fill all the holes, however. In which case, Emerson resorts to its well-known contingency planning—ABC budgeting—which forces divisions to make and stick to prearranged budgets in case sales drop (see box, p. 44). That kind of discipline helped Emerson through the last recession even though all contingency plans were thrown out the window. In fact, by gearing the whole company toward 8% aftertax profit margin, Emerson actually got a 4% increase in profit on a 1% dip in sales in the recession of 1975.

There are many Persons' policies Knight has not changed. For example, there is still a strong emphasis on keeping plants small, decentralized and non-union. Today Emerson has 95 domestic plants—mainly in rural areas (not just in the South but across the U.S.)—usually with fewer than 1,000 employees and 81% of them nonunion.

This clear preference for establishing plants out of northern urban areas was once called Persons' "Southern Strategy." This is a touchy subject with Knight because it implies that Emerson has the cheapest labor in its markets. That's not the explanation for the company's preference for smallish plants in small southern towns. Costs are lower there and it's easier to keep the unions out.

"It became apparent that certain products were just never going to compete in a community like St. Louis," says Persons. "So we eventually got all our commercial products out into the South and left highly technical things in the shop in St. Louis." Jack C. Bobcbaugh, Emerson's vice-president for labor relations, says: "We knock unions and we knock them hard, because they're cheating on us. They come in and promise the moon. One of their favorite ploys is to talk about job security. And we say, 'Well, let's look at where the UAW has been on the scene.' Look at our USM [electrical
**The ABC’s Of Budgeting**

EVEN Emerson Electric Co.'s meticulously made plans occasionally go awry. Last year it looked as if three divisions weren't going to make their growth targets. Enter Emerson's renowned "ABC" budgeting system.

Less than Holy Writ, perhaps, but far more than a gimmick, the ABC system's simply a way of forcing divisions to make contingency plans in case sales slip from projections. Divisions all start the budget year on "A" budgets and, if they remain on course, stay there. If there are signs of sales slipping up to 10%, a "B" budget is introduced, calculated to cut expenses enough to meet the original profit objectives on lower sales. If a division is in real trouble, the "C" budget is brought in, drastic pruning takes place and efforts are made to optimize profits.

Last year Emerson's commercial lighting division, Daybright, was subjected to the rigors of a "C" budget. In fiscal year 1977 the slump in nonresidential construction combined with the energy crunch to cripple the division. By January 1977 division President James Ramsey could see trouble ahead. Sales, originally budgeted for about $50 million, were already off 5% from plan. In April the "C" budget, made final in July 1976, was brought in.

Daybright needed cost reductions of at least $1 million. The division closed its 45,000-square-foot plant in St. Louis, which made hospital lighting and exit signs, and its assembly operation in Sunnyvale, Calif., which made standard lighting fixtures. Both were consolidated into a Tupelo, Miss. operation. Daybright also dropped over 100 unprofitable items. These moves resulted in the loss of 250 jobs in St. Louis and another 40 in Sunnyvale. Net results: over $1 million in cost reductions and a repostured company.

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**R.G.**
Inch By Painful Inch

EMERSON ELECTRIC'S history dates back 87 years. It sold the very first electric fan in the U.S. and for decades it remained a leader in that field. But after World War II, larger companies like GE and Westinghouse moved in on Emerson. By the mid-Fifties, newly appointed chairman Buck Persons was caught in the classic price-cost squeeze; and he was losing the battle.

In 1955 to meet his competitors' cost cuts would have meant $1.2 million, and higher material prices another $800,000. That would have eaten up the previous year's entire profit, just $2 million in 1954. That was the birth of Emerson's now sophisticated cost-savings program. Typically, Emerson gets those savings inch by inch, yard by yard.

"We are the low-cost producer," brags Knight, "in every product we make." Analysts recently have seen a shift: They believe Emerson will sacrifice the market share it used to prize to gain profitability. Emerson says that these cost reductions give it the flexibility to go after either market share or profitability.

How do they get these cost reductions? One method—called value analysis—is a systematic review of all their products to look for unnecessary costs which can be eliminated and material savings which can be made.

In A.B. Chance's standard-item utility product business, there is little chance to raise prices above industry levels because products are sold on bid to utility purchasing agents who always select the lowest price. But a new design for its utility pole anchor allows Chance to be a stronger competitor in that market by passing along its cost savings. The new anchor, less complicated and less bulky, costs 30 cents less to produce than the original product.

Aloco, acquired in 1969, has moved into a strong leadership position in the air-conditioning and refrigeration valve market. Aloco's refrigeration valve for heat pumps was recently redesigned to allow for the more efficient flow of Freon. That added $7 in value to a valve that sold for $18. Again, Emerson will hold its price and go for market share.

In Emerson's In-Sink-Erator division, its waste disposal unit manufacturer, the company had been buying a starting switch from a supplier at 31 cents apiece. By bringing that part in house, the cost came down to 23 cents, saving over $600,000 a year. Multiply that by well over 3,000 products, and you have some idea of how Emerson is "saving" $77 million this year.

-P.B.
Conrail West?

Government subsidies aren't the only remedy available for sick railroads.

The last thing the federal government needs is another quagmire for money, but that seems to be exactly what it has in Consolidated Rail Corp., a government-backed corporation formed from the ruins of the Penn Central and its satellites and former competitors. Conrail's backers once predicted their creation would be earning $111 million by 1979. Instead, Conrail will have used up its first $2.1 billion in federal money by next year and will need another $1 billion-plus—just as a start.

What is so sad is that there was an alternative to Conrail, a free enterprise alternative, but the unions blocked it. The trustees of the Penn Central had advocated what they called "controlled liquidation": selling viable parts of the system to neighboring roads and letting them do the rebuilding job. At one point, two rich railroads, the Southern and the Chessie System, even proposed buying parts of what became the Conrail system and running them themselves. Chessie was prepared to spend $500 million in rebuilding some 2,000 miles of what is now Conrail if it could buy them for $55 million.

In the end the free enterprise solution failed because the unions refused to accept the less permissive work rules that prevailed on the Southern and the Chessie. The union preferred dealing with government, which could tap taxpayers' pockets to support featherbedding.

The "controlled liquidation" solution is probably dead in the East, but it still offers a possible way out in the Midwest, where two big roads have already gone broke and more are on the edge. The two already bankrupt are the Rock Island and the Milwaukee. The Missouri-Kansas-Texas has avoided it only by pure luck for years. And last fall the Interstate Commerce Commission concluded that two other roads—the Chicago & North Western and the Illinois Central Gulf—were headed for financial problems as well. Is yet another regional railroad collapse in the making? Will a Conrail-type solution—with the government funneling in as much money as necessary to keep the railroads going—again be the path of least resistance?

Norfolk & Western President John P. Fishwick for one is gloomy about the prospects. "From the standpoint of economics," he says, "you could have a private enterprise solution, but from the standpoint of politics I think it's doubtful that you will. You've got the pressure groups—the shippers, labor, the politicians—saying, 'Why not do the Conrail thing for the West?'"

But Fishwick may be too gloomy. A. Daniel O'Neal, chairman of the Interstate Commerce Commission, said last January: "We should avoid the temptation to start thinking of another Conrail of the West or Midwest." O'Neal maintains that the railroads should avail themselves of innovative rate-making, mergers, consolidations, or the $1.6 billion in financial aid available under the 1976 Railroad Rehabilitation & Regulatory Reform Act. "A massive government bailout," says O'Neal, "is not likely to provide a lasting solution and in any event probably is not necessary to preserve essential rail services."

Most businessmen would agree with O'Neal: An extension of the Conrail approach should be avoided if possible. The whole idea could be contagious. Why not a government-subsidized corporation to run the decrepit steel mills of the Midwest? Why not do as Britain does and subsidize almost any corporation that can't exist on its own?

The point is that Conrail and its mounting costs—along with those of Amtrak—may yet be a timely warning to Congress and to the bureaucracy to think twice before opening the federal purse strings to dying businesses.

Oiling The Works

The World Bank is starting to bankroll oil development, but carefully.

Many a poor nation bleeding financially to pay for OPEC oil may well be sitting on large reserves of its own. A French study done for the World Bank found that about 70 developing countries probably possess 60 billion barrels of recoverable oil even though they have found only about 10 billion of them.

These countries, some of them Marxist and all of them deeply suspicious of Western oil companies, have been pushing the World Bank to come up with cash and advice to help them find this oil. Until recently the Bank had been reluctant, saying that its job is to use its limited resources for things—like dams and highways—that private investors would never touch. Now it intends to invest $500 million a year in development, but not exploration projects. Efrain Friedmann, assistant director of the Bank's energy department, explains the reasons: "If their legislation covering oil exploration is correct, then these countries can attract this sort of risk capital. If a country feels it is not equipped to negotiate with an oil company, we suggest they hire consultants to help, and we may finance this."

Surprisingly, one of the current problems is that the big oil companies don't want overly favorable deals because experience has taught them that these are ultimately repudiated. Some countries, on the other hand, are so anxious for exploration that they will sign almost anything. In this situation, the World Bank thinks it can help by serving as an honest broker for both sides.

Why is the Bank willing to step in at the development stage? Some of the bank staff were against even this limited investing in oil. The ultimate decision was that the World Bank should help where it could, because successful oil development would generate large amounts of cash for other, less profitable development needs.

The amount involved, the $500 million a year, is peanuts by oil industry standards. But with World Bank participation in development, private capital might be more forthcoming; presumably a local government that would think nothing of confiscating private property would think twice about confiscating what is in effect World Bank property.