

A NEW COURSE

Transforming a company's operating goals and practices can prepare it for hard economic times.



Right now, U.S. businesses are determining ways to navigate the economic recession. At **AGILENT TECHNOLOGIES INC.** (A), we vividly remember the situation we faced in 2001, when our company did not react quickly enough to the worst technology downturn in history. We had not yet shed the many legacy systems and processes inherited from **HEWLETT-PACKARD CO.** (HPQ) in our 1999 spin-off, and the result was an excessive cost structure. We then began a corporate transformation that has left us in a far stronger position to weather economic uncertainties.

Our plan involved making some very tough decisions related to our businesses and programs, but today Agilent has in place an

operating model, a leadership team, financial incentives and the discipline necessary to ensure long-term success. Although Agilent's transformation was a complex, multiyear process, there are essentially five key steps that we took to get to where we are today.

We focused the company on our core competency: measurement. As the world's premier measurement company, we now concentrate on the many opportunities in the \$43 billion measurement market, which includes electronics, communications, life sciences and chemical analysis. Divesting Agilent's semiconductor businesses in 2006 allowed us to allocate all our resources for what we know and do best.

We identified key market openings for growth. With the focus on measurement, we can actively pursue meaningful growth opportunities in our core areas of expertise and major end markets such as China and India. Life sciences, food testing and aerospace/defense are all growth areas for us, supported through a balanced combination of organic growth and smaller, strategic acquisitions.

We changed and modified our leadership team to make sure we had the right skill sets to keep us on course. It is crucial that leaders have the ability to execute change within a company, and we wanted to ensure that Agilent's executives had the right attributes to identify what needed to be done, set goals and deliver results. We now have a world-class leadership team, with 60 percent of our senior executives new to their positions.

We increased our flexibility through a variable cost model. To minimize our exposure to market volatility, we changed the structure of our organization in some essential areas. First,

we revamped our employee-compensation system to increase the amount of variable pay linked to specific company metrics. As a result, all Agilent employees — from the CEO down — share in the company's success through the Results Bonus program, which rewards employees for performance, while adjusting for changes in economic conditions. We have also moved to contract services for noncritical business processes, such as real estate management and IT infrastructure, and outsource nearly 50 percent of our manufacturing operations.

We created a strong operating model to ensure financial health. Given Agilent's current market, our financial objective is an operating profit of 14 percent with a return

“ALL AGILENT EMPLOYEES SHARE IN THE COMPANY'S SUCCESS THROUGH THE RESULTS BONUS PROGRAM.”

on invested capital of 21 percent through an economic cycle that results in substantial cash flow. In addition, we target 30 percent to 40 percent of all incremental revenue to flow to operating profit.

Agilent today is in the best financial position in its history to withstand challenging markets. This enables our 19,000 employees to focus with confidence on winning in the marketplace and being first-rate measurement partners to engineers, researchers and scientists throughout the world. ■

Bill Sullivan is president and CEO of Agilent Technologies, a measurement company that works with engineers, scientists and researchers on modern communications, electronics, life-sciences and chemical-analysis challenges.