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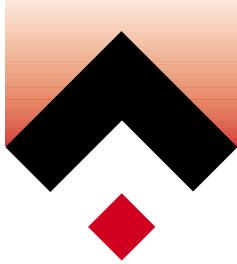
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## EDITOR'S NOTEBOOK

# An exclusive interview with Tom Snead, president of Fisher-Rosemount Systems



**Ron Kuhfeld**  
Editor in Chief

I recently had the opportunity to interview Tom Snead, president of Fisher-Rosemount Systems, a division of Emerson Process Management. His responsibilities include the management of all aspects of the division's industrial automation business in both the U.S. and international markets.

Mr. Snead began his career as a process/project engineer with Procter & Gamble, and later with Monsanto. He joined Emerson in 1978 and has held various positions of increasing responsibility within Fisher-Rosemount, including management assignments in Asia Pacific, the Middle East, and Europe. He was appointed to his current position in July 2000.

Mr. Snead has attended Bucknell University, Rensselaer Polytechnic Institute, and the Wharton School at the University of Pennsylvania. He holds bachelor's degrees in mechanical engineering and economics and a master's in business administration.

Our interview covered topics ranging from developments at Emerson Process Management and Fisher-Rosemount Systems to trends in the control supplier community to business and technology issues facing user companies in a variety of industries. Highlights of those discussions follow.

***As you well know, this has been a difficult year for many sectors of the manufacturing and processing industries. How has the newly-renamed Emerson Process Management fared these past few quarters?***

We're doing very well. There's a lot of talk in the trade press these days that the controls industry is not doing well, but Emerson Process Management just announced its mid-year results, which were through the end of March, and sales were up 12% and earnings were up 44% compared with the same period last year. We have double-digit underlying sales increases in all four world areas: the U.S., Europe, Asia, and Latin America. The PlantWeb field-based architecture and our increasing involvement in solutions-oriented activities and service businesses are all contributing. So we're basically hitting on all cylinders.

***I understand that one reason for the name change is the increased emphasis within the division on service offerings and complete solutions. How much of Fisher-Rosemount Systems' business comes from the sale of integration and other services?***

Our service offerings are delivered from several different areas of Emerson Process Management. For

example, we have the Performance Solutions business, led by Jim Nyquist, that concentrates on project and post-installation services. So there are different ways to tally the mix of offerings. However, in terms of conventional hardware and software, project services, and post-sale services, I wouldn't doubt that they are equal thirds today.

***Those percentages are certainly a great deal different from those of twenty to twenty-five years ago—in the early days of traditional distributed control system technology.***

Yes, back then it was probably 70%/30%, if not 80%/20%. There's been a huge change, much of which has come about in the last five to seven years. Systems such as DeltaV have helped facilitate this. It's a system platform built on industry standard hardware and software that's also very flexible, so you can do a lot with the engineering side of the equation. You can pretty much productively customize it any way you want.

***Everyone's talking about their e-commerce strategies these days. How's Fisher-Rosemount Systems' e-commerce business doing?***

Our e-commerce strategy has two parts: an internal and an external. We wanted our internal e-business systems to be up and running first so we could get to know how e-business works in terms of our suppliers, internal customers, and, basically, all of our e-procurement activities. All that has come along quite well over the past several years. The next step was to use the Web to improve the delivery of marketing communications and applications information to our customers.

The final step is transactional. There's been a lot of discussion about using the Web to satisfy X percent of customer demand for products and services, and I think that is going to come over time. But we are dealing with an engineering-services-related business. We deliver an applications-based product, particularly in the systems business. It's hard to conceive of a customer sitting down at his or her terminal, in isolation, and designing a DeltaV or PlantWeb system entirely from scratch across the Web. It's possible, but my guess is, this type of activity will represent a minority of the transactions.

I do think that activities such as the sale of upgrade software, parts, individual controllers, additional I/O, and application help or aid will have a strong Web component over the next three- to five-year time frame.



Tom Snead is president of Fisher-Rosemount Systems.

**"...[the automation and controls] industry can't consolidate and save its way to prosperity. We have to learn to do a better job of conveying the value we're delivering to the user community."**

But, in my view, the Web will not displace sales people. It will, however, change the nature of how a sales person does his or her job. In addition, it will also give customers the ability to do rapid turnaround transactions, like parts, or to get better access to order status information. It will be a tool, but I don't see it as a complete replacement for the selling process that goes on between suppliers and customers.

Many of our customers are engineers that like to touch and feel and experience the technology in which they are going to invest and install in their applications. You can provide some really good CD videos and Webcasts that can be very useful to them, but in the end, many want that hands-on experience. At the same time, there are operations and management individuals involved in the decision process, who view this from a strategic asset purchase perspective. Recognizing the needs of both the technical and strategic areas, I think some form of human interaction will continue for the foreseeable future.

**Earlier you mentioned some talk in the trade press about various problems in the automation and controls industry. What's your take on these and what solutions would you suggest?**

Last October, Jim Pinto [founder and former CEO of Action Instruments] published an article in the *Controls Intelligence & Plant Systems Report* newsletter, entitled "Companies in Trouble," that expressed concern about the number of supplier companies in our business that are in trouble. He didn't include Emerson Process Management in the watch list group, but the list was fairly extensive. I must say, when I look at that article, as well as others I've read recently, I have to agree that there is a concern—with a few exceptions—with the health of the suppliers to the industry.

Over the last five to ten years, the automation and controls industry has gone through a lot of consolidation. We're down to five or six major suppliers, and we may see still further consolidation. It strikes me that many of the consolidations have been a cost-reduction set of plays. It has all been about cutting cost, and, as an industry, we really don't do enough to convey the value that we bring to our customers. We haven't worked the value side of this equation as much as we should have.

There was an article written by Dave Adler at Eli Lilly that appeared in *Chemical Processing* in August, 1997. In that article Dave talked about a 3 to 1 benefit-to-cost ratio in automation projects for the customer. Other sources place the average return on investment in an automation project at or above 30% from a user's perspective. Conversely, if you look at the return on capital employed that most major automation suppliers are producing right now it's often a single digit

number, or perhaps just a little higher. Although Emerson is above that level, many suppliers in this industry are not returning their cost of capital.

Although the two metrics aren't directly comparable, you do have an imbalance between the return generated by the user and the return generated by the supplier. In the long run, that's not healthy.

My perception is that this industry can't consolidate and save its way to prosperity. We have to learn to do a better job of conveying the value we're delivering to the user community, and you must create new value for your customers.

Emerson's culture is to do both. We have the Best Cost Producer culture in the business, but we also have made the strategic investments in PlantWeb and DeltaV, for example, to deliver new value to the customer. I think that this dual cost-value philosophy is the underlying reason why we're doing well.

**One of the big questions is: How much more consolidation can take place in this industry?**

And what happens if/when you do the additional consolidation? Do you really get operating synergies in pressing together these big corporations? You know, if you go back in history to the '60s and look at the conglomerate era that took place in many industries, you find that the results were less than spectacular. You have to ask: Is there a basis to think that these mega-mergers can create a shift in the value-to-customer equation? And you have to remember that no one is buying these companies at book value, so that puts further pressure on the newly consolidated enterprise.

**We've talked about some of the problems facing control suppliers, but what about the end-user companies in the process industries? What are the chief problems they need to address?**

Well, the market situation has been somewhat spotty. I think activity in the oil and gas companies is starting to pick up, and the pharmaceutical industry has a pretty good pipeline of new products coming out. The chemical industry, from our perspective, is still struggling, and the paper industry is in a bit of a cyclical downturn right now. Electrical power generation has some good growth prospects—not necessarily the mega plants, but rather, the intermediate-size power stations that are needed to fill some short-term needs.

Overall, in the next eighteen months, the prospects for the processing industries will be up and down, depending upon the segment or segments in which you participate. The year 2002 appears to be shaping up as fairly similar to 2001 in terms of underlying growth possibilities.

A lot of process plants, however, are getting old,



***"The user companies are also taking the view that they can't be everything to everybody. They have to focus on their core skills."***

and some of the distributed control systems, for example, were installed in the 1980s. Many of the companies in these industries have gone through a similar version of the consolidation that we talked about with the supplier base, and they, too, have to improve their value delivered to their customers and their ROI position. A lot of them are now going back and asking: "Should we make a reinvestment in automation to drop our cost points?" They're also looking for ways to improve the productivity of their assets as a means to pay for the investments they've made.

***Is the end-user community more receptive these days to adopting newer technologies in an accelerated time frame? As you well know, traditionally control engineers have been very conservative when it comes to technology changes, and for some very good reasons.***

You still have the age-old phenomenon where the so-called technical evangelists jump on the bandwagon first. However, once these breakthrough projects are shown to be making their return targets and a number of the bigger corporations begin to adopt a new technology, the adoption rate goes up. And once their various competitors hear about it, the snowball begins to take effect. We've seen the beginning of the snowball effect with PlantWeb in recent months. Part of it is out of necessity. The user companies have to change the cost structure in a fundamental way. The old ways won't do it.

The user companies are also taking the view that they can't be everything to everybody. They have to focus on their core skills. In many cases, due to the downturns they've had in their businesses during the past five or so years, they have initiated reductions in force and are now more receptive to outsourcing certain activities—from design to support—than they were, say, three to five years ago.

They are going through the same thought processes that they did with the idea of outsourcing information technology [IT] in the early 1990s. They are asking, "Can we outsource certain parts of our process activities—maintenance, conceptual design, project justification, architectural design?" They are going through those types of questions in a lot more robust way than the flurry of activity that we saw just a few years ago.

***So you see outsourcing as a permanent trend, one that will only increase in the coming years?***

Yes, we have discussions going on with a number of customers who are basically saying, "We don't belong in the *instrument* business, you do. Here's the scope of work we'd like you to do. How can you marshal the resources to do it?"

***Basically, is this the type of thinking that was behind the new circuit board outsourcing agreement with ACT Manufacturing that your company recently announced?***

That's a good internal example. The thought process that we went through in deciding to outsource the manufacture of our printed circuit boards was the same thing that our customers are now asking of themselves and us. We had to decide what's strategic to us, and where our critical value add is.

If you go back in time twenty years or so, everybody in this business made their own boards and they did a lot of their own assembly. But the business is moving more and more to software and services. Circuit board production becomes a means to an end, not an end in itself.

We also recognized that we can't retain the same level of critical skills of a company that does board manufacturing as a business for, say, the telecoms market. The nature of the board production in our business is short-volume, high-complexity boards. So we said, strategically, we ought to be outsourcing this function, and that's what led to the ACT Manufacturing discussion. It's a great marriage.

The same type of thought process is going on today inside the management suite of, say, a pharmaceutical company. Management is telling its controls suppliers, "We have all of this instrumentation and it's very hard for us to stay current. The part that's really critical to us is how we validate that process—optimize our process knowledge, take advantage of prior work, keep teams together to execute projects, etc. For a project to be executed in the same fashion, whether it is done in China, in the northeastern portion of the U.S., or in Ireland is very tough, but can you bring your expertise to bear to allow us to do that, because you do these projects all the time—not just for us, but for other people."

I think that these skills-based marriage discussions are a growing trend. The difference between an alliance discussion of a few years ago and now is that the customers are looking at this as a strategic question, whereas a couple of years ago, they were looking at it from principally a cost-reduction perspective.

***Hopefully, end-user companies, as well as automation and controls suppliers, will be able to maintain this strategic focus in the face of profits that may be disappointing for a few more quarters. Without question, it's the best path to stronger, more resilient enterprises.***

***Thanks for your time, and the very best of luck with Emerson Process Management's new name and expanded vision.***