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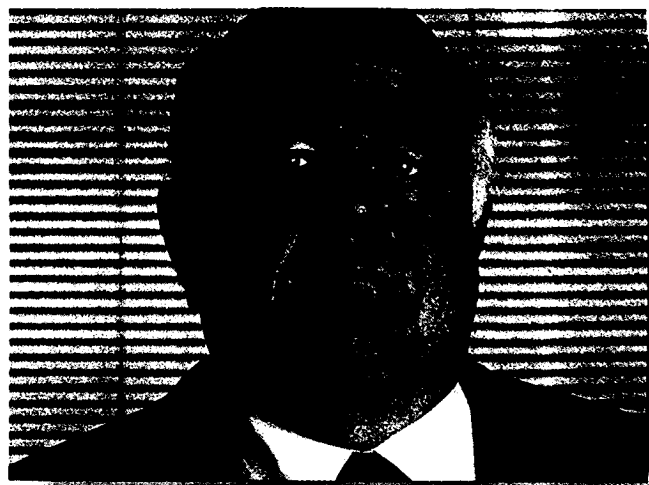
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BLIND AMBITION

Bausch & Lomb CEO Daniel Gill pushed hard for profits. To meet his goals, some managers played fast and loose with accounting principles and ethics. Here's how the relentless pursuit of results caused one company's culture to spin out of control.

BY MARK MAREMONT

PAGE 78



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Managers lived in fear of "Red Ball" day—named for red dots marking the end of fiscal quarters on B&L calendars

lion and nearly \$150 million, respectively—had more than tripled in a decade. B&L's shares had risen fivefold, to 58.

With success, Gill took on the trappings of a big-company executive. B&L bought a three-plane fleet and later erected a nicely appointed private terminal at the Rochester (N. Y.) airport. By 1989, Gill obtained a security consultant's report recommending that top B&L execs use the company fleet for all travel, including personal trips. B&L declines to comment.

Cover Story

Gill began using company planes to reach his home in Florida and a private fishing club in Canada; the value of such trips is included in his income. And Gill commissioned a sparkling new \$70 million headquarters building set to open this month.

B&L's new stature also meant big salary jumps for Gill, who took home \$362,000 in 1981, his first year as CEO. While shareholders did well, Gill did far better. In 1991, he pocketed \$6.5 million, an eighteenfold gain. That was followed by \$5.7 million in 1992. Although a fall in B&L's stock cut Gill's compensation to \$3.2 million in 1993, Gill still came out ahead of many peers. In an annual study comparing CEO pay at 424 large companies, executive pay consultant Graef Crystal found that even after adjusting for company size and shareholder returns, Gill earned more than double the market average. Because of B&L's earnings and stock-price drop in 1994, Gill received no bonus on top of his \$1.1 million salary that year.

B&L's problems were mounting by the early 1990s, though. Growth was slowing in the U.S. and Europe. Gill's strategy of moving beyond optics to a broader range of health products wasn't panning out: Several big acquisitions were either losing money or barely profitable. Ray-Bans were starting to lose cachet. And B&L was steadily losing market share in contact lenses to Johnson & Johnson, which had caught B&L sleeping when it pioneered disposable lenses in 1987.

NEW PACKAGING. From the last quarter of 1992 until early 1994, the dealmaking became frantic. To move Ray-Bans, the division tried one end-of-quarter promotion after another. At one point, says one big Ray-Ban distributor, "we had nine months' inventory. I bought extra insurance and sweated a lot at night." In Latin America, too, Perez-Gili says one late 1993 deal in which he loaded six months' worth of Ray-Bans onto a Chilean distributor was all too typical. Gill denies that such distributor-loading took place.

Nowhere did the situation get more out of hand than in the U.S. contact-lens division. Lacking a disposable lens to counter J&J, the unit tried a shortcut. Starting in 1989, it took the same lenses sold since the 1970s and repackaged them as the frequent-replacement Seequence 2 and Medalist brands. But while a pair of the older Optima lenses went for about \$70, the new brands went for as low as \$7.50.

When Optima consumers discovered that they were paying roughly 10 times more for the same product, the move backfired. Irate consumers have since filed a class action. "It was a real ripoff," says Tim P. Quinn, one Optima wearer who's suing B&L. "I was led to believe that they were the only lenses I could wear." B&L dismisses the suit, contending that pricing reflects volume discounts for buying more lenses per year.

"QUESTIONABLE." Meanwhile, the division was churning out new and ever-more-aggressive marketing promotions. One offered eye doctors 90-day payment terms and a 30% rebate if they took a large package of lenses. The division also had a habit of constantly rolling over unpaid bills so that customers wouldn't return unwanted goods for credit. "It was a total mess," says an ex-rep. "You needed a degree in physics to figure out the bills."

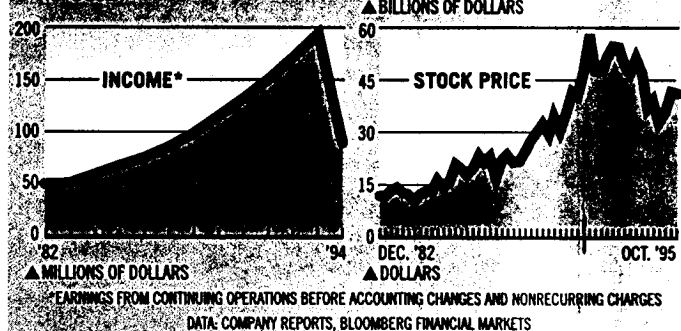
The pressure was immense. Sources say managers in one Northeast district ordered reps to simply ship packages worth \$1,600 to \$2,400 containing a new type of multifocal lens to every account that hadn't ordered any. "I was told it would be much better for my career to just ship the product into accounts," says one rep. All told, says another, several

hundred doctors were shipped lenses they didn't order, and the shipments were booked as sales. Accounting experts say booking unordered products as revenues apparently violates accounting standards. "It sounds wrong," says Alvin H. Carley, a longtime auditor with Coopers & Lybrand who is now an accounting professor at the Wharton School. Such transactions "appear to be questionable as valid sales."

The worst was yet to come. In mid-December, 1993, according to more than a dozen sources, Johnson called about 30 of B&L's U.S. distributors to a meeting. He told them they were expected to take huge new stocks of older Optima lenses—up to two years' worth—and he threatened to sever their distributorship ties if they refused. However, many distributors were assured verbally that they wouldn't have to pay for the lenses until they sold them. All but two agreed, allowing Johnson to book an extra \$23 million in sales in the final days of 1993. But not long into 1994, almost all of the unwanted multifocal lenses came back to B&L. And the distributors refused en masse to pay for the huge unwanted Optima inventories. Now, the division's actions are at the core of an SEC investigation into possible accounting irregularities.

Gill and other top B&L executives blame poorly executed marketing plans—and point the finger for the aggressive tactics squarely at Johnson. Although he approved the general strategy, Gill says he had no idea Johnson would ship all the goods in December. Moreover, after the 1993 fiasco, Gill says he discovered that the contact-lens managers "made the decision in April or May that they were going for a maximum bonus." Johnson calls that account "ludicrous." He says both Gill

Until Recently,
Steady Growth
Made B&L
A Wall Street
Star



...the 1990 events were hardly isolated. They were direct, though unintended, byproducts of a corporate culture gone badly awry. The investigation involved extensive interviews with more than 50 current and former executives, including representatives from numerous B&L divisions spread across the world.

Their tales provide a remarkably consistent picture: Driven by Gill's fierce insistence on achieving double-digit annual profit growth, B&L's managers by the early 1990s increasingly resorted to what was expedient—often at the expense of what constituted sound business practice or ethical behavior. They gave customers extraordinarily long payment terms, knowingly fed gray markets, and threatened to cut off dis-

tributors unless they took on huge quantities of unwanted products. Some also shipped goods before customers ordered them and booked the shipments as sales, a possible violation of recognized accounting practices. For a period, the compa-

ny also turned a blind eye to lucrative Latin American sales that may have indirectly

Cover Story

aided money laundering (page 92).

To be sure, B&L's performance-oriented ethos delivered outstanding results for many years. But by the early 1990s, when the company's markets slowed at the same time that

control measures such as receivables and inventories, you could miss your asset objectives by a mile and still get a big payday," says one former executive.

PANIC ATTACKS. Nowhere were the true corporate priorities clearer than in the weighting of Gill's own bonus plan: 30% depended on sales growth, 30% on earnings growth, and 30% on return on equity, another earnings-related measure.

Improvement in customer satisfaction rated just 10%. At that, Gill's pay structure differs little from most U.S. CEOs'.

At the same time, Gill rarely discussed specific actions that a division might take to rectify a shortfall. "Make the numbers, but don't do anything stupid," was a famous Gill line. Many executives say they read the message differently. "I'd walk away saying, 'I'd be stupid not to make the numbers,'" says one ex-marketing executive.

The signals sent from the top led some to cut corners, several former managers say. Some divisional presidents, they say, began using tactics that were costly for the company but which maximized their own bonuses. One favorite was extending unusually long credit terms to customers in exchange for big orders. And believing their careers were on the line every quarter, B&L managers also lived in fear of "Red Ball" day. It was so named because of the red dot that marked

RISING STAR. B&L's intense focus on the bottom line and quarterly results is hardly unique: Many of Corporate America's most successful companies share similar goals. Good managers attempt to balance that orientation with effective controls and compensation plans that also reward practices that pay off in the longer term. B&L's saga shows what happens when those countervailing forces aren't strong enough. "People spend their time trying to figure out what kind of game to play to make the numbers, not how to satisfy the customer or save money," says John P. Kotter, a Harvard business school professor. "The tendency is for people to step over lots of lines."

When Dan Gill came to Bausch & Lomb in 1978 to head its fast-growing soft contact-lens division, the stodgy manufacturer of optical equipment, eyeglass lenses, and contact lenses had just \$442 million in revenues. Gill, a rising star from