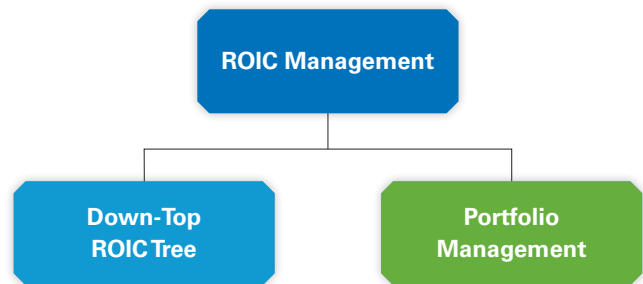# ROIC Management

ROIC management consists of Down-Top ROIC Tree and Portfolio Management.
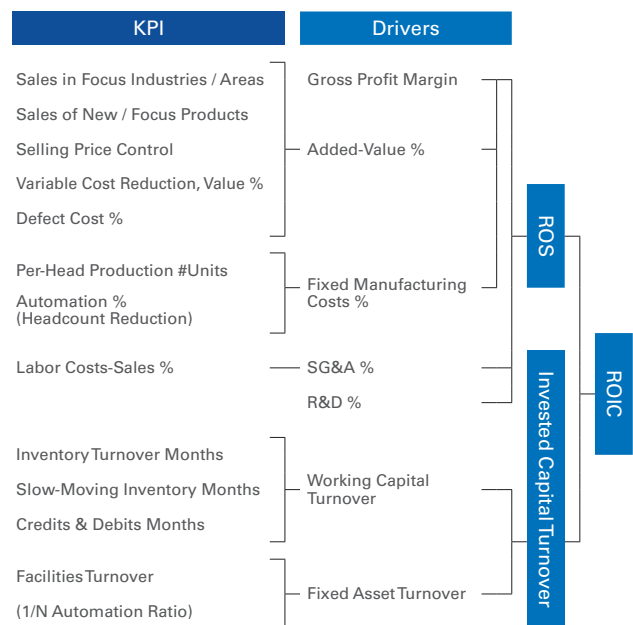OMRON encompasses a number of business divisions with varied characteristics. We believe ROIC is an excellent measure for assessing business performance fairly for each business. Using operating income or operating income margin as an indicator doesn't account for variances due to the nature or scope of a business. ROIC, on the other hand, measures return on invested capital, providing a fair assessment.

```
                    ROIC Management
                           |
          ┌────────────────┴────────────────┐
     Down-Top                          Portfolio
     ROIC Tree                         Management
```

Down-Top ROIC Tree

Down-Top ROIC Tree breaks ROIC into key performance indicators for each department, allowing us to improve ROIC at the most basic operating level. Using simple ROS or invested capital turnover as ROIC indicators are ineffective, since they do not relate directly to front-line operations. On-site managers would have trouble thinking of ways to improve ROIC using these indicators. However, we can break ROIC down into automation/head count reduction or facilities turnover as KPIs of manufacturing departments. With these indicators, managers can finally see how their goals tie directly to ROIC improvement initiatives. At OMRON, one of our greatest strengths is our unified approach to improving ROIC from the ground level up.

■ **Down-Top ROIC Tree**

KPI	Drivers
Sales in Focus Industries / Areas	Gross Profit Margin
Sales of New / Focus Products	
Selling Price Control	Added-Value %
Variable Cost Reduction, Value %	
Defect Cost %	
Per-Head Production #Units	Fixed Manufacturing Costs %
Automation % (Headcount Reduction)	
Labor Costs-Sales %	SG&A %
	R&D %
Inventory Turnover Months	Working Capital Turnover
Slow-Moving Inventory Months	
Credits & Debits Months	
Facilities Turnover (1/N Automation Ratio)	Fixed Asset Turnover

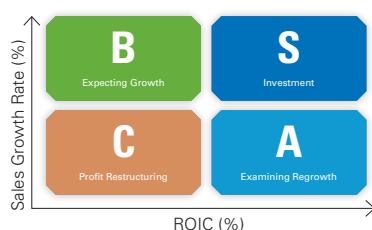ROS · Invested Capital Turnover · ROIC

Portfolio Management

OMRON consists of approximately 60 business units, each subject to a portfolio management system that assesses the economic value of the unit according to (1) ROIC and (2) sales growth rate. In this way, OMRON management can make proper and timely decisions related to new business entry, growth acceleration, restructuring, or divestiture to drive improvements in OMRON Group value.
We consider both the economic value and the market competitiveness of a business to allocate limited resources in an optimal manner. This assessment system allows us to identify the growth potential of each business unit, making an optimal allocation of our resources.

■ **Assessing Economic Value**

Sales Growth Rate (%)

B Expecting Growth	S Investment
C Profit Restructuring	A Examining Regrowth

ROIC (%)

■ **Assessing Competitiveness**

Market Growth Rate (%)

B	S
C	A

Market Share (%)