

A Leading TEAM

Charting a Course for the Future

After nine months of silence, the Osmonics team emerges renewed and ready for a future full of success.

Ask Edward Fierko what his highest aspirations are, and he will tell you "to be the highest quality, reliable supplier with a loyal customer base in the industry." How he strives for that is a secret best kept within the confines of Osmonics' walls. However, Fierko will reveal that customer service combined with a high quality product and a tap into hot markets are what drives his business strategies.

Almost three years ago Fierko shifted his career as president and chief executive officer of EcoWater International, Inc., a member of the Marmon Group, to becoming vice president and general manager of Osmonics' control, valve and standard equipment businesses. After just one year, Fierko gladly accepted the position of president and chief operating officer of Osmonics, which is the role he currently occupies.

Fierko brings with him many lessons learned from his various experiences. He spent more than 10 years at EcoWater and prior to that he spent 23 years in various management positions at General Electric Co. Fierko also served as president of the Water Quality Association. Perhaps one of his strongest skills is the rebuilding and development of company strategies, which will inevitably bring Osmonics back from its nine month silence from the marketing arena last year.

Only Some Silence is Golden

Osmonics' "valleys" have not been something the company or its representatives can hide. Anyone who keeps his eyes on the stock market knows that Osmonics' stock did drop last year. However, the company did increase its organic growth in the third quarter, which would somewhat offset revenue lost from discontinued product lines and foreign currency devaluations. More specifically, year-to-date sales for

the nine months ending Sept. 30, 2000, were \$147.3 million, an increase of 6.8 percent compared to \$137.9 million for the corresponding period in 1999. Year-to-date net income was \$4.5 million compared to \$5.2 million for 1999. Earnings per share, on a fully diluted basis, for the same nine months were \$0.31 compared to \$0.36 for 1999.

"All water treatment stocks have been under a downward pressure for the last three years or so," Fierko says. "Osmonics' profit performance declined steadily from 1997 to a loss position in 1998 to a small profit in 1999 to currently a much more reasonable level. I can't discuss where it will be for the year, but we're hopeful the market will recognize that the program and the strategy we've put together will deliver shareholder value, and shareholders and investors will look at Osmonics as a good investment."

In addition, Osmonics received a little bad press when it was given a warning from the FDA regarding equipment Osmonics acquired from another company. That company had reported a malfunction of a dialysis machine on a cart. The cart had a wheel fall off when it stuck while crossing an elevator opening. The nurse grabbed the machine so it wouldn't fall and she suffered minor injury. The company that Osmonics acquired had reported it as an *event*. However, the FDA requires reporting a *malfunction* in the case of an injury. Osmonics cleared up the paperwork last year and the misreported incident resulted in the company's careful attention to its reporting methods.

In the past five or six years, Osmonics aggressively purchased and acquired approximately six companies, according to Fierko. With these acquisitions came new markets as well as a new technology base. "In any type of acquisition strategy

there comes a time when you have to stand back and rationalize those acquisitions from the standpoint of did they create redundant overheads or redundant manufacturing capacity or capability?" he says. "And that is what we have been doing for the last year or so in looking at our total company and focusing our business into three very specific markets."

With these changes followed the closing of some plants that created redundant business and that were "not needed to face the market realities that the new plan and marketing direction dictated," he says.

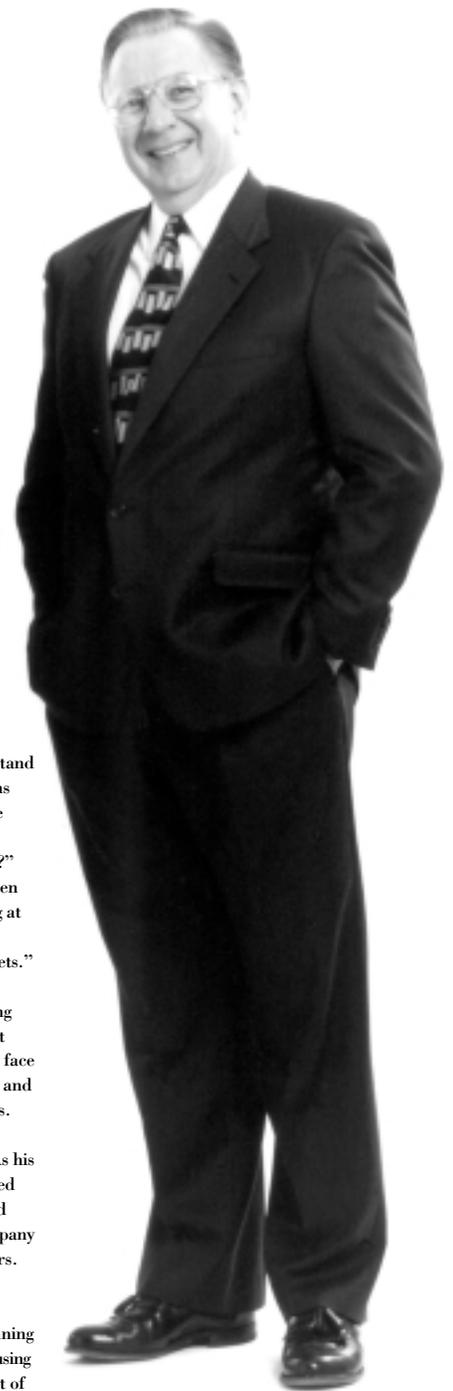
Fierko knew it was time for change. As his only chance for recovery, Fierko pulled Osmonics from any media activity and focused on the interworkings of the company while it continued serving its customers.

Making Up for Lost Time

The silence brought forth a new beginning for Osmonics. "As a result of that refocusing strategic exercise, we decided to divest of some product lines and businesses that don't fit our three market segmentation," Fierko says. The three markets include filtration and separation, process water and household water treatment. By having each segment, the company has clear goals on where research and development and resources should be directed. Each of these businesses interacts with the others. "Some technologies for household treatment or membrane technology are the same technologies we sell to an industrial user except that it has a little different configuration and it has lower performance criteria," Fierko explains. The Household Water Group, formed to focus solely on the residential and light commercial water treatment reseller, is where the company will focus much of its energies. Fierko sees that segment as the fastest growing market.

Also, Osmonics will place emphasis on the filtration and separations business. But that's not to say the large process water market will be ignored. That market alone sees growth from 6 to 10 percent per year, according to Fierko. The filtration and membranes products are planned to be the strength of the company. "The reason is we are basic in research and development for those products," Fierko explains. "We will continue to invest in and develop new capabilities and continue the replacement business."

With the three segments of the company clearly defined, Fierko realizes he must let Osmonics' customers and potential customers know that it is still in the game. With the addition of a new public relations firm, Fierko focuses on heightening his



public relations presence. "We will maintain dialog with the press and various publications and news organizations within and outside the industry."

Core Competencies

"Core competencies are your unfair competitive advantage," states Fierko. "In other words, what you do better in the industry that many competitors don't do."

The list of strengths Osmonics can boast is quite long. However, Fierko breaks the list into three main core competencies: fundamental research and development, integrated manufacturing and scope of supply.

One of Osmonics' focuses is its research and development of new membranes and new filtration media. As a fluid solutions company, Osmonics actually speaks with its customers that have the need to improve water and then it can design the system for him. "Many of our competitors compete on the basis of the customer telling them exactly what he needs and specifying exactly the product that is needed," Fierko explains. "We can go in and actually design the system to the customer's needs because a lot of times the customer may not know what he is looking for."

As an integrated manufacturer, Osmonics is able to manufacture components and operating elements that go into its products, which results in high performance levels that meet Osmonics' quality standards. "Some manufacturers buy components from several sources and then have to develop a reliable quality standard," Fierko says. "As a result, it provides us the ability to respond to customer needs because we can align our factories to serve the customer."

The final core competency is the scope of supply. What this means is in addition to serving traditional channels, Osmonics offers its well-recognized components to other manufacturers in the industry.

Jumping Over the Hurdles

Probably the hardest part of anyone's job is overcoming the various challenges that emerge, and Fierko's job is no different. He is required to get the company aligned to meet and serve the needs of all three market segments. He has faced the challenge of pulling together a diverse number of cultures, companies and management styles while serving the customer. "Over a period of time, the company has developed many different cultures due to its acquisitions," Fierko says. "It's my job to become the number one cheerleader and communicate to each employee over and over again 'here's how well you are doing, and here's how well you need to be doing.'"

The industry challenge he faces is that his competitors also are doing all of that. "So, my biggest challenge is speed and how fast I can get it all done," he laughs. He also makes sure to overestimate competitor's capabilities, and that is what drives him ahead.

The Future is Waiting

Osmonics' has four main goals.

- **Improving customer service.** Fierko's number one goal is to improve customer service. Having the unique opportunity of being one of Osmonics' biggest customers in his previous role, gave him a first-hand look at the company's weakest and strongest points.

Each quarter, Fierko performs reviews where he speaks to employees about performance with the main topic being customer service. "Tied in to customer service is the ability to deliver the product when the customer expects it," he says. "Being reliable is how we service the customer in selling to him, taking care of his questions and needs and providing him with the technical information he requires."

Also, the company took its two sales forces and broke them down into six

to sell to specific markets and create a sales force with better technical expertise and a high degree of focus on the customer.

- **Renewing organic growth.** Currently, Osmonics is experiencing approximately 6 percent organic growth, which is the first it has experienced in the last three years.
- **Instilling the culture of continuous improvement.** This objective is instilled to improve cost position. Osmonics has a goal of 6 percent annual productivity improvement, which was exceeded this year.
- **Reinvesting in its competencies.** Reinvesting includes improving manufacturing capabilities, expanding basic technology and the ability to serve customers.

The Internet Marketplace

Of course, the largest trend of most companies is the shift to the Internet. Some companies are successful and some fail rather quickly. Osmonics is in the process of redesigning its website. Its goal is to move into using the Internet as a mechanism to communicate on a more timely basis with customers.

Its recent accomplishment with its site has been expanding its capability to allow customers to view their orders online. "We now want to move ourselves forward into the area of customer service by going to B2B in allowing distributors and partners to purchase products over the Internet," Fierko states.

Although Fierko sees the Internet as an increasing part of his business as well as for the industry as a whole, he keeps in mind that the goal is to support and strengthen existing channels to market.

Global Expansion

Thirty-three percent of Osmonics' sales are outside the United States in areas

such as Europe, Africa and the Middle East, among others. Fierko looks at global markets and develops product strategies accordingly. "We need products that can be taken to the far points of the world and enjoy growth worldwide," he says. "They also provide a counter balance because different markets move in economic cycles. We need to offset the slow down in Europe with the Asia Pacific growth."

He also says that other European competitors seem able to access the U.S. market more easily than U.S. companies can reach European markets. As places such as China, Latin America and South America begin developing their own water purification technologies, Fierko feels they will look to American companies for filters, membranes, etc. "That leaves us with two challenges. We have to stay ahead of the maturity curve of our products and continue to develop newer products and technology and bring increased performance and benefits into developing countries," he says.

In the end, Fierko hopes Osmonics will be many things to many people. To the distributors, he envisions full partnerships even in post sales. To the end user, he envisions being the supplier that they can entrust their industrial plants, dialysis clinics, research laboratories and in-home treatment products to. To customers, he envisions a strong customer loyalty developed from a superior customer service track that improves speed and accuracy so customers can rely on the company.

Overall, Osmonics is alive and well. "We have gone through a serious reexamination of our business to the very fundamental core of our beliefs that we hold," Fierko concludes. "We are going to be a formidable supplier to the industry with a very significant single emphasis on serving the customer. And that's my message." **WQP**