

COMPAQ

S E R V I C E S



A New Beginning

COMPAQ Services: A New Beginning

June 12, 1998

Dear Services Colleagues,

Communicate, communicate, communicate.

This is the message to organizations when they embark upon significant change. I am pleased to provide you with this "*Compaq Services: A New Beginning*" *Communication Kit*. The purpose of this kit is to help prepare you for the Services integration work which is now underway. This kit also includes materials about the new Compaq Services strategy which will better equip you to participate in and support your GEO team in local integration and communication efforts.

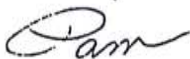
During times of change, we know that people are searching for answers and information about their jobs, the direction of the company, their career paths, and their futures. The new Compaq strategy and the Compaq Services strategy provide exciting opportunities for IT Services professionals. The materials in this kit will help you begin to present this story to your employees.

Over the next two months, additional information about the integration transition will become available. It is our intention to keep you informed in a timely fashion through management teleconference calls, memos, web sites, and communication packages similar to this one.

Please understand the "dynamic" nature of this package. It is our intent to provide you with timely information to help address your immediate employee and customer communication needs. The information included in this package is subject to change, and will evolve over time.

If you have questions or comments on the contents of this kit, please do not hesitate to contact me at 978-496-9839. Also, if you have ideas or recommendations on how to improve future communications, please let me know.

Best Regards,



Pam Kenney
Director, Change Management Programs
Compaq Services

TABLE OF CONTENTS

The materials in this kit will help you to create a context for initiating employee discussion and dialogue around the Compaq Services strategic direction and to provide some practical first steps in leading your local integration work.

MANAGEMENT OPERATIONS..... TAB 1

- Compaq Services Strategy and Operating Model Overview, June 1998 – This overview provides initial information to help managers develop an understanding of the future direction of Compaq Services.
- “Compaq Services: A New Beginning” – This section provides presentation materials which may be used during the employee engagement sessions.
- ROIC Guide – This section provides an overview of ROIC (Return On Invested Capital), an important measurement in planning, budgeting, and reporting in Compaq.
- Building a Common Language – This section defines some commonly used terms within the Services Division. Creating a common language is a step towards building a common culture.
- Organizational Fit Model – This section provides an overview of the Fit Model and how it is used as a tool to design organizations that support the business strategy.

EMPLOYEE ENGAGEMENT..... TAB 2

- Facilitator Guide – This section provides facilitators with suggestions for delivering communications and employee engagement sessions.
- “First in New Breed...” – This presentation provides slides that can be used at employee meetings.

EMPLOYEE HANDOUTS..... TAB 3

- Employee Handouts – This section provides handouts and key messages to inform, engage, and excite our Compaq Services employees. Handouts include:
 - Building a Common Language
 - Merger References and Resources
 - The Services Agenda (10 copies)

SERVICES MESSAGES TAB 4

- The Services Agenda – This card contains key messages for customers, partners, employees, press and analysts, and all of our shareholders.
- “First in a New Breed of IT Service Providers” – This presentation provides slides that can be used at various meetings.

MERGER TIPS TAB 5

- Tips for Managing During a Merger – This guide provides tips and tools for managing change during mergers and acquisitions.
- Change Management Tools – This guide provides information about some of the quality tools that are used to improve work production, efficiency, and effectiveness.

NEXT STEPS TAB 6

- What you can expect next from your Business Unit, long-term communication plans, cultural change initiative, and additional Compaq Services Division information.

PROCESS CYCLE

PURPOSE

The purpose of this kit is to equip managers with the new Compaq Services strategy, communication guidelines and change management tools to assist in the implementation of the new Compaq Services organization.

RESULTS

Intended results of the kit include:

- Managers are able to articulate the Compaq Services strategic direction and have a better understanding of how it impacts the new Compaq.
- Managers are better prepared to manage their business through the early stages of transition.
- Managers have tools to engage their employees in the new strategic direction for Services.

STEPS

1. Review materials provided with this communications kit.
2. Seek clarification and support needed to inform and engage employees.
3. Engage the leadership team using materials contained in this kit.
4. Develop a plan to engage all employees, particularly customer-facing employees, with key messages.
5. Begin the engagement process.
6. Provide updated information as it becomes available.

CAPABILITIES

Capabilities include:

- Accurate, timely information.
- Support resources to plan and conduct employee engagement sessions.

FEEDBACK

Please complete the enclosed feedback form regarding the effectiveness of the material provided in this kit.

FEEDBACK FORM

The Services Change Management Program Office is committed to the process of continuous improvement of internal communications and change management materials. Please take a moment to complete this form and mail it to:

Pam Kenney, Director, Change Management Programs
Compaq Services
OGO1-2/H11
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Stow, MA USA 01775-1215
978-496-9839

1. How effective was this Kit in helping you to articulate the Compaq Services strategic direction?

Most effective

Least effective

5 4 3 2 1

2. How effective was this Kit in preparing you to manage your business through the early stages of transition?

Most effective

Least effective

5 4 3 2 1

3. How effective was this Kit in providing the tools to engage employees in the strategic direction of Compaq Services?

Most effective

Least effective

5 4 3 2 1

4. What were the strengths and weaknesses of this Kit?

5. What recommendations do you have regarding communications and tools to help you manage and engage employees during this time of change?

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Compaq Services

Strategy & Operating Model Overview

June 1998

The purpose of this overview is to support Compaq Services' newly-appointed managers in leading the rapid implementation of Compaq-Tandem-DIGITAL Services integration, and enabling the beginning of operations as Compaq Services on July 1.

The overview provides initial information to help managers develop an understanding of the future direction of Compaq Services, and begin to prioritize and mobilize the integration work in their local geography. The content is based on the Services integration planning work done in the pre-merger environment. Further development and refinement of implementation guidelines, recommendations and policies is ongoing work that will be driven by the new Compaq Services Business Units.

Compaq Services

Strategy & Operating Model Overview

<u>Contents</u>	<u>Page</u>
1.0 Services Vision and Strategy	
1.1 What Services Will Do for Compaq	3
1.2 Services Vision	3
1.3 Services Differentaition Themes	3
1.4 Goals	4
1.5 Services Portfolio	5
1.6 Key Strategies	6
1.7 Target Solution Segments	8
1.8 Go-To-Market Model	9
1.9 Channels Rules of Engagement	10
2.0 Services Operating Model	
2.1 The Work of Compaq Services	11
2.1.1 Services Business Units	
- Support and Availability Services	11
- Systems Integration Services	15
- Operation Management Services	18
2.1.2 Direct Sales Model	20
2.1.3 The Opportunity Roadmap Model	23
2.1.4 Marketing Model	24
2.2 Structure	
2.2.1 Services Organization	25
2.2.2 Compaq Geographies-Services Operating Model	25
2.3 People	
2.3.1 Human Resource Management Model	28
2.4 Decision-Making & Information	
2.4.1 PARB Process for Customer Bids	28
2.4.2 Compaq Geo Managers and Services Decisions	28
2.5 Rewards and Recognition	
2.5.1 Compaq Services Balanced Scorecard	29

1. Services Vision & Strategy

1.1 What Services will Do for Compaq

- Leverage server sales into the enterprise market
- Provide ongoing account presence and loyalty
- Ensure support service excellence for all Compaq products
- Generate significant growth, profit, cash flow and ROIC (Return On Invested Capital)

1.2 Services Vision

Compaq Services will be the most respected Tier-1 services provider in the industry by 2002.

Compaq Services and its comprehensive network of channel partners will be recognized for:

- making open, standard technologies and solutions safe for the enterprise, smaller businesses and consumers
- being the worldwide leader in services for interconnected computing infrastructures.

1.3 Services Differentiation Themes

- Customer Empowerment -- We provide the customer with open systems and open services, providing them with flexibility throughout the life cycle
- Customer Choice -- Unlike IBM or HP, we offer customers choice in who delivers their services -- our own organization, or our customer's trusted partner from the Compaq Service Channel Partner Network
- Fastest Time to Solution -- Leveraging the most comprehensive service methods, tools and training in the industry, we provide our customers with the fastest time to solution
- Depth & Breadth of Expertise -- Our Service Professionals deliver leading edge capability and experience worldwide
- Availability Leader-- No provider brings more experience or capability in ensuring the highest availability and performance for all computing environments
- Enterprise Architecture Leader -- We are the leader in providing scalability and interoperability for networked computing infrastructures
- Internets 'R' Us -- We focus on solutions for the interconnected computing world with leadership in secure intra- and inter-enterprise commerce and communications

1.4 Goals

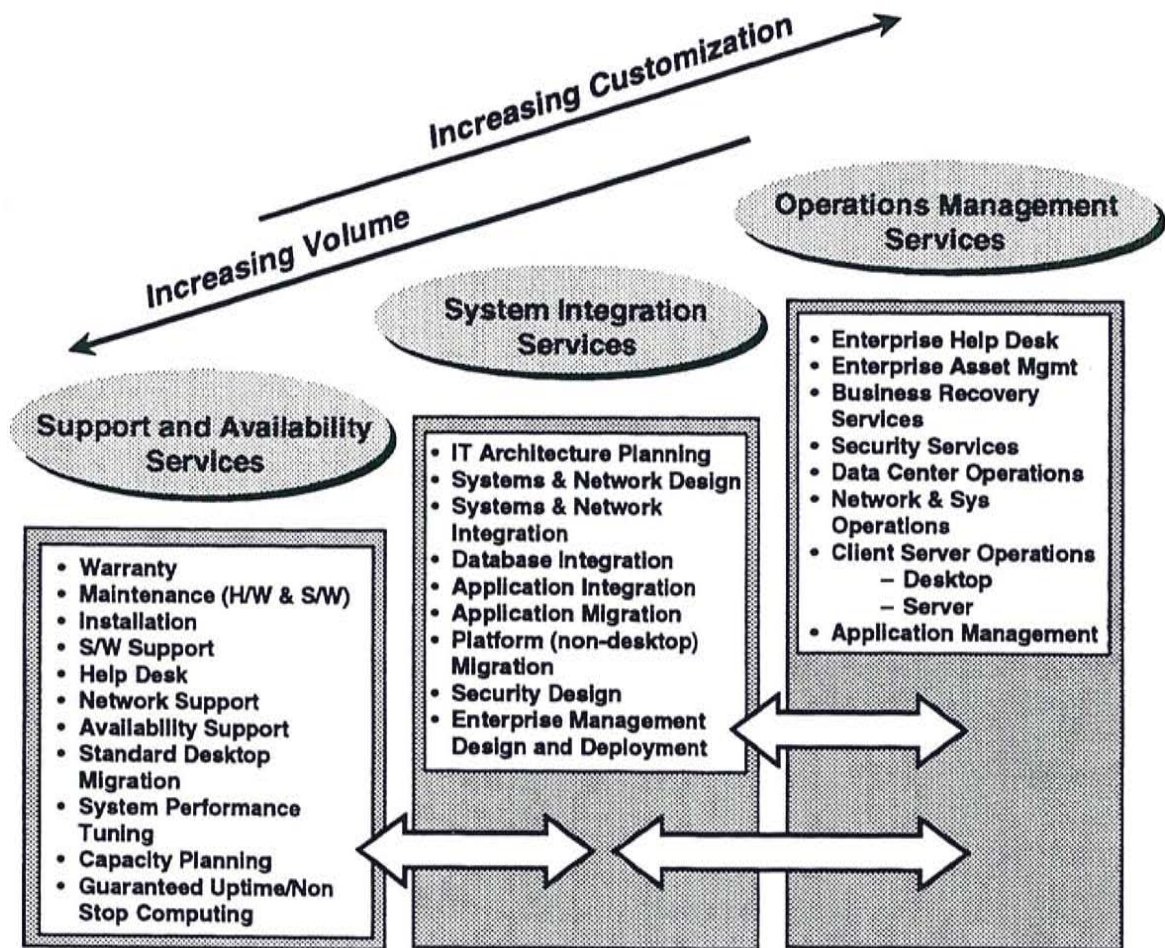
Our Goal Is to Become a \$15 Billion IT Services Business by 2002

We will create a new breed of IT Services provider that will:

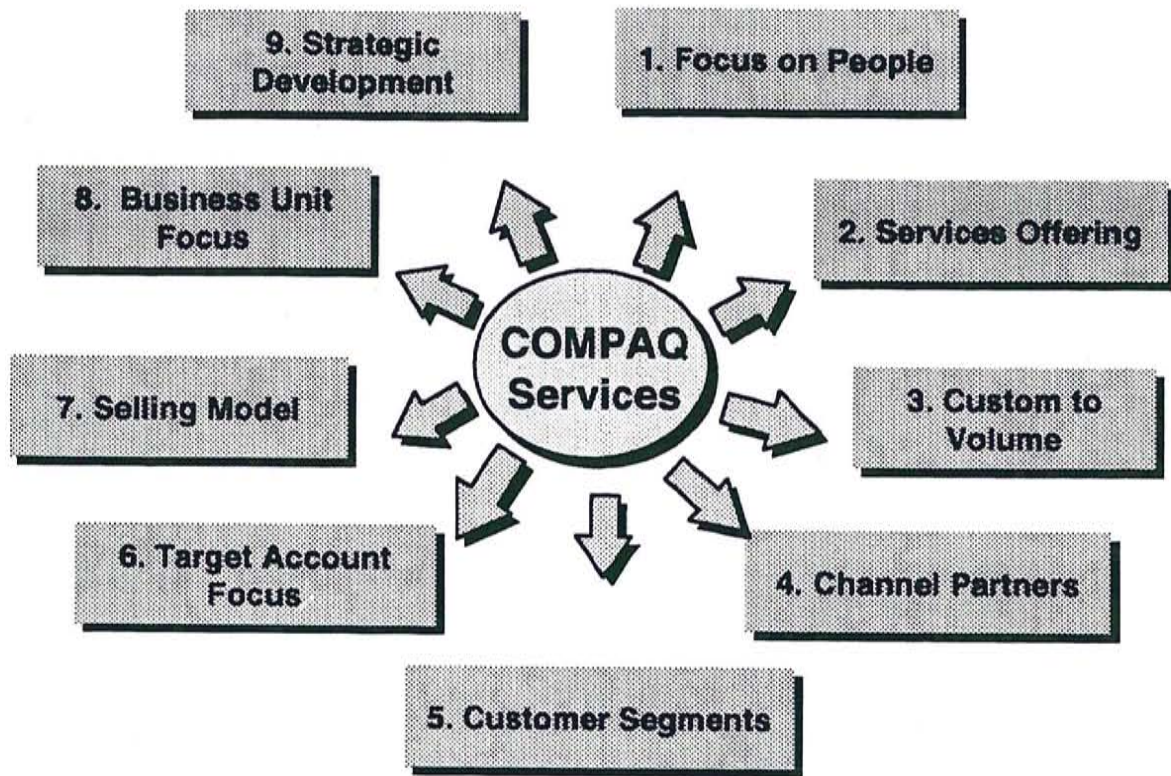
- Grow revenue faster than the market
- Be recognized as the one of the best IT Services organizations to work for
- Have the greatest number of trained engineers in our focus areas
- Have the highest customer loyalty ratings for our top 1000 accounts
- Operate with the most comprehensive network of channel service partners
- Be recognized as a thought leader in the markets we serve
- Attain leadership market share in our top 1000 accounts for targeted service solutions and support services
- Attain leadership in application of services technology, especially for channel partner support
- Deliver exceptional ROIC to the Corporation

1.5 Services Portfolio

Compaq Services will offer a comprehensive portfolio of I.T. services to meet customer needs. Services offerings will address the full range of customer requirements from highly customized solutions through to high quality, standard services delivered efficiently in large volumes.



1.6 Key Strategies



- 1) **Focus on People** - Our strategy includes programs to attract, retain and develop our people to ensure that Compaq Services will have the industry's best workforce. Programs will include rotation and career development of people across Services business units.
- 2) **Services Offerings** will include designing, building, implementing, supporting and operating information technology environments with a focus on:
 - Technology architecture
 - Infrastructure solutions
 - Selected industry solutions
 - Business Critical support
 - WNT, UNIX, Internet and installed base environments
- 3) **Custom-to-Volume** Model will be employed to rapidly standardize services to achieve high volume business
 - Beginning with custom services driven to standard...
 - then to channels...
 - then to internet or product features
- 4) **Channel Partners** leverage model will be employed to greatly expand Compaq Services' reach and provide:

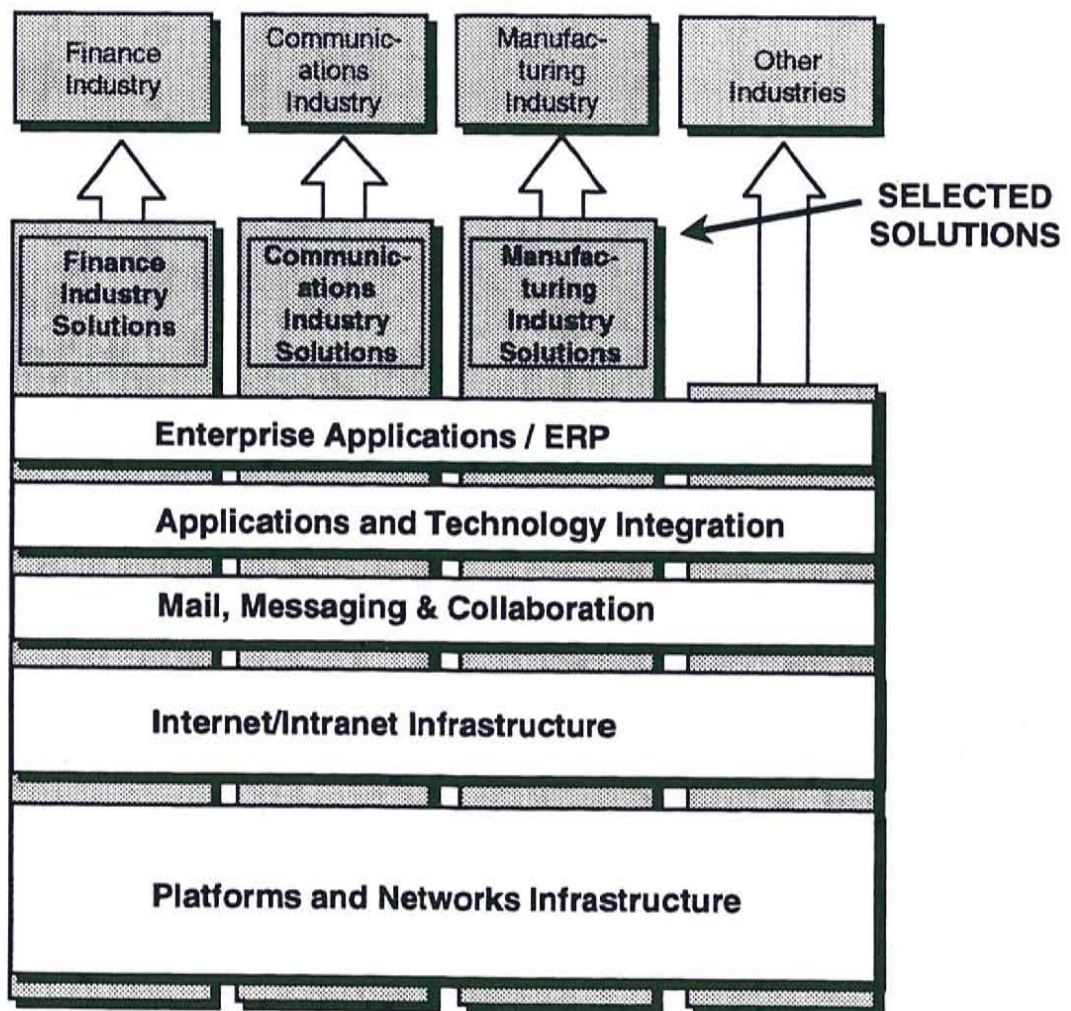
- Incremental revenue & profit opportunity for Compaq
 - Incremental revenue & profit opportunity for Channel Partners and less channel conflict
 - Greater service choice for customers with Compaq accountability
- 5) **Customer Segments** will include Large Enterprises, Small-to-Medium size Businesses, Small Office/Home Office and Consumers
- 6) **Target Account Focus** - For the named Large Accounts, Compaq Services will address the service opportunity directly for both the installed base and new product sales
- Partners will be used to complement the capabilities of Compaq Services
 - For other large enterprises, Compaq will provide solutions and services in its focus areas through and together with its partners
- 7) **Selling Model** will include direct coverage and channel support Unified product and services account teams under a single account executive
- Extensive channel sales support will drive wide coverage with strict rules of engagement
- 8) **Business Unit Focus**
- Operations Management Services will grow aggressively
- Drives the upside opportunity in the revenue goals
 - Provides account control
 - Leverages future product and services sales
- Systems Integration Services will grow at greater than industry averages in focus areas
- Premier provider of technology architecture and infrastructure solutions
 - Industry solution focus on financial services, communications, and manufacturing through repeatable software and high Compaq product and service content
- Support and Availability Services will focus on multivendor support to accounts with significant Compaq hardware presence
- Will include alliances with software vendors and network product companies
 - Will not include alliances with hardware systems vendors
 - Will not pursue multivendor support opportunities in accounts with no Compaq presence
- 9) **Strategic Development** - The growth strategy will include strategic development thrusts through acquisitions and joint-ventures for targeted strategic capabilities as well as for rapidly growing resource needs in targeted geographies

1.7 Target Solution Segments

Compaq Services will capitalize on strengths and exceptional service capabilities in:

- Technology architecture
- Infrastructure solutions
- Selected industry solutions
- Business Critical support
- WNT, UNIX, Internet and installed base environments

and concentrate on targeted horizontal and selected vertical solution segments in concert with the overall Compaq Volume-Infrastructure-Vertical Solutions strategy.



1.8 Go-to-market Model

In alignment with Compaq's customer segmentation, Compaq Services will address the following customer types:

- "Named" Large Enterprises which are identified in advance
- Other, "Un-named" Large Enterprises
- Small and Medium size businesses
- Consumers and Small Office/ Home Office customers

Compaq Services will go to market by offering services to these customer types directly or indirectly with channels, as indicated in the chart below. Channel partners will play a major role in reaching significant markets for service. Three factors will guide Compaq Services in deciding whether to pursue business directly or with a partner:

1. Size and type of customer
2. Solution type and technology
3. Geography strategy and service capability

		<i>Customer Types</i>			
<i>Service Type</i>		Consumer/ SOHO	SMB	Un-Named Large	Named Large
Support and Availability	Operations Management		Channel Support Only	Direct, for Target Solutions	
	Systems Integration				
	Mission Critical		Direct Transitioning to Hybrid		Direct
	Mission Sensitive	Direct Transitioning to Indirect			
	Value-Add	Indirect Model			Sub-contract Model
	Warranty	Shared Model - Based on Customer and Channel Performance			

1.9 Channels Rules of Engagement

Clear rules of engagement with the channels are key enablers for building true service relationships.

Code of Conduct:

- Compaq will operate in a consistent, predictable and fair manner with its partners (regardless of size) with regard to pricing, information disclosure, and subcontracting
- Compaq will quote Direct if customer requires vendor accountability as an important principle for purchasing hardware products
- Compaq will consider a channel partner as a competitor if the partner is not promoting Compaq products or services
- Compaq will respect incumbent channel position within each account and will disclose intentions to bid separately in advance
- Compaq will subcontract based on merit, customer satisfaction, and fair distribution of work

2. Services Operating Model

2.1 The Work of Compaq Services

2.1.1 Services Business Units

2.1.1.1 Support and Availability Services Business Unit

Support and Availability Services Business Unit	
Service Areas	Warranty, Maintenance, High Availability and Business Critical Services
Revenue	US\$ 4 Billion
People	20,000
Structure	By geography with worldwide functional leaders, presence in over 130 countries
Characteristics	Global service menu and infrastructure, distributed general management, "whatever it takes" for customers

Key integration strategies:

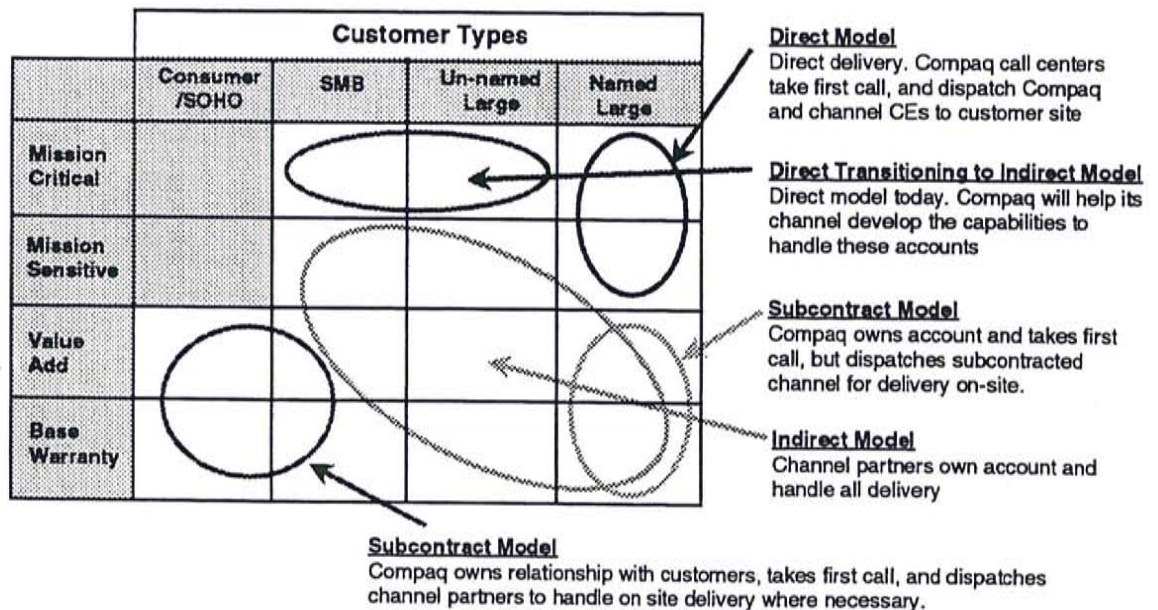
On-site Delivery Strategies

- Utilize the current Digital MCS model as the basis for the new combined Services organization because it has critical mass and is successful, while maintaining the specialized knowledge and capability of Tandem and Compaq
- Minimize impact to existing customers by not changing individual contributor and first level managers' roles and responsibilities
- Senior General Management and P&L responsibility will begin at the second level of management in the organization
- There will be delivery support for direct, indirect, channels, and partners as part of the On-Site Delivery management structure. This will be operationally focused and will supplement the other parts of the delivery structure

Channel Service Offerings

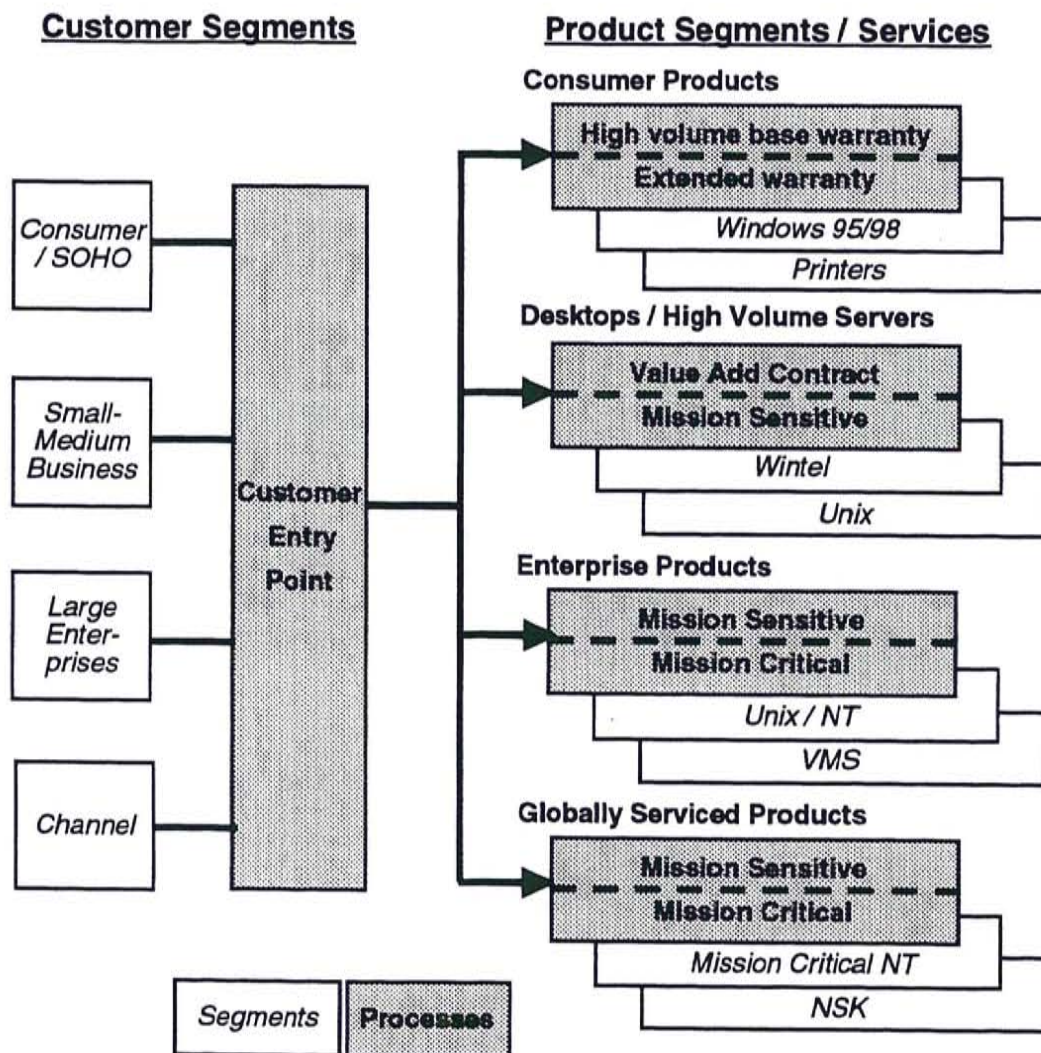
Customer Types					Global Competency	Response Level	Service Examples
	Consumer /SOHO	SMB	Un-named Large	Named Large		<ul style="list-style-type: none"> 1 hour response, guaranteed fix 99.9... % uptime Dedicated Support Team 	<ul style="list-style-type: none"> NT Cluster Installation & Set-up High Availability Planning
Mission Critical		Bid/Win				<ul style="list-style-type: none"> 4 hour response 24 x 7 w/6-8 hr fix Shared Support Team 	<ul style="list-style-type: none"> NT Migration Services Exchange Installation Internet/Intranet Integration
Mission Sensitive		Packaged & Bid/Win				<ul style="list-style-type: none"> 9 x 5 on-site support ND/SD Chargeable incident options 	<ul style="list-style-type: none"> Hardware Installation NOS Installation & Set-up
Value Add	Packaged					<ul style="list-style-type: none"> 1 to 3 years coverage RTD - NBD on-site Upgradeable & extendable 	
Base Warranty	Packaged						

Channel Service Delivery Strategy



Call Centers Model

- Organize customer-facing processes based on customer segment
- Segment call center service delivery organization between Consumer, Desktop & High volume server, Enterprise and Globally-serviced products within the Geographies
- Deliver differentiated service levels within product segments based on entitlement
- Organize by product type within the call center
- Co-locate support for multiple products within call centers, but report on a product, not physical site basis
- Low-volume, high complexity products will be managed globally



Logistics Strategies

- Focus the logistics organization on core competencies needed to support Compaq Services; outsource non-core competency activities
- Fully integrate and standardize worldwide processes and systems to optimize performance, allowing for geographical differences on an exception basis
- Create an integrated supply chain that caters to the unique business requirements of our different business segments
- Centralize activities where we can leverage economies of scale and develop specialized expertise, decentralize activities that require geographic or customer specific knowledge
- Make extensive use of vendor fulfillment centers, vendors responsible for effective commodity repair at Geo level
- Provide a logistics capability that our channel can leverage
- Sell logistics services as part of business unit offerings, not as independent logistics offerings - business unit driven logistics
- Software distribution will transfer from manufacturing to the Services Division

Warranty Management

- Warranty will be segmented and run as a break-even operating model in service
- Warranty is a product attribute, defined by the product groups during the development plan of record process, supported by the worldwide Sales and Marketing Group
- Product Groups will define warranty terms and conditions for their products, based on a set of competitive warranty service capabilities and costs defined by Services
- Product Division is responsible for product quality/reliability and Services is responsible for service operating efficiencies
- Warranty will be delivered by both Channels and Compaq Service
- Warranty is consistent and redeemable globally
- We will standardize on a method of transacting material worldwide (coupled/de-coupled flows)
- Warranty accounting methodology will be cost accrual and includes labor, material and overhead
- Warranty cost will be charged against the Product P&L

2.1.1.2 Systems Integration Services Business Unit

Systems Integration Services Business Unit	
Service Areas	Architecture planning, Systems / Network design and integration, application integration and migration
Revenue	US\$ 1.9 Billion
People	7,000
Structure	By geography, by Practice in most countries
Characteristics	Solutions projects focus for infrastructure and select industry applications, Microsoft centric

Key integration strategies:

Systems Integration Guiding Principles

- Act as Compaq's preferred systems integrator in target segments
- Utilize a "lead, follow, get out of the way" approach to our focused solution sets
- Be #1 or #2 in each of our focused solution sets where we lead
- Extend NT integration leadership and emphasize UNIX in solution offerings
- Extend reach by utilizing custom to volume model through our channel partners
- Define and implement a globally consistent sales and delivery model from country to country
- An approved business plan is a prerequisite for adding software products or solution sets to the SI portfolio
- All System Integration projects will be "PARBed"
- SIS will not operate in all countries

SIS Repeatable Software

Opportunity:

- Increase **Repeatable** Software Content from 3% NOR to 12% NOR
- Increase Total Solution Revenue and Profitability

Strategy:

- Develop repeatable software based on customer funded engagements
- Develop non-customer funded, leading edge repeatable solutions based on predefined IRR
- Include selected software products from Product Group Engineering in the SIS solution portfolio
- Software solutions may be moved to the Channel when they demonstrate a potential for volume and reach a steady-state

System Integration Infrastructure Practice Solution Offerings

- **Mail & Messaging / Collaboration**
- **NT Platforms (Integration & Migration)**
- **Architecture and Integration Framework (BusinessBus, Forte, Altavista Process Flow)**
- **Application Migration**
- **Application Integration**
- **Y2K on Digital platforms**
- **High Performance Networks**
- **Enterprise Intranet**
- **Business Intelligence (DW, Decision Support Systems)**
- **High Availability Systems (CS)**
- Business Applications (EA;SAP, JDE, Baan, and Supply Chain)
- Internet Security
- E-Commerce
- ISP
- Enterprise Management Platforms
- VIS Integration & Staging (CS)
- HPTC (CS)

Note: Solution sets which have been evaluated and meet System Integration criteria are in **bold**. All other current state solution sets are in process of being evaluated.

Note: Assumes capability in NT, UNIX, NSK, OpenVMS

System Integration Industry Practices solution Offerings

Telecommunications

Finance

Manufacturing

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Business Support Systems (DFMS, LHS, Kingston, Kenan) • NSM (TeMip, Clarify) • Public ISPs | <p><i>Digital Solutions</i></p> <ul style="list-style-type: none"> • Risk Management • Integrated Retail Channels (Branch Automation, Call Centers, etc.) • Integrated Banking Systems (Sanchez, CITIL, SAP, etc.) | <ul style="list-style-type: none"> • Semicon Fab Automation (Fastech, Promis) • Shop Floor System Integration • Real Time Systems (CS) |
|--|--|---|

Tandem Solutions

- Wholesale Banking Payment (NT/NSK)
- Capital Markets (Integrating Trades & Exchanges)

Digital and Tandem Solutions

- | | |
|---|---|
| <ul style="list-style-type: none"> • Enhanced Network Services (SS7, IP/CSS, CTI, TI) | <ul style="list-style-type: none"> • CRM (Web-based Solutions) |
|---|---|

Note: Solution sets which have been evaluated and meet System Integration criteria are in **bold**. All other current state solution sets are in process of being evaluated.

Sell-Through Model – Applies to SIS and OMS

Opportunity:

- Changes in market requirements demand a single point of accountability for large customer solution engagements

Strategy:

- Implement Sell-Through Model which treats SIS and OMS like an external systems integrator with prime contracting responsibility
- Utilize Sell-Through Model to enable SIS and OMS to act as a Compaq Product Reseller for selected solutions that meet specific criteria

How it Works:

- SIS and OMS purchases product at an agreed upon price from the product groups which is at least equal to the most preferred system integrator/ technology provider
- The product is then bundled with services and resold to the customer as a project based value-added solution
- Risk and pricing for sell through deals is consolidated within SIS and OMS
- The customer receives a true single point of accountability for the entire solution
- Geographies continue to receive credit for product and service sales revenue

Where It Applies:

- Targeted Services led solution opportunities
- Large solution bids per PARB definition
- Service content is a significant component of overall solution
- When customer requires Compaq Services to take on responsibilities of prime contractor or outsourcing partner
- single price
- fixed performance deliverables
- single point of accountability
- product and service bundled together as a solution
- Add-on sales and scope changes that meet the above criteria or can significantly impact the projects profitability will also be treated under Sell-Through Model. When factors fall below the above criteria sales will revert to the normal sales process (i.e., under Sales and Marketing)

2.1.1.3 Operations Management Services Business Unit

Operations Management Services Business Unit	
Service Areas	Custom Help Desk, Asset Management, Network and System Operations, Application Management, Desktop to Data Center
Revenue	US\$.5 Billion
People	2,000
Structure	by Practice, geographic presence based on opportunity
Characteristics	Large projects, central control, alliances with technology providers, application providers and big "six" consultants

Key integration strategies:

Strategic Role of Outsourcing

- **Champion of Company Strategy**
Strengthens the company's overall solutions focus and strongly the supports overall strategy
- **Market Access**
70% of the Fortune 500 companies will outsource all or part of their IT requirements by 1998
- **Market Expansion**
Our capabilities make Compaq Services an attractive partner to System Integrators and ISVs who leverage us into new large opportunities and off-base accounts
- **Account Control**
As the customer's outsourcing partner, Compaq Services is in a position to significantly influence future IT decisions and limit competitive access
- **Leveraged Business**
OMS sells large comprehensive Compaq Services Outsourcing Solutions in addition to operations management services which leverage all of our products and services

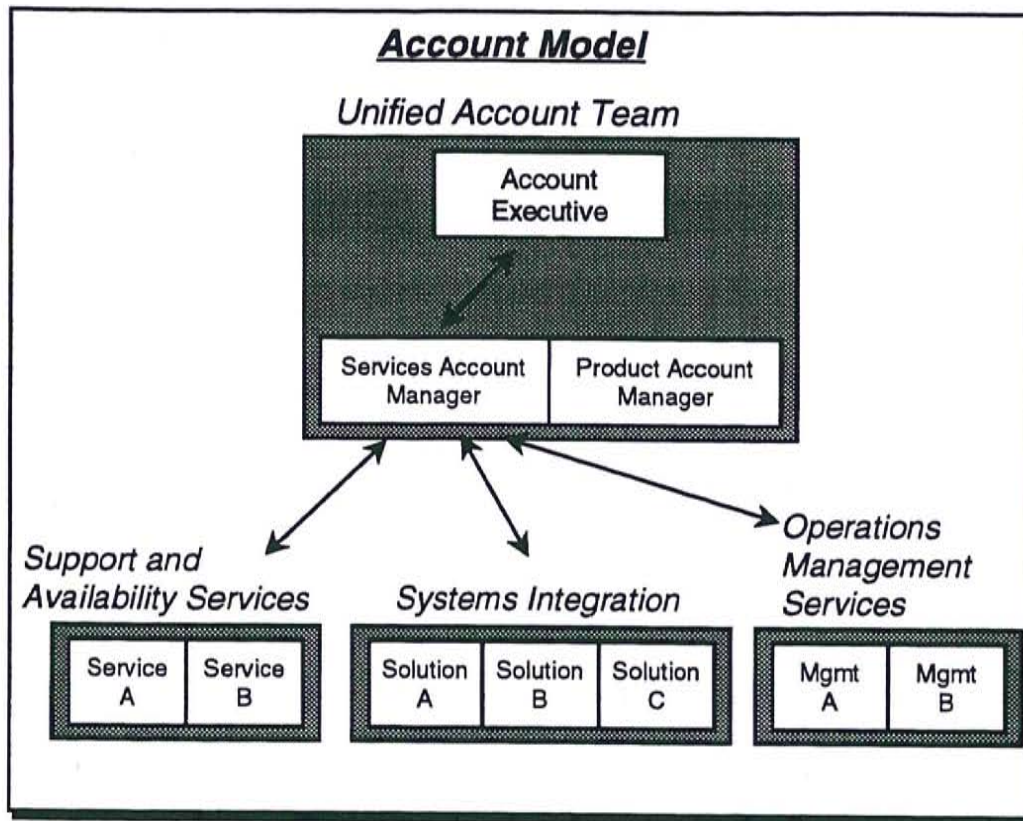
Role of Practices

- Focused on specific high growth market segments
- Operate as a global service organization with ability to maximize geography performance at the local level
- Primary P&L within OMS
- Managed by Worldwide Practice Manager
- Each practice is geographically distributed with personnel reporting to the Practice Manager
- Responsible for market development and demand generation and delivery capability

Practice Descriptions

- Application Operations Management
 - IT services to ensure compatibility with new-generation client/server applications with networks, desktops, security, etc.
- Desktop Operations Management
 - Solutions that manage the lifecycle of desktop technology including acquisition, on-going management, and final disposition
- Distributed Systems Management
 - Migration services for Exchange, NT/Internet implementation, and migrating entire IT infrastructure to NT, UNIX, etc.
- Internet Operations Management
 - Comprehensive outsourcing services for Internets, Intranets, and Extranets
 - Services include staging, mirroring, configuration, characterization, statistical analysis for intrusion detection, etc.

2.1.2 Direct Sales Model



Account Executive

Responsibilities: Services & product sales / account loyalty

Skills: Industry expertise / product & service sales

Compensation: Services & product sales / account loyalty

Organization: Product sales

Services Account Manager

Responsibilities: Services sales / account loyalty

Skills: Industry & account expertise / services sales

Compensation: Services sales / account loyalty

Organization: Services group (hosted by B.U.s)

Business Unit Sales Specialists

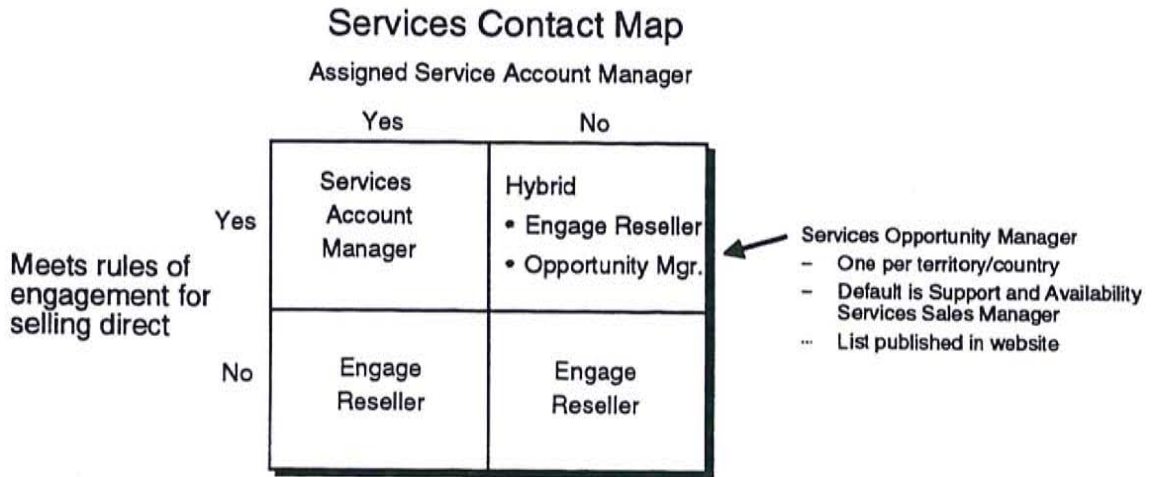
Responsibilities: Service sales (and program management in SIS/OMS)

Skills: Point services expertise/project management

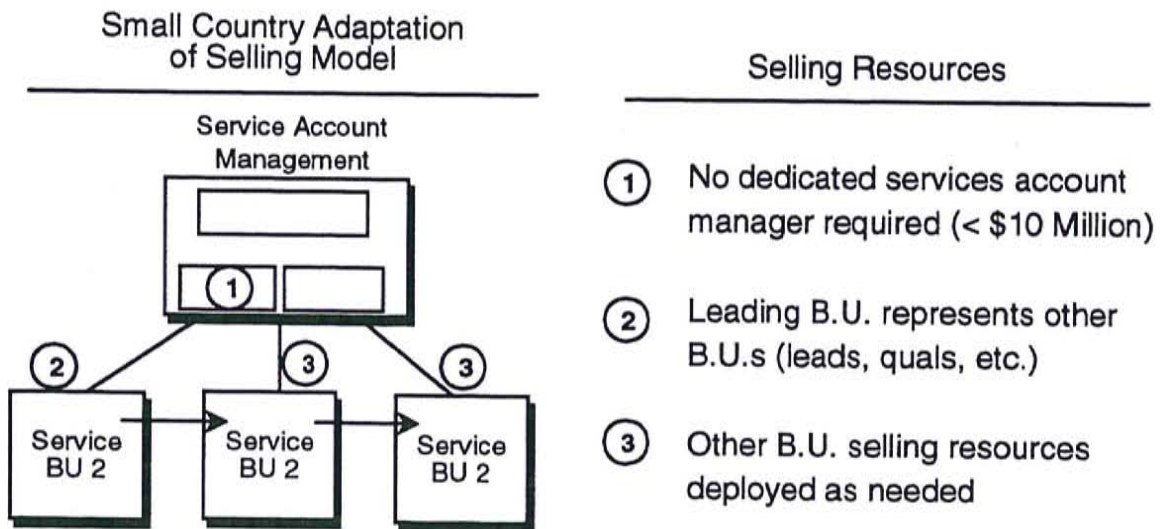
Compensation: Services sales and profitability

Organization: Services business units

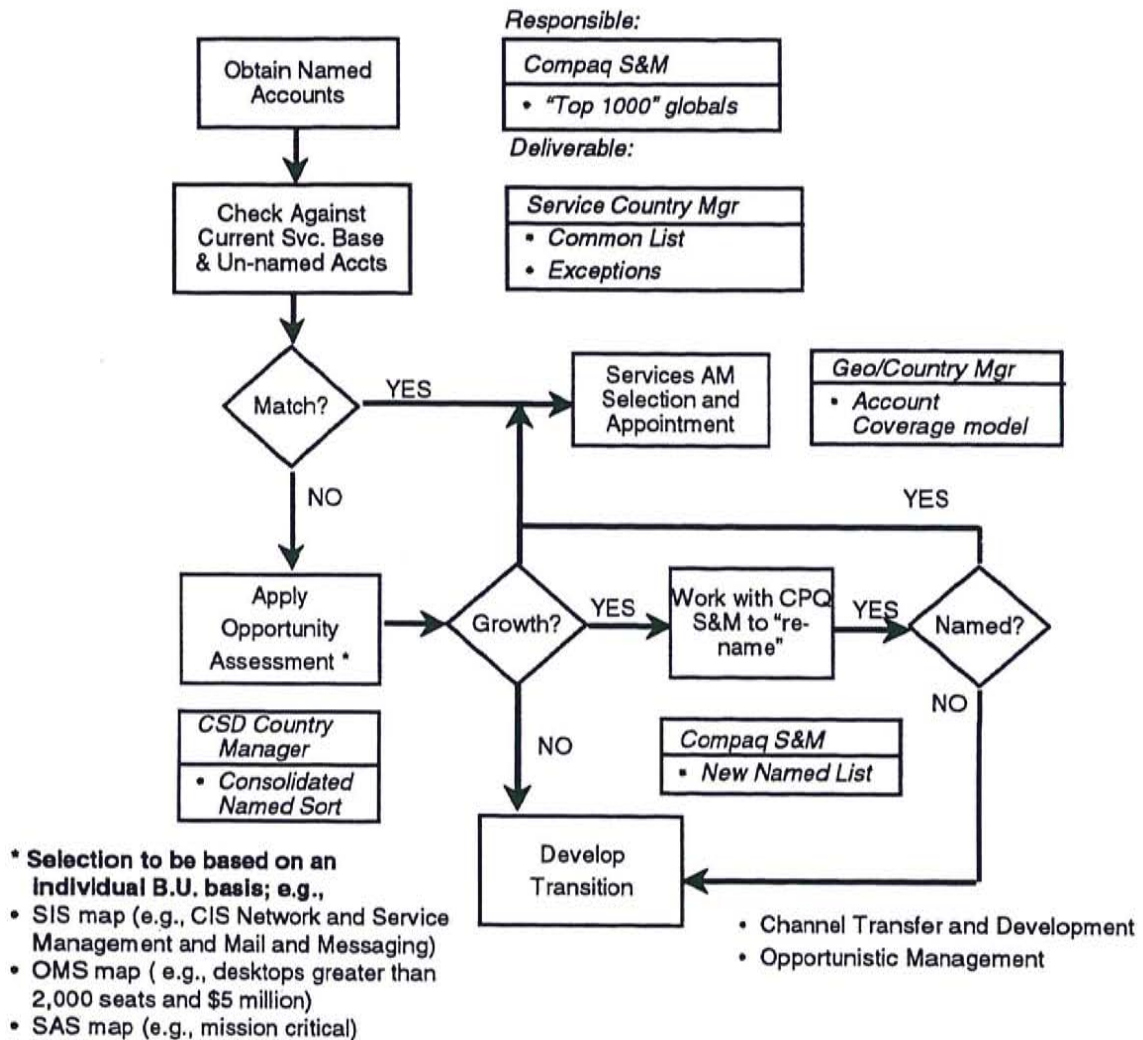
Services Opportunity Process Includes a Clear Services Point of Contact



Small Country Model Adaptation

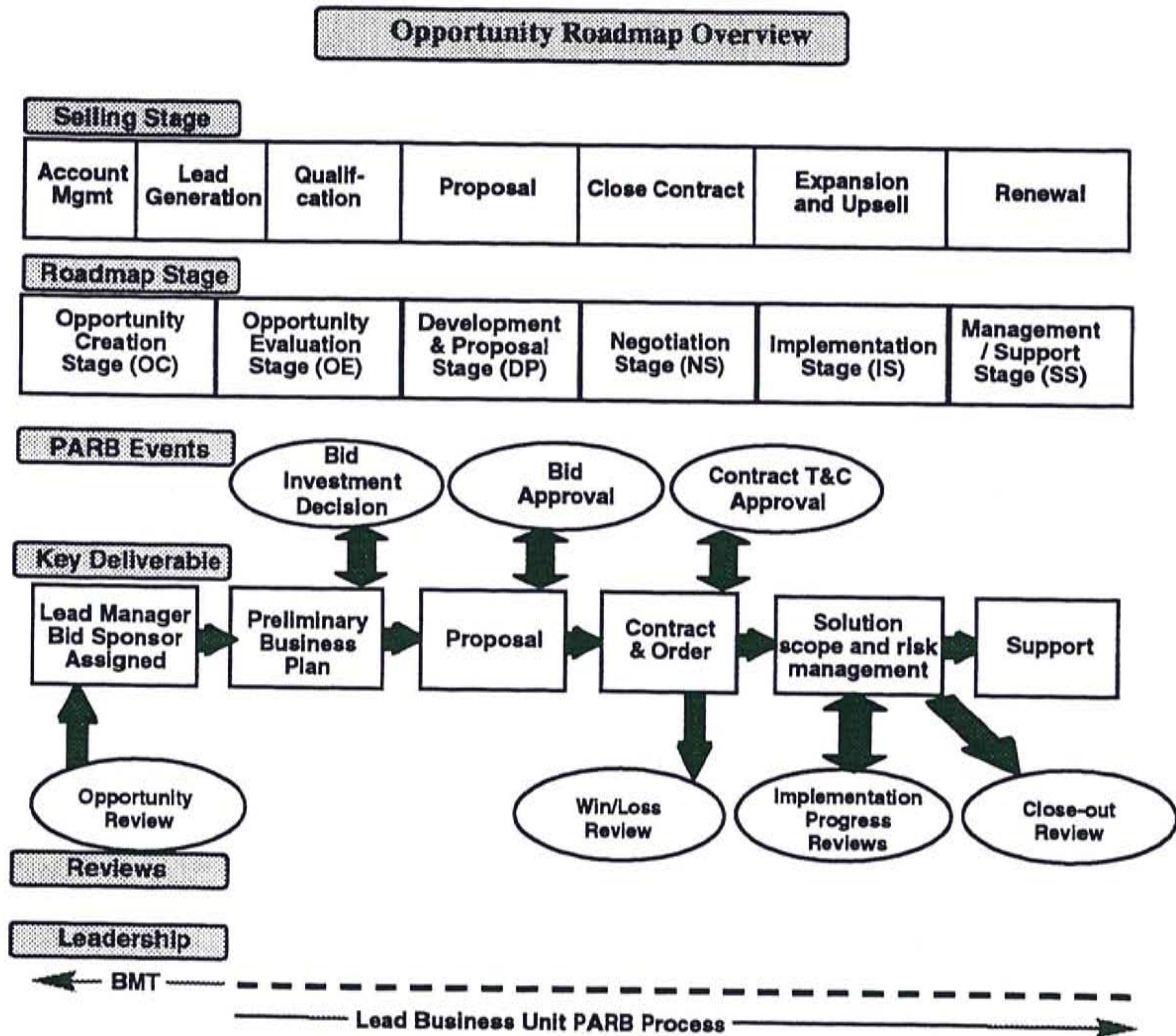


Named Service Account Coverage Starts With Compaq Sales and Marketing Named Accounts List



2.1.3 Opportunity Roadmap Model

Compaq Services will use the Opportunity Roadmap model as a key methodology for assuring quality while pursuing, winning and delivering large customer project business.

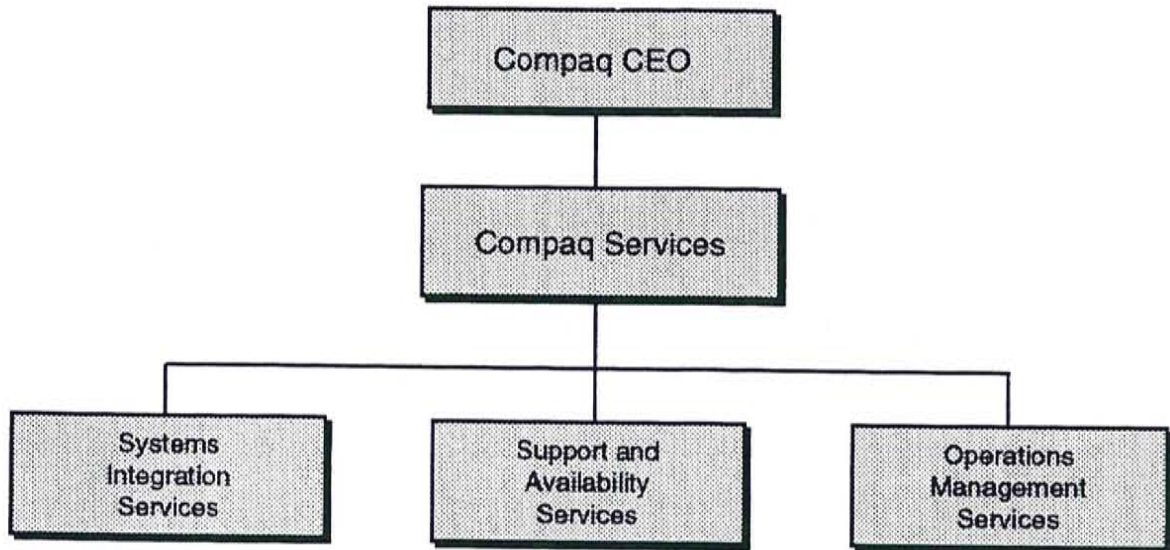


2.1.4 Marketing Model

- We go-to-market as Compaq Services; there is no business unit brand identity
- Service business units provide capabilities to support Compaq brand identity
- The Services marketing model will not add additional Geo level connection points
- Services marketing will work closely with Corporate sales and marketing
- Services Marketing will provide leadership in ensuring integrated service creation, market mapping and partner management across the Service business units in support of the three Compaq solution models
- Business unit specific marketing work will be performed within the business units.
- Services advertising, press and analyst relations and strategic market analysis will be performed at the group level
- Service Business Unit Marketing in the geographies will operate as an integral part of the Geo / Country marketing team

2.2 Structure

2.2.1 Services Organization



The naming of the Services organizations is not final, pending work-in-progress on external naming considerations. Further information about Compaq Services group-level structure and the business unit organizations will be separately announced.

2.2.2 Compaq Geographies-Services Operating Model

Objectives

- Build synergies for the new Compaq quickly
- Be seen as one face to the customer from the beginning

Key Principles

- Promote speed in decision making, selling and customer delivery
- Acknowledge local market uniqueness and needs
- Keep all Compaq activity within a Geo / Country tightly integrated
- Exploit opportunities to share Service infrastructure across geographic boundaries
- Focus on building critical mass in target solution areas
- Minimize large project risk
- Ensure global service consistency

Geo / Services Operating Model

Structure	<ul style="list-style-type: none"> • Service business units will be aligned with the Geography structure. Services Business Unit Managers will be co-located with the Geography Manager (this is a significant transition issue which will have to be addressed on a geography-specific basis) • Service business units will be present in the Geography structures based on critical mass <ul style="list-style-type: none"> — <i>Support and Availability Services</i> will be present in all geographies — <i>Systems Integration Services</i> will be present in most geographies — <i>Operations Management Services</i> will be present on a selective basis based on customer activity • The Support and Availability manager may host manage other Service Business Units activity based on the country situation • Service Business Unit Managers will have a reporting relationship to the Geography/Country Manager and a Service Business Unit Manager • There will be a Service Sales force that reports to the respective Service Business Unit. This sales effort will be in concert with and operate within the overall Compaq channel and account management plan • There will be Service Marketing resources that report to the respective Service Business Unit. This marketing effort will be in concert with and operate within the overall Compaq marketing plan for the Geography/Country
Work	<ul style="list-style-type: none"> • Service creation work (designing Service offers) will be initiated by the Service Business Units in support of global consistency and focus on target solution areas • Service marketing activity will be in concert with and operate within the overall Compaq marketing strategy at Worldwide and Geography/Country levels • Service Sales will operate within the overall Compaq Sales strategy for channels and direct accounts • Service selling work will be executed within jointly developed plans for channels and direct accounts • All Service Channel activity will be tightly integrated with the Compaq Geography / Country plans for channel management, business practices and rules of engagement • Service delivery will be managed by and operate based on Service Business Unit operating models designed to build critical mass, develop Service capability, focus on targeted solution areas and increase customer satisfaction. These operating models may transcend country boundaries • Functional work activities and resources such as H.R., Finance, Legal, etc. should be shared wherever possible at the country level

(more)

Geo / Services Operation Model, continued

Decision-Making	<ul style="list-style-type: none">• Appointment of Service managers and their performance evaluation at Geography/Country levels is a joint responsibility between Geo and Service management• Geography/Country and Service management will work jointly to tailor the Company and Services strategies to the needs of the Geography/Country• Service B.U. budgets and plans will be developed and approved jointly in the context of both the Geography/Country and Service B.U. plans. Resource levels and needs will come from those plans with mid-year changes jointly reviewed and approved• Major System Integration and outsourcing deals will utilize the Opportunity Roadmap Process and require joint approval of Geography/Country and Service B.U. management• Pricing for Support and Availability offers will originate with worldwide reference pricing and be set at country levels based on local economic uplifts and currency conversion. Support and Availability allowance approval will be based on B.U. guidelines which will include country manager and Support and Availability B.U. participation
Rewards & Recognition	<ul style="list-style-type: none">• Compaq Geography/Country and Service management will be goaled to promote optimal Company performance at the Geography, Country, and Worldwide levels• Compaq sales will carry Service as well as product quotas• Service goals will acknowledge customer choice and encourage continued business development for the Channel Partners• Compensation programs must be integrated across Compaq at a country level and be consistent with practices in the industry for that country

2.3 People

2.3.1 Human Resources Management Model

Voice of the Employee - Consistent ongoing processes for assessing employee needs and satisfaction levels

Communication and Engagement - Continual information flow and engagement to ensure our employees understand our business goals and their role in achieving them

Workforce Planning - Tools and processes for line management to profile their workforce needs for the future

Development and Learning - Systems and infrastructure to ensure our employees have the leading edge skills required to successfully execute the business

Performance Management - Processes, tools, and guidelines to build individual performance objectives, associated development plans and provide employees with effective performance feed-back

Reward and Recognition - Programs and a compensation platform which acknowledge the right behavior, reward superior performance, pay at competitive levels, and retain the best people

2.4 Decision-making & Information

2.4.1 PARB Process for Customer Bids

The PARB (Program Approval and Review Board) process will be used to ensure management review and approvals of large customer bids at the required points in the Opportunity Roadmap process. The Services business units operate a network of Country / Country Group / Geo / Worldwide PARBs in accordance with their approval matrix of authority levels.

2.4.2 Decision-Making with the Compaq Geography Managers

Refer to the Geo-Services Managers Operating Model, Section 2.2.2

2.5 Rewards & Recognition

2.5.1 Compaq Services Balanced Scorecard

Objectives	Measurements	Targets
FINANCIAL		
<ul style="list-style-type: none"> • Deliver exceptional ROIC growth • Revenue growth faster than market • Best-in-class margin 	<ul style="list-style-type: none"> • ROIC • Operating Margin • Revenue Growth 	<ul style="list-style-type: none"> • 80% ROIC • 15% Operating Profit • \$15 B by 2002 (18% CAGR)
CUSTOMER		
<ul style="list-style-type: none"> • #1 in customer satisfaction and loyalty worldwide 	<ul style="list-style-type: none"> • CSI Index (SAS) • SLA Compliance (OMS) • Project Loyalty Index (SIS) 	<ul style="list-style-type: none"> • Industry Benchmark • Continuous Improvement
MARKET		
<ul style="list-style-type: none"> • Leading market share in targeted vertical and horizontal solutions • Establish the Compaq Services brand • Maximize penetration (with channels) of the Compaq base 	<ul style="list-style-type: none"> • Market share in targeted segments • % of revenue from target solutions • Branded market awareness • Contract revenue growth • Share of targeted installed base 	<ul style="list-style-type: none"> • Public recognition in the market - industry analysts, press, media • >50% marketshare in targeted market segments in named service accounts • 60% share of Compaq product support market with partners
PARTNERS & CHANNELS		
<ul style="list-style-type: none"> • Build the most competent and comprehensive network of channels service partners • Be recognized by partners as being easy to do business with • Deliver a focused portfolio of service capabilities to our partners 	<ul style="list-style-type: none"> • Channel partner satisfaction survey assessing: <ul style="list-style-type: none"> - Ease of doing business - Availability of required tools - Thought leadership - Training • Ratio of channel sales/total sales 	<ul style="list-style-type: none"> • 80% top satisfaction rating • 30% of revenue from channel by 2002
OPERATIONAL EXCELLENCE		
<ul style="list-style-type: none"> • Be recognized as a driver of major IT paradigm shifts • Establish leadership in service technologies • Tight linkage and collaboration with Product groups and Geos • Best-in-class knowledge management 	<ul style="list-style-type: none"> • Industry Operational Metrics • Satisfaction as viewed by Product groups and Geo's • % utilization and contribution to "Knowledge Web" 	<ul style="list-style-type: none"> • Best in class operational metrics • Increase content and utilization by 25%
EMPLOYEES		
<ul style="list-style-type: none"> • Be recognized as the best IT services organization to work for • Most capable and confident workforce • Achieve exceptional levels of employee satisfaction 	<ul style="list-style-type: none"> • Employee satisfaction surveys • Employee turnover rate • Recruiting acceptance rate • Training/Development - hours/year/employee • # of trained and certified employees in focus technologies 	<ul style="list-style-type: none"> • Lead IT consortium in overall employee satisfaction

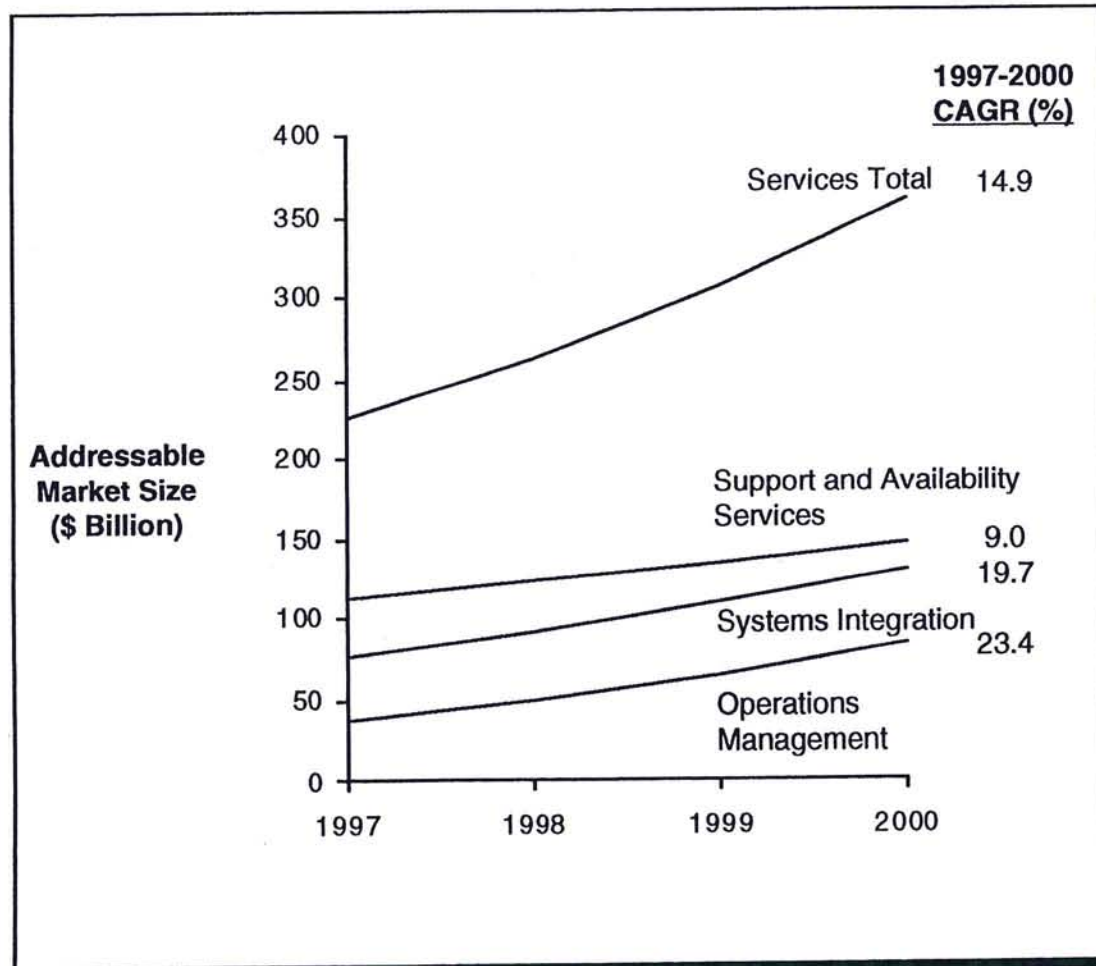
**Compaq Services:
A New Beginning**

Purpose of This Presentation

Provide information regarding:

- **Compaq Computer Corporation Goals**
- **Compaq Services Vision and Strategy**
- **Key Messages**

The Services Market Opportunity Is Substantial



Source: Digital, G2R, Dataquest, E&Y Analysis

What Will Services Do For Compaq?

- **Leverage server sales into the Enterprise Market**
- **Provide ongoing account presence and loyalty**
- **Ensure support service excellence for all Compaq products**
- **Generate significant growth, profit, cash flow, and ROIC**

Compaq Services Vision

Compaq Services will be the most respected Tier 1 Services provider in the industry by the year 2002

Compaq Services and its comprehensive network of channel partners will be recognized for:

- **Making open, standard technologies and solutions safe for the enterprise, smaller businesses, and consumers**
- **Being the worldwide leader in services for interconnected computing infrastructures**

The Services Agenda

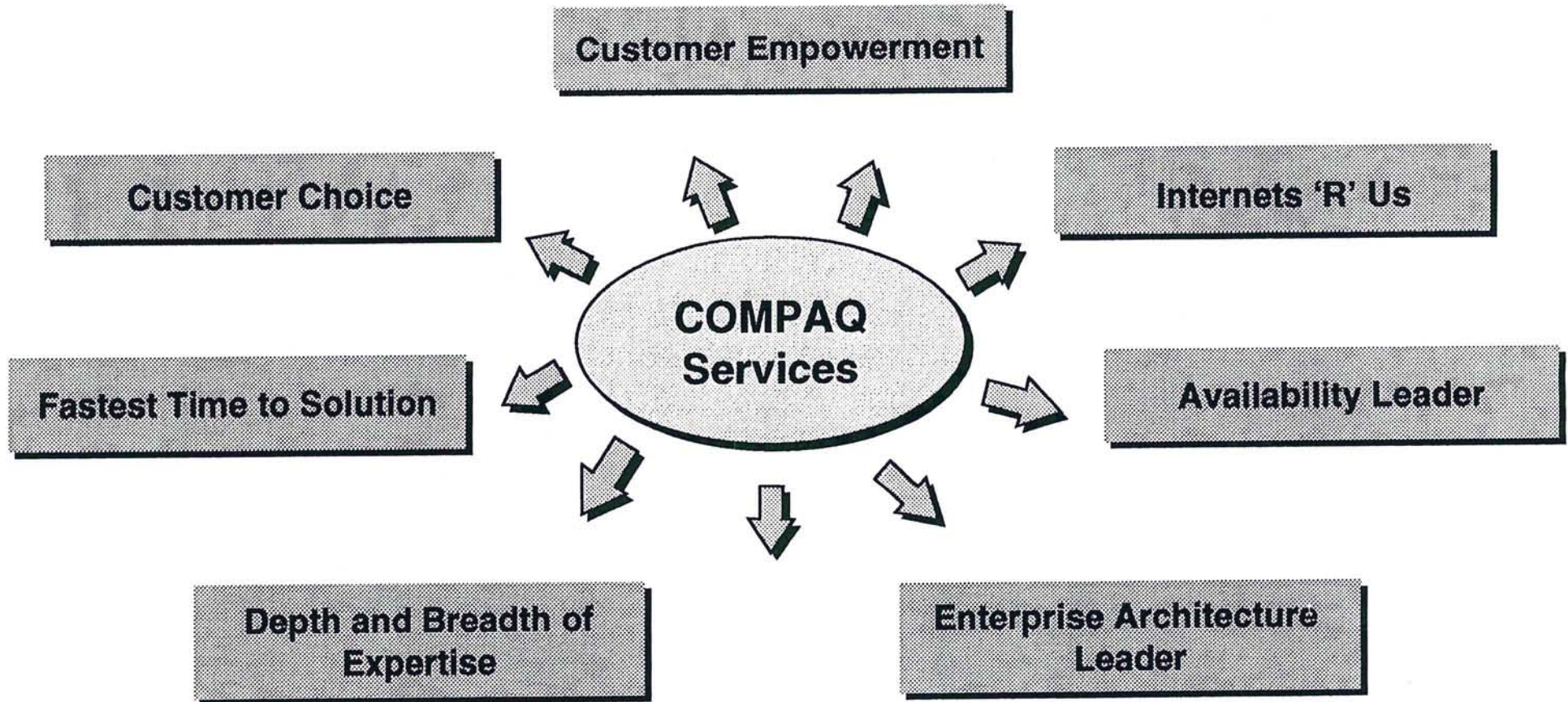
Focus

Customer satisfaction, industry leadership, growth, and stockholder return

Agenda

- 1. Make the Compaq Worldwide Services Network the acknowledged industry leader**
- 2. Be #1 in customer satisfaction**
- 3. Be the acknowledged IT Services employer of choice**
- 4. Deliver best-in-class ROIC in the industry**
- 5. Be a \$15 billion, Tier 1 Services business by the year 2002**

Compaq Services Differentiation Themes



Compaq Services Differentiation Themes

Customer Empowerment

We provide the customer with open systems and open services, providing them with flexibility throughout the life cycle

Customer Choice

Unlike IBM or HP, we offer customers choice in who delivers their services -- our own organization, or our customer's trusted partner from the Compaq Service Channel Partner Network

Fastest Time to Solution

Leveraging the most comprehensive service methods, tools and training in the industry, we provide our customers with the fastest time to solution

Depth & Breadth of Expertise

Our Service Professionals deliver leading edge capability and experience worldwide

Availability Leader

No provider brings more experience or capability in ensuring the highest availability and performance for all computing environments

Enterprise Architecture Leader

We are the leader in providing scalability and interoperability for networked computing infrastructures

Internets 'R' Us

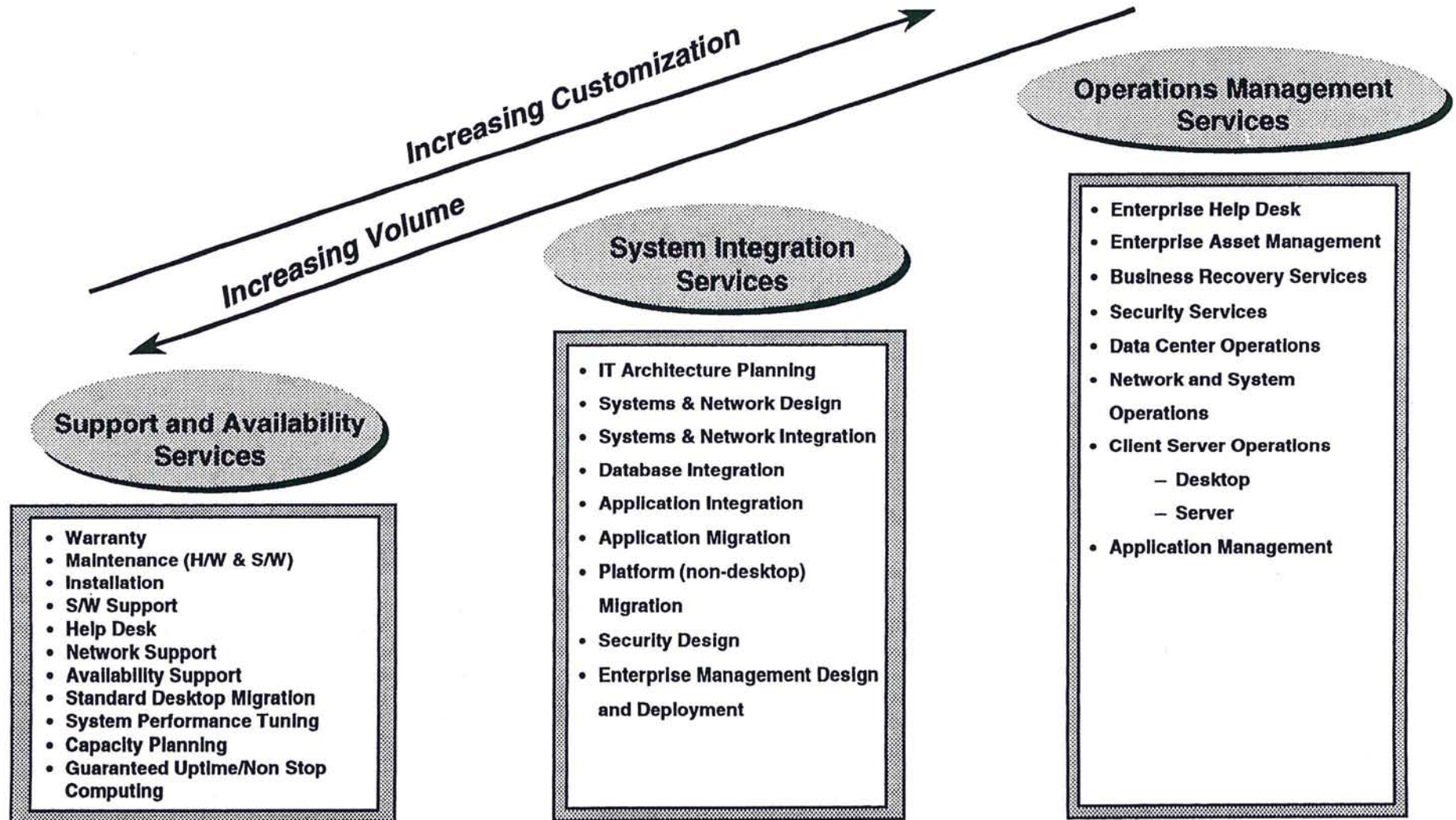
We focus on solutions for the interconnected computing world with leadership in secure intra- and inter-enterprise commerce and communications

Our Goal Is to Become a \$15 Billion IT Service Business by the Year 2002

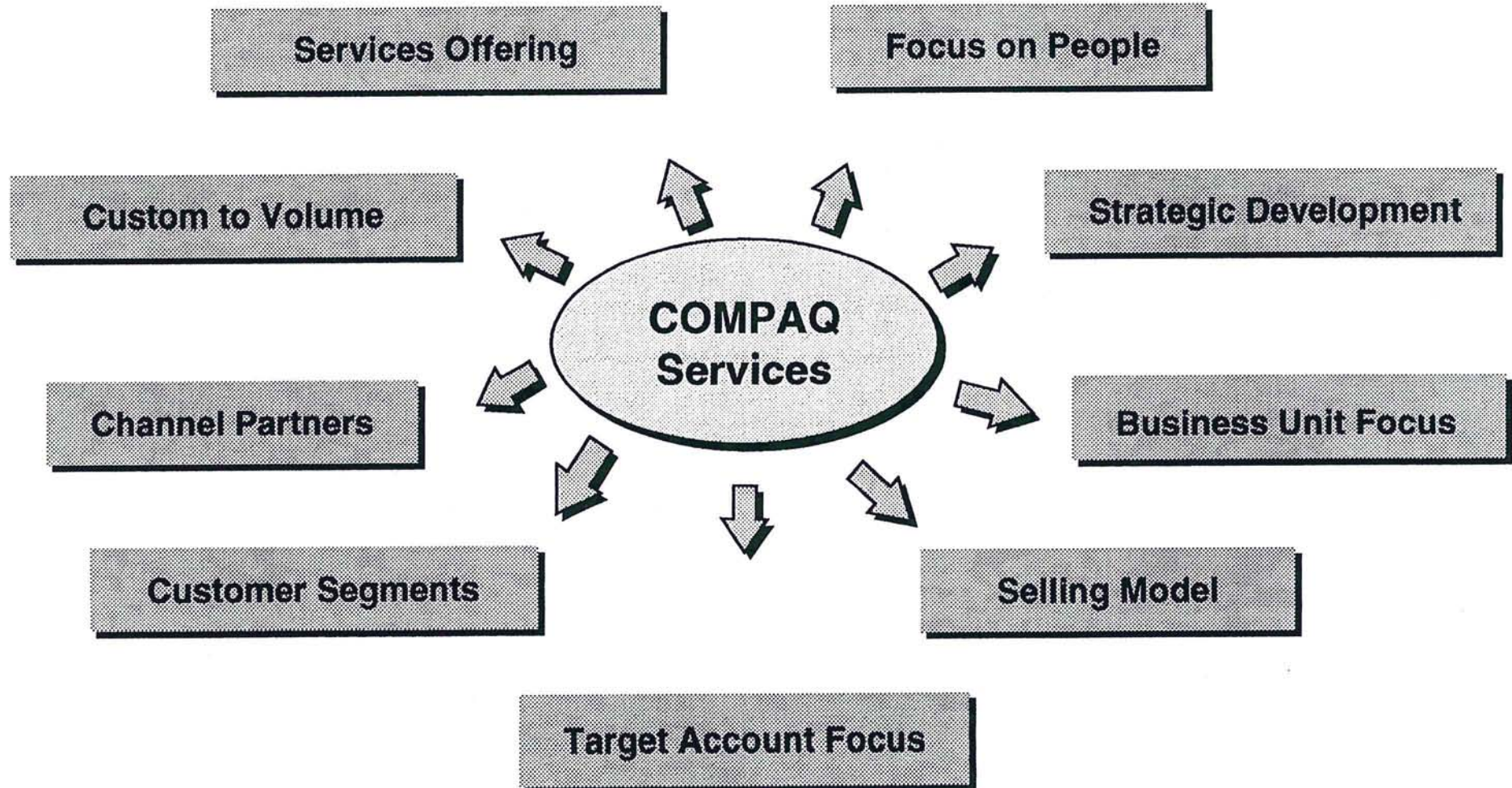
We will create a new breed of IT Services provider that will:

- **Grow revenue faster than the market**
- **Be recognized as the one of the best IT Services organizations to work for**
- **Have the greatest number of trained engineers in our focus areas**
- **Have the highest customer loyalty ratings for our top 1000 accounts**
- **Operate with the most comprehensive network of channel service partners**
- **Be recognized as a “thought” leader in the markets we serve**
- **Attain leadership market share in our top 1000 accounts for targeted service solutions and support services**
- **Attain leadership in application of services technology, especially for channel partner support**
- **Deliver exceptional ROIC to the Corporation**

Compaq Services Portfolio



Key Strategies



Effective Service Integration Requires Strong Operational Model Linkage to Strategy Implementation

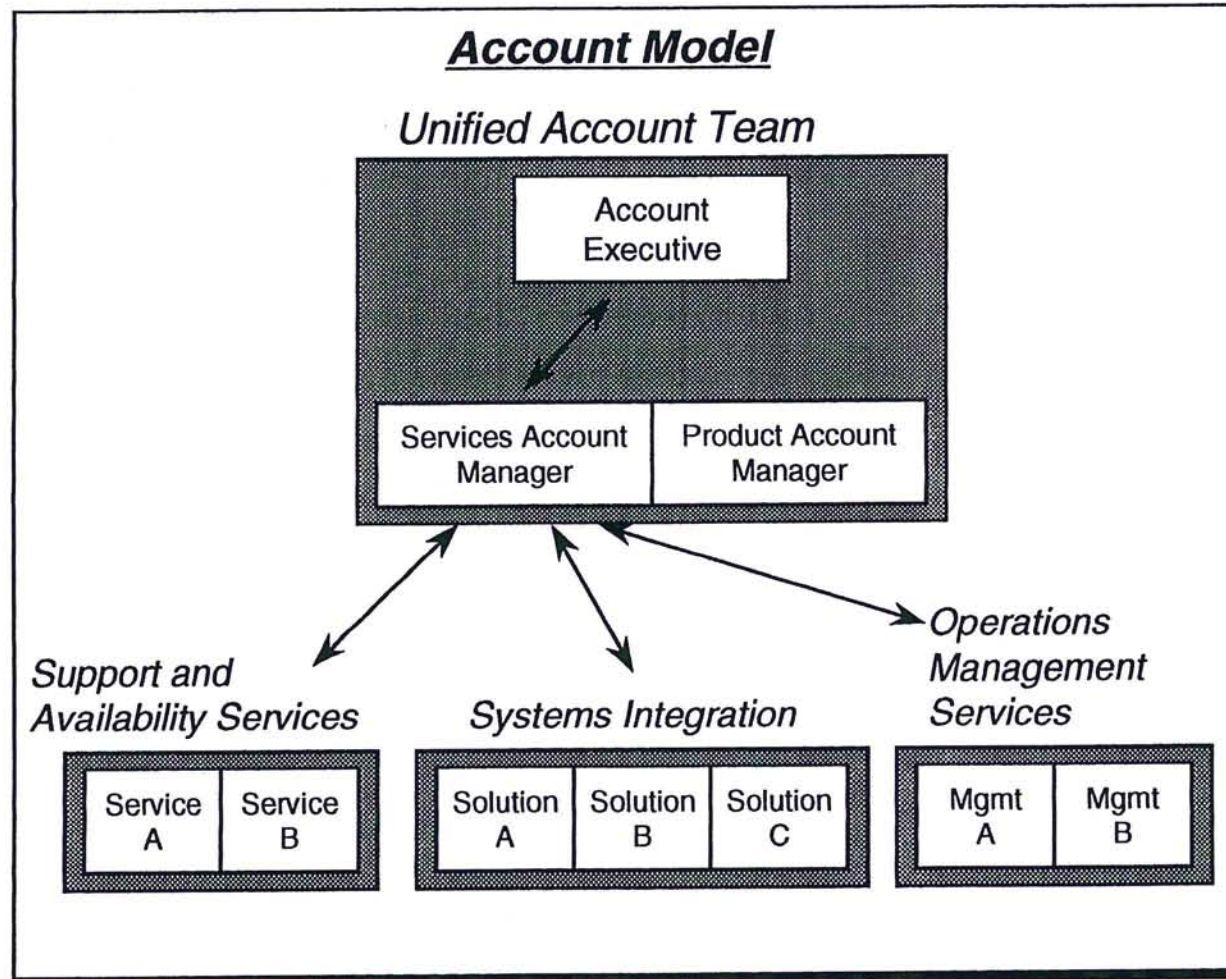
Operating Model Elements

- **Structure**
- **Work**
- **Decision Making**
- **Information Systems**
- **Measures**
- **Rewards and Recognition**
- **People and Culture**

Definition

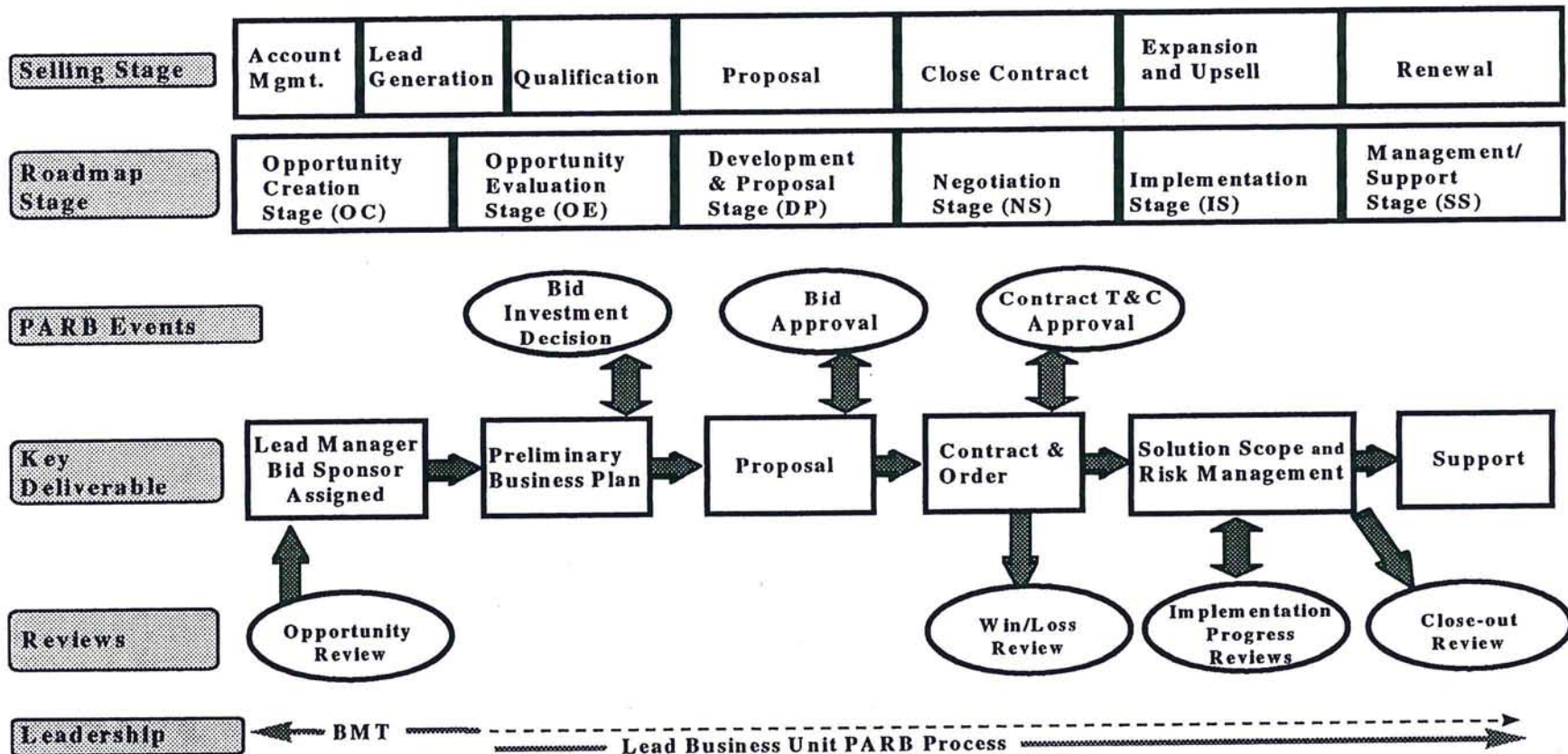
- **The line of business and organizational structure to manage Compaq Services**
- **The business processes to be performed**
- **The decision processes and systems used to govern Compaq Services**
- **The processes and systems used to provide information to manage Compaq Services**
- **The key metrics and accounting treatments to measure and improve operational and financial performance**
- **The approaches and programs to link evaluation and rewards to desired behavior and performance**
- **The skill set, development programs, culture, and enabling vehicles needed to execute the strategy**

Compaq Services Sells Directly to Large, Named Accounts, Led by Service Account Managers



Opportunity Roadmap

Opportunity Roadmap Overview



Roadmap Process For Service Opportunity Engagement

	Opportunity Creation Stage (OC)	Opportunity Evaluation Stage (OE)	Development and Proposal Stage (DP)	Negotiation Stage (NS)	Implementation Stage (IS)	Management/Support Stage (SS)
Purpose	<ul style="list-style-type: none"> Identify and/or create program or project opportunities Agree upon lead business unit 	<ul style="list-style-type: none"> Evaluate if Compaq should pursue this opportunity 	<ul style="list-style-type: none"> Propose a solution that customer will buy and Compaq can deliver profitably 	<ul style="list-style-type: none"> Obtain the customer contract 	<ul style="list-style-type: none"> Implement the solution 	<ul style="list-style-type: none"> Manage the on-going operations and support
Responsible Leader	<ul style="list-style-type: none"> Service or Country Account Manager Bid Management Team (BMT) is in leadership role 	<ul style="list-style-type: none"> Sales Specialist Account Manager BU/Global Account contacts 	<ul style="list-style-type: none"> Lead Manager Account Manager BU/Global Acct. contacts Project Manager 	<ul style="list-style-type: none"> Lead Manager Account Manager BU/Global Account contacts Project Manager 	<ul style="list-style-type: none"> Lead Manager Account Manager BU/Global Account contacts Project Manager 	<ul style="list-style-type: none"> Lead Manager Account Manager BU/Global Account contacts Project Manager
Required Steps	<ul style="list-style-type: none"> Define business need/problem Influence specification and budget Set expectations around value Integrate opportunity into account plan Develop opportunity profile 	<ul style="list-style-type: none"> Define technical and business requirements Verify lead BU Define strategy to win/deliver Determine resources needed to propose and win Make bid investment Assign resources Contact cross- BU opportunity review 	<ul style="list-style-type: none"> Develop proposed solution Create business and program/project plans Develop proposal and statement of work Gain approval to submit bid to customer 	<ul style="list-style-type: none"> Obtain customer response Gain customer acceptance Gain Contract T&C approval Conduct Win/Loss Review 	<ul style="list-style-type: none"> Revise business and Program/project plans Implement solution Conduct progress reviews Secure customer as reference site Manage scope changes Conduct close-out Review 	<ul style="list-style-type: none"> Manage support plan Manage changes Conduct ongoing reviews Ensure customer remains a usable reference site
Completion Stage	<ul style="list-style-type: none"> BMT accepts opportunity BMT selects lead BU Lead manager assigned 	<ul style="list-style-type: none"> Bid investment approval decision Program or project resources assigned 	<ul style="list-style-type: none"> Bid approval or disapproval Proposal submitted to customer 	<ul style="list-style-type: none"> Bid lost Contract signed and order received 	<ul style="list-style-type: none"> Implementation completed per contract Close-out review is completed 	<ul style="list-style-type: none"> Support completed per contract
Deliverables	<ul style="list-style-type: none"> Opportunity Profile Lead BU contact Frontlog report Management bid sponsor assigned 	<ul style="list-style-type: none"> Preliminary business plan including full P&L Requirements specification Top opportunity 	<ul style="list-style-type: none"> Proposal Business and initial program or project plans 	<ul style="list-style-type: none"> Contract & order Win/Loss Report 	<ul style="list-style-type: none"> Revised business plan Implementation deliverables 	<ul style="list-style-type: none"> Support services Fulfillment services New opportunities identified

Channels Are an Integral Part of Our Strategy and Messages

Communicated Externally

- Channel is strategically important for Compaq Services to meet its financial and customer satisfaction targets
- Service channel programs and clear rules of engagement are designed to address channel loyalty
- Compaq's channel program will be the industry leader
 - We will attain the trusted advisor position by aligning to the HP model quickly
 - In addition, we will develop competitive advantage over HP through volume/profit opportunity, improved logistics, training, pay-for-performance and tools (we need more business development people than HP)
 - Compaq will sub-contract to the top performing partners in each local market, not the 5 biggest as HP does
- For any product authorized to be sold through the channel, the channel will have the opportunity to sell and deliver services on that product
- The services relationship with TPM's will be limited to supply of parts

Channels Are an Integral Part of Our Strategy and Messages

Communicated Internally

- The need for resources to meet capacity requirements will necessitate the following actions:
 - Compaq will leverage approximately one-third of the worldwide services revenue through the channel
 - For certain customers, offers such as desktop services, laptop repair, DAS and staging/integration will be transitioned to channel partners
 - Increased NT opportunity drives migration of workforce to mission critical/sensitive corporate segments where resources are required
 - Multi-vendor services are necessary for full support, but not a driver for revenue and profit
- Compensation plans for Geo/Country Services Managers must include channel revenue and customer satisfaction goals

Services Business Units

Support and Availability

- **Service Areas** Warranty, Maintenance, High Availability and Business Critical Services
- **Revenue** \$4 billion
- **People** 20,000
- **Structure** By geography with worldwide functional leaders, presence in over 130 countries
- **Characteristics** Global service menu and infrastructure, distributed general management, “whatever it takes” for customers
- **Key Integration Issues**
 - Focus on channels!!
 - Integrating Tandem
 - Consolidating Call Centers
 - Consolidating and outsourcing logistics
 - Warranty management and accounting
 - Consumer decision

Services Business Units (con't)

Systems Integration

- **Service Areas** Architecture planning, Systems/Network design and integration, application integration and migration
- **Revenue** \$1.9 billion
- **People** 7,000
- **Structure** By geography, by practice in most countries
- **Characteristics** Solutions projects focus for infrastructure and select industry applications; Microsoft centric
- **Key Integration Issues**
 - Sell through model for SI projects
 - Integrating Custom Systems (CSS)
 - Integration with Infrastructure and Industry solution models
 - Responsibility for Alta Vista software products
 - Migrating custom services to volume packages

Services Business Units (con't)

Operations Management

- **Service Areas** Custom Help Desk, Asset Management, Network and System Operations, Application Management, Desktop to Data Center
- **Revenue** \$.5 billion
- **People** 2,000
- **Structure** by Practice, geographic presence based on opportunity
- **Characteristics** Large projects, central control, alliances with technology providers, application providers and big “six” consultants
- **Key Integration Issues**
 - Maintaining focus and business expansion
 - Managing perceived channel conflict

Key Messages for Industry Analysts

- 1. Compaq now has the experience and skilled resources to enable customers to bridge the gap from today's IT environment to the Internet, standards-based future**
- 2. Compaq's world-class network of partners will be significantly enhanced through innovative new service programs and an expanded portfolio of integrated, lifecycle service solutions available consistently around the world**
- 3. Compaq Services will grow faster than the industry in revenue and margin, leverage product sales into the enterprise market, and enable Compaq to achieve industry leadership in ROIC by the year 2000**

Key Internal Messages

- **Lower the cost of ownership and reduce the risk for our customers**
 - **Deliver a new level of service solutions which incorporate industry standards and innovations in service creation, delivery, tools, and methodology**
 - **Single point of accountability**
- **Enable customers to achieve their business objectives rapidly and cost effectively, with predictable results**
 - **Together with our partners, will provide the most experienced people and broadest portfolio of IT services**

Key Internal Messages (con't)

- **Generate significant growth, profit, cash flow, and ROIC**
 - **Leverage Compaq's server sales into the enterprise market**
 - **Ensure excellent support for all Compaq products**
 - **Be a Tier 1 Services provider by the year 2002**
- **Deploy 27,000 service professionals including 5000 experienced IT architects, complemented by skilled channel partner resources**
 - **From 550 locations in 114 countries**
 - **Global coverage enables service solutions to be delivered wherever and whenever needed by customers**

Key Internal Messages (con't)

- **Enable our service channel partners to deliver superior and high quality service**
 - **Employ industry leading partnership programs and practices**
 - **Invest in training**
 - **Measure and reward performance**
- **Be recognized as the preferred IT services employer**
 - **Enable our people to deliver superlative performance through confidence, renewal, teamwork, and the achievement of excellence**
 - **Continue to attract and retain the most experienced and skilled service professionals in the industry**

Key Internal Messages (con't)

- **Be accountable for protecting and evolving our customers' investments in Compaq, DIGITAL, and Tandem technology**
 - **Enable them to continuously evolve to the Internet, standards-based future with fastest time to solution**
- **Expand the capabilities and local presence of our unique network of experienced Compaq resources and channel partners**
 - **Set the industry standard for excellence in channel partner support**
 - **Deliver broadest portfolio of integrated, multivendor, lifecycle solutions consistently worldwide**
 - **Provide maximum choice and flexibility in doing business**

Compaq Computer Corporation

***“The Global Leader in Enterprise Computing
by the Year 2002”***

**Compaq Services:
A New Beginning**

Purpose of This Presentation

Provide information regarding:

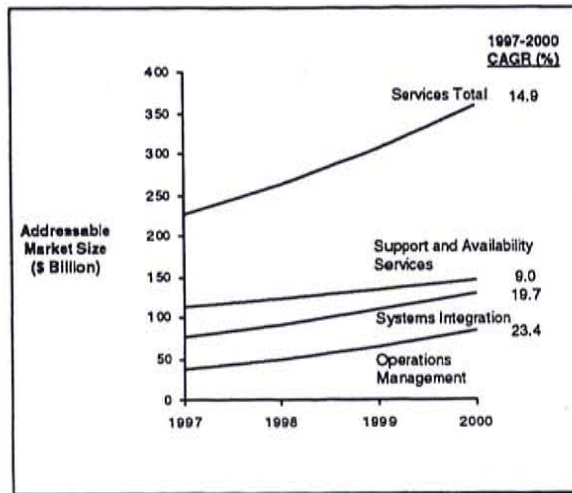
- **Compaq Computer Corporation Goals**
- **Compaq Services Vision and Strategy**
- **Key Messages**

Purpose of this Presentation

The purpose of this presentation is to present and share accurate information about the integration of Compaq, Tandem, and DIGITAL Services.

This presentation does not include information about employee benefits. Employee benefit information will be distributed throughout the organization by Human Resources as soon as it is available.

The Services Market Opportunity Is Substantial



Source: Digital, G2R, Dataquest, E&Y Analysis

The Services Market Opportunity Is Substantial

- Currently half of Compaq Services addressable market is made up of Support and Availability Services.
- Compaq's addressable market holds tremendous growth potential:
 - The IT Support and Availability Services market will reach \$146 billion in 2000 from an initial market of \$113 billion in 1997.
 - The Systems Integration market will grow by \$46 billion from 1997-2000.
 - The Operations Management market is expected to grow by 88% from 1997 to 2000 to a \$70 billion market.
- Given projected growth rates, the SI market will surpass IT Support and Availability market sometime in 2001, and the Operations Management market will surpass the IT Support and Availability within the next 7 years.

What Will Services Do For Compaq?

- **Leverage server sales into the Enterprise Market**
- **Provide ongoing account presence and loyalty**
- **Ensure support service excellence for all Compaq products**
- **Generate significant growth, profit, cash flow, and ROIC**

What Will Services Do for Compaq?

- **Leverage server sales into the enterprise market:**
 - One of the most critical technology investments our customers make
 - Very high profit margin area
 - One measurement of our success – driving solutions that include/drive server sales
- **Provide ongoing account presence and loyalty:**
 - Services presence, along with ongoing account management, establishes the strong customer relationships that are so important to the success of large enterprise accounts
- **Ensure support service excellence for all Compaq products:**
 - Maintaining product excellence through high-quality services to protect customer investments
- **Generate significant growth, profit, cash flow and ROIC:**
 - We will make a profit on our Services business; will produce cash-flow for Compaq; we will deliver industry-leading ROIC (return on invested capital).
 - Services will be a profit & loss business
 - Our business will be focused and selective

Compaq Services Vision

Compaq Services will be the most respected Tier 1 Services provider in the industry by the year 2002

Compaq Services and its comprehensive network of channel partners will be recognized for:

- **Making open, standard technologies and solutions safe for the enterprise, smaller businesses, and consumers**
- **Being the worldwide leader in services for interconnected computing infrastructures**

Compaq Services Vision

The success of Compaq Services depends on the successful development of the channels/partners model.

- The partner model drives volume.
- No one company in this industry can reach all potential customers using the "direct" approach.
- We will build on the success of the Compaq product partner network to generate volume sales.

The Services Agenda

Focus

Customer satisfaction, industry leadership, growth, and stockholder return

Agenda

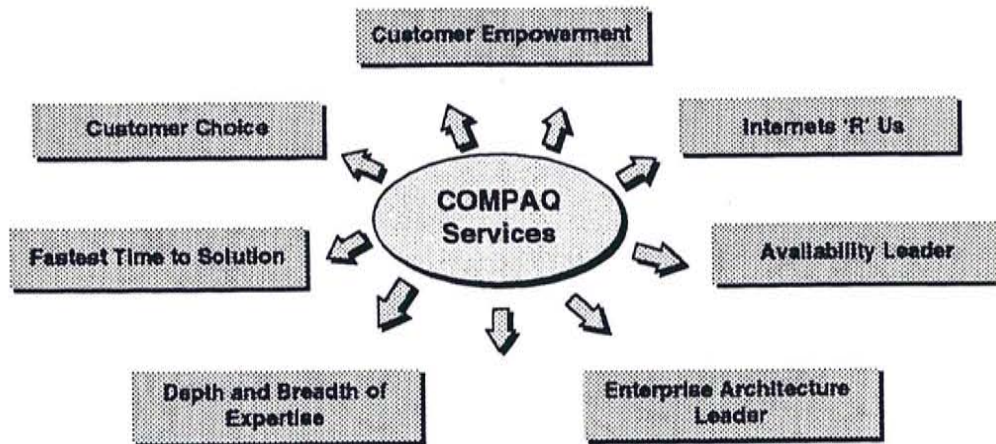
- 1. Make the Compaq Worldwide Services Network the acknowledged industry leader**
- 2. Be #1 in customer satisfaction**
- 3. Be the acknowledged IT Services employer of choice**
- 4. Deliver best-in-class ROIC in the industry**
- 5. Be a \$15 billion, Tier 1 Services business by the year 2002**

The Services Agenda

The Services Agenda is the platform for discussing our five key goals.

- 1. Acknowledged industry leader**
 - Includes resellers --> strategic service partners
 - #1 in providing lifecycle services consistently, worldwide
- 2. Be #1 in customer satisfaction**
 - Recognized as the leader in providing solutions that support the evolution to an Internet standards-based future
 - Market leadership in target, high growth market segments and in Compaq's top accounts
 - Lead IT service industry in innovative new approach to continuously improving customer IT investments
- 4. Deliver best-in-class ROIC in the industry**
 - Create world-class services marketing and sales programs focused on growth and delivering a unified face to customers
- 5. Be a \$15 billion, Tier 1 Services business by the year 2002**

Compaq Services Differentiation Themes



Compaq Services Differentiation Themes

This is how we will differentiate ourselves from our competitors.

Customer Empowerment: We provide the customer with open systems and open services, providing them with flexibility throughout the life cycle.

Customer Choice: Unlike IBM or HP, we offer customers choice in who delivers their services – our own organization, or our customer's trusted partner from the Compaq Services Channel Partner Network.

Fastest Time to Solution: Leveraging the most comprehensive service methods, tool and training in the industry, we provide our customers with the fastest time to solution.

Depth and Breadth of Expertise: Our Services professionals deliver the leading edge capability and experience worldwide.

Availability Leader. No provider brings more experience or capability in ensuring the highest availability and performance for all computing environments.

Enterprise Architecture Leader. We are the leader in providing scalability and interoperability for networked computing infrastructures.

Internets 'R' Us: We focus on solutions for the interconnected computing world with leadership in secure intra- and inter-enterprise commerce and communications.

Compaq Services Differentiation Themes

Customer Empowerment

We provide the customer with open systems and open services, providing them with flexibility throughout the life cycle

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Depth & Breadth of Expertise

Our Service Professionals deliver leading edge capability and experience worldwide

Availability Leader

No provider brings more experience or capability in ensuring the highest availability and performance for all computing environments

Enterprise Architecture Leader

We are the leader in providing scalability and interoperability for networked computing infrastructures

Internets 'R' Us

We focus on solutions for the interconnected computing world with leadership in secure intranet and inter-enterprise commerce and communications

Our Goal Is to Become a \$15 Billion IT Service Business by the Year 2002

We will create a new breed of IT Services provider that will:

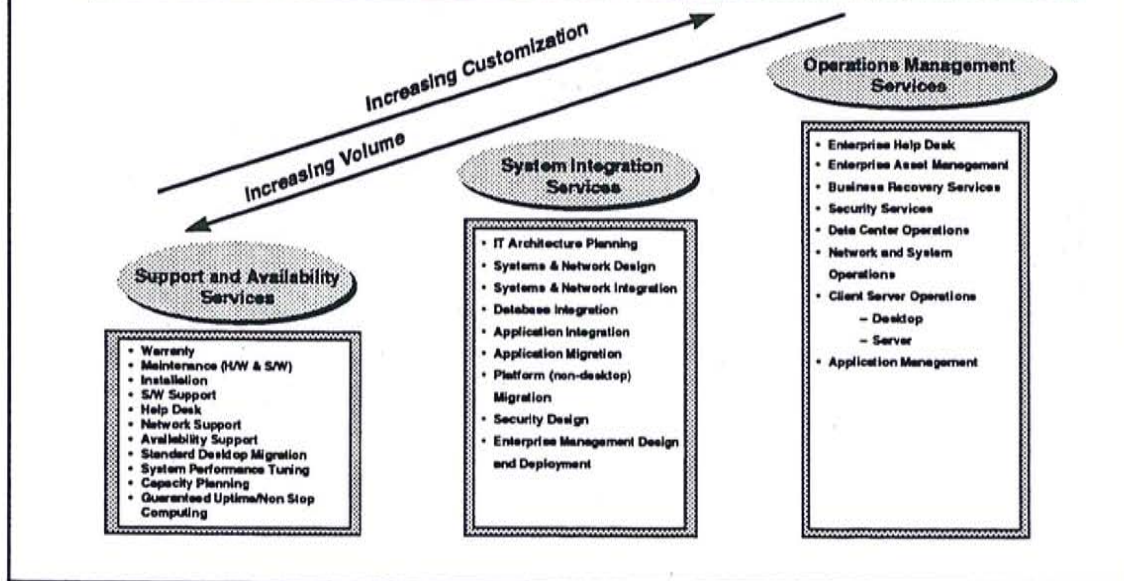
- Grow revenue faster than the market
- Be recognized as the one of the best IT Services organizations to work for
- Have the greatest number of trained engineers in our focus areas
- Have the highest customer loyalty ratings for our top 1000 accounts
- Operate with the most comprehensive network of channel service partners
- Be recognized as a "thought" leader in the markets we serve
- Attain leadership market share in our top 1000 accounts for targeted service solutions and support services
- Attain leadership in application of services technology, especially for channel partner support
- Deliver exceptional ROIC to the Corporation

Our Goal to Become...

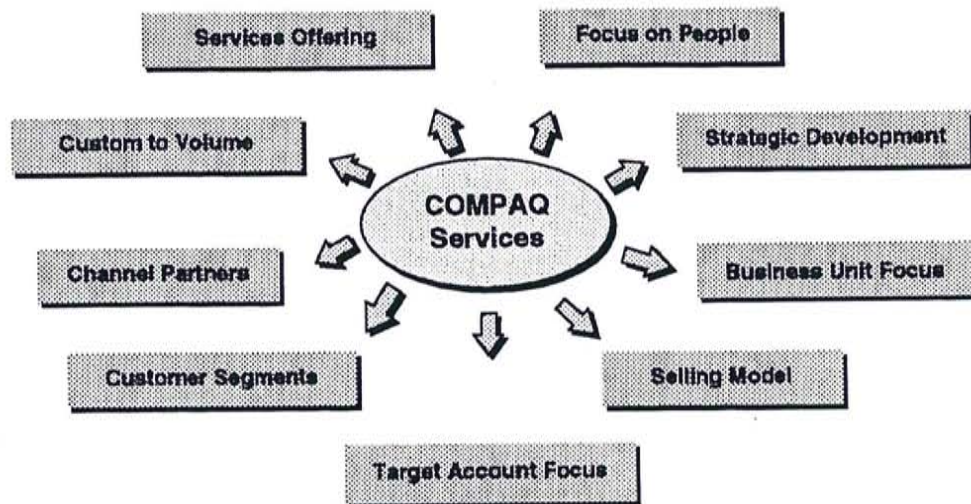
If you calculate the declines in our existing base in DIGITAL and Tandem, and project the growth opportunities in NT, throughout Intel servers, Intel clients and Alpha, we will be successful in reaching our goal of \$15 billion.

By successfully developing the partner opportunity, we could realize an additional \$7 billion to \$8 billion dollars in revenue.

Compaq Services Portfolio



Key Strategies



Key Strategies

1. **Services Offerings** will include designing, building, implementing, supporting and operating information technology environments with a focus on:
 - Technology architecture
 - Infrastructure solutions
 - Selected industry solutions
 - Business Critical support
 - WNT, UNIX, Internet and installed base environments
2. **Custom-to-Volume Model** will be employed to rapidly standardize services to achieve high volume business
 - Beginning with custom services driven to standard
 - Then to channels
 - Then to Internet or product features
3. **Channel Partners** leverage model will be employed to greatly expand Compaq Services' reach and provide:
 - Incremental revenue & profit opportunity for Compaq
 - Incremental revenue & profit opportunity for Channel Partners and less channel conflict
 - Greater service choice for customers with Compaq accountability

**Key Strategies Notes Continued
do NOT show this slide**

Key Strategies (con't)

4. **Customer Segments** will include Large Enterprises, Small-to-Medium size Businesses, Small Office/Home Office and Consumers
5. **Target Account Focus** – For the named Large Accounts, Compaq Services will address the service opportunity directly for both the installed base and new product sales
Partners will be used to complement the capabilities of Compaq Services
 - For other large enterprises, Compaq will provide solutions and services in its focus areas through and together with its partners
6. **Selling Model** will include direct coverage and channel support
 - Unified product and services account teams under a single account executive
 - Extensive channel sales support will drive wide coverage with strict rules of engagement

Key Strategies Notes Continued
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Key Strategies (con't)

7. Business Unit Focus

- Operations Management Services will grow aggressively
 - Drives the upside opportunity in the revenue goals
 - Provides account control
 - Leverages future product and services sales
- Systems Integration Services will grow at greater than industry averages in focus areas
 - Premier provider of technology architecture and infrastructure solutions
 - Industry solution focus on financial services, communications, and manufacturing through repeatable software and high Compaq product and service content
 - Support and Availability Services will focus on multivendor support to accounts with significant Compaq hardware presence
 - Will include alliances with software vendors and network product companies
 - Will not include alliances with hardware systems vendors
 - Will not pursue multivendor support opportunities in accounts with no Compaq presence

Key Strategies Notes Continued
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Key Strategies (con't)

- 8. Strategic Development** – The growth strategy will include strategic development thrusts through acquisitions and joint-ventures for targeted strategic capabilities as well as for rapidly growing resource needs in targeted geographies
- 9. Focus on People** – Our strategy includes programs to attract, retain and develop our people to ensure that Compaq Services will have the industry's best workforce. Programs will include rotation and career development of people across the business units.

Effective Service Integration Requires Strong Operational Model Linkage to Strategy Implementation

Operating Model Elements

- **Structure**
- **Work**
- **Decision Making**
- **Information Systems**
- **Measures**
- **Rewards and Recognition**
- **People and Culture**

Definition

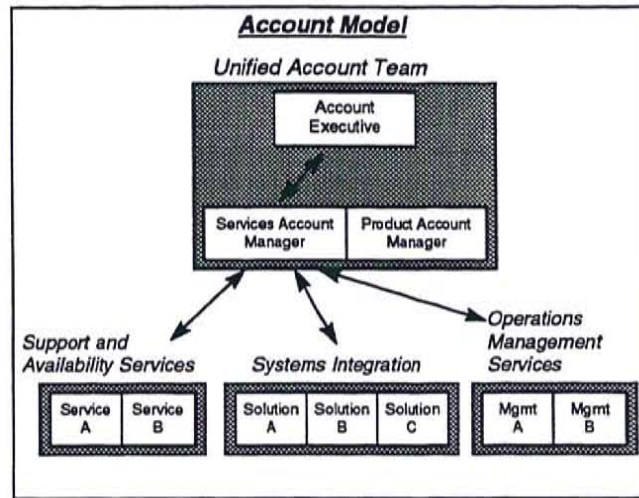
- **The line of business and organizational structure to manage Compaq Services**
- **The business processes to be performed**
- **The decision processes and systems used to govern Compaq Services**
- **The processes and systems used to provide information to manage Compaq Services**
- **The key metrics and accounting treatments to measure and improve operational and financial performance**
- **The approaches and programs to link evaluation and rewards to desired behavior and performance**
- **The skill set, development programs, culture, and enabling vehicles needed to execute the strategy**

Rules of Engagement with the Channel Reflects the Importance of Building True Service Relationships

Code of Conduct:

- Compaq will operate in a consistent, predictable and fair manner with its partners (regardless of size) with regard to pricing, information disclosure, and subcontracting
- Compaq will quote Direct if customer requires vendor accountability as an important principle for purchasing hardware products
- Compaq will consider a channel partner as a competitor if the partner is not promoting Compaq products or services
- Compaq will respect incumbent channel position within each account and will disclose intentions to bid separately in advance
- Compaq will subcontract based on merit, customer satisfaction, and fair distribution of work

**Compaq Services Sells Directly to Large, Named Accounts,
Led by Service Account Managers**



Compaq Services Sells Directly...

Account Executive

Responsibilities:	Services and product sales/account loyalty
Skills:	Industry expertise/product and services sales
Compensation:	Services and product sales/account loyalty
Organization:	Product sales

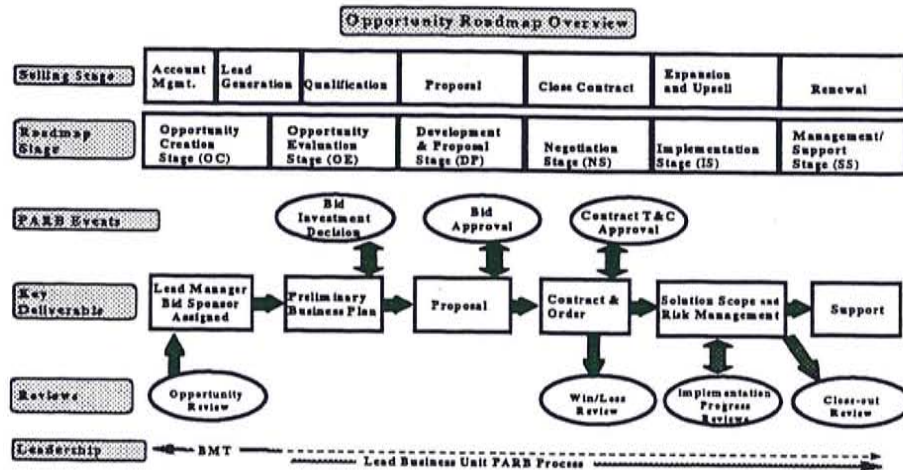
Services Account Manager

Responsibilities:	Services sales/account loyalty
Skills:	Industry and account expertise/service sales
Compensation:	Services sales/account loyalty
Organization:	Services group (hosted by BUs)

Business Unit Sales Specialists

Responsibilities:	Services sales (and program management in SI/OMS)
Skills:	Point services expertise/project management
Compensation:	Services sales and profitability
Organization:	Services business units

Opportunity Roadmap



Opportunity Roadmap

Read next slide for detailed explanation.

Roadmap Process For Service Opportunity Engagement

	Opportunity Creation Stage (OC)	Opportunity Evaluation Stage (OE)	Development and Proposal Stage (DP)	Negotiation Stage (NS)	Implementation Stage (IS)	Management/Support Stage (MS)
Purpose	<ul style="list-style-type: none"> Identify and/or create program or project opportunities Agree upon lead business unit 	<ul style="list-style-type: none"> Evaluate if Compaq should pursue this opportunity 	<ul style="list-style-type: none"> Propose a solution that customer will buy and Compaq can deliver profitably 	<ul style="list-style-type: none"> Obtain the customer contract 	<ul style="list-style-type: none"> Implement the solution 	<ul style="list-style-type: none"> Manage the on-going operations and support
Responsible Leads	<ul style="list-style-type: none"> Service or Country Account Manager Bid Management Team (BMT) is in leadership role 	<ul style="list-style-type: none"> Sales Specialist Account Manager BU/Global Account contacts 	<ul style="list-style-type: none"> Lead Manager Account Manager BU/Global Acct. contacts Project Manager 	<ul style="list-style-type: none"> Lead Manager Account Manager BU/Global Account contacts Project Manager 	<ul style="list-style-type: none"> Lead Manager Account Manager BU/Global Account contacts Project Manager 	<ul style="list-style-type: none"> Lead Manager Account Manager BU/Global Account contacts Project Manager
Required Steps	<ul style="list-style-type: none"> Define business need/problem Influence specification and budget Set expectations around value Integrate opportunity into account plan Develop opportunity profile 	<ul style="list-style-type: none"> Define technical and business requirements Verify lead BU Define strategy to win/deliver Determine resources needed to propose and win Make bid investment Assign resources Conduct cross-BU opportunity review 	<ul style="list-style-type: none"> Develop proposed solution Create business and program/project plans Develop proposal and statement of work Gain approval to submit bid to customer 	<ul style="list-style-type: none"> Obtain customer response Gain customer acceptance Gain Contract T&C approval Conduct Win/Loss Review 	<ul style="list-style-type: none"> Revise business and program/project plans Implement solution Conduct progress reviews Secure customer as reference site Manage scope changes Conduct close-out Review 	<ul style="list-style-type: none"> Manage support plan Manage changes Conduct ongoing reviews Ensure customer remains a usable reference site
Completion Stage	<ul style="list-style-type: none"> BMT accepts opportunity BMT selects lead BU Lead manager assigned 	<ul style="list-style-type: none"> Bid investment approval decision Program or project resources assigned 	<ul style="list-style-type: none"> Bid approval or disapproval Proposal submitted to customer 	<ul style="list-style-type: none"> Bid lost Contract signed and order received 	<ul style="list-style-type: none"> Implementation completed per contract Close-out review is completed 	<ul style="list-style-type: none"> Support completed per contract
Deliverables	<ul style="list-style-type: none"> Opportunity Profile Lead BU contact Frontlog report Management bid sponsor assigned 	<ul style="list-style-type: none"> Preliminary business plan including full P&L Requirements specification Top opportunity 	<ul style="list-style-type: none"> Proposal Business and initial program or project plans 	<ul style="list-style-type: none"> Contract & order Win/Loss Report 	<ul style="list-style-type: none"> Revised business plan Implementation deliverables 	<ul style="list-style-type: none"> Support services Fulfillment services New opportunities identified

Channels Are an Integral Part of Our Strategy and Messages

Communicated Externally

- Channel is strategically important for Compaq Services to meet its financial and customer satisfaction targets
- Service channel programs and clear rules of engagement are designed to address channel loyalty
- Compaq's channel program will be the industry leader
 - We will attain the trusted advisor position by aligning to the HP model quickly
 - In addition, we will develop competitive advantage over HP through volume/profit opportunity, improved logistics, training, pay-for-performance and tools (we need more business development people than HP)
 - Compaq will sub-contract to the top performing partners in each local market, not the 5 biggest as HP does
- For any product authorized to be sold through the channel, the channel will have the opportunity to sell and deliver services on that product
- The services relationship with TPM's will be limited to supply of parts

Channels Are an Integral Part of Our Strategy and Messages

Communicated Internally

- The need for resources to meet capacity requirements will necessitate the following actions:
 - Compaq will leverage approximately one-third of the worldwide services revenue through the channel
 - For certain customers, offers such as desktop services, laptop repair, DAS and staging/integration will be transitioned to channel partners
 - Increased NT opportunity drives migration of workforce to mission critical/sensitive corporate segments where resources are required
 - Multi-vendor services are necessary for full support, but not a driver for revenue and profit
- Compensation plans for Geo/Country Services Managers must include channel revenue and customer satisfaction goals

Services Business Units

Support and Availability

- **Service Areas** Warranty, Maintenance, High Availability and Business Critical Services
- **Revenue** \$4 billion
- **People** 20,000
- **Structure** By geography with worldwide functional leaders, presence in over 130 countries
- **Characteristics** Global service menu and infrastructure, distributed general management, "whatever it takes" for customers
- **Key Integration Issues**
 - Focus on channels!!
 - Integrating Tandem
 - Consolidating Call Centers
 - Consolidating and outsourcing logistics
 - Warranty management and accounting
 - Consumer decision

Services Business Units (con't)

Systems Integration

- **Service Areas** Architecture planning, Systems/Network design and integration, application integration and migration
- **Revenue** \$1.9 billion
- **People** 7,000
- **Structure** By geography, by practice in most countries
- **Characteristics** Solutions projects focus for infrastructure and select industry applications; Microsoft centric
- **Key Integration Issues**
 - Sell through model for SI projects
 - Integrating Custom Systems (CSS)
 - Integration with Infrastructure and Industry solution models
 - Responsibility for Alta Vista software products
 - Migrating custom services to volume packages

Services Business Units (con't)

Operations Management

- **Service Areas** Custom Help Desk, Asset Management, Network and System Operations, Application Management, Desktop to Data Center
- **Revenue** \$5 billion
- **People** 2,000
- **Structure** by Practice, geographic presence based on opportunity
- **Characteristics** Large projects, central control, alliances with technology providers, application providers and big "six" consultants
- **Key Integration Issues**
 - Maintaining focus and business expansion
 - Managing perceived channel conflict

Key Messages for Industry Analysts

- 1. Compaq now has the experience and skilled resources to enable customers to bridge the gap from today's IT environment to the Internet, standards-based future**
- 2. Compaq's world-class network of partners will be significantly enhanced through innovative new service programs and an expanded portfolio of integrated, lifecycle service solutions available consistently around the world**
- 3. Compaq Services will grow faster than the industry in revenue and margin, leverage product sales into the enterprise market, and enable Compaq to achieve industry leadership in ROIC by the year 2000**

Key Internal Messages

- **Lower the cost of ownership and reduce the risk for our customers**
 - **Deliver a new level of service solutions which incorporate industry standards and innovations in service creation, delivery, tools, and methodology**
 - **Single point of accountability**
- **Enable customers to achieve their business objectives rapidly and cost effectively, with predictable results**
 - **Together with our partners, will provide the most experienced people and broadest portfolio of IT services**

Key Internal Messages (con't)

- **Generate significant growth, profit, cash flow, and ROIC**
 - **Leverage Compaq's server sales into the enterprise market**
 - **Ensure excellent support for all Compaq products**
 - **Be a Tier 1 Services provider by the year 2002**
- **Deploy 27,000 service professionals including 5000 experienced IT architects, complemented by skilled channel partner resources**
 - **From 550 locations in 114 countries**
 - **Global coverage enables service solutions to be delivered wherever and whenever needed by customers**

Key Internal Messages (con't)

- **Enable our service channel partners to deliver superior and high quality service**
 - **Employ industry leading partnership programs and practices**
 - **Invest in training**
 - **Measure and reward performance**
- **Be recognized as the preferred IT services employer**
 - **Enable our people to deliver superlative performance through confidence, renewal, teamwork, and the achievement of excellence**
 - **Continue to attract and retain the most experienced and skilled service professionals in the industry**

Key Internal Messages (con't)

- **Be accountable for protecting and evolving our customers' investments in Compaq, DIGITAL, and Tandem technology**
 - **Enable them to continuously evolve to the Internet, standards-based future with fastest time to solution**
- **Expand the capabilities and local presence of our unique network of experienced Compaq resources and channel partners**
 - **Set the industry standard for excellence in channel partner support**
 - **Deliver broadest portfolio of integrated, multivendor, lifecycle solutions consistently worldwide**
 - **Provide maximum choice and flexibility in doing business**

Compaq Computer Corporation

***"The Global Leader in Enterprise Computing
by the Year 2002"***

COMPAQ *Services: A New Beginning*

Return On Invested Capital Guide

This section provides an overview of ROIC (Return On Invested Capital), an important measurement in planning, budgeting, and reporting in Compaq.

RETURN ON INVESTED CAPITAL (ROIC)

This document is intended to provide an overview of Return On Invested Capital. ROIC builds on the financial and asset management measurements that we already have been using including ROA, CFOI, DSO, and Inventory Turns. The basic principle is to achieve improving returns employing an increasingly efficient net operating asset base.

We wanted to provide information on ROIC since it is a major business measure utilized by Compaq Computer Corporation. Compaq uses a straight forward method of calculating ROIC to make it very clear and easy to use for operating managers. Operating managers are measured on earning an adequate return on the resources invested in the business. Not only are operating managers expected to earn returns that exceed cost of capital, but more importantly, there should be continuous improvement in ROIC. This would therefore translate into increased shareholder value. This section includes the following:

- A description of the method utilized by Compaq in a simplified, operational approach.
- An example using the Compaq method. This includes the ROIC calculation and the accompanying P&L, balance sheet, and cash flow statement. An Economic Value Add (EVA) is also provided in order to show the relationship between EVA and ROIC. Other measurements are also included for cash flow and asset management as background information.
- A financial comparison of Compaq and DIGITAL.

ROIC will be measured in the planning and budgeting process. However, the method and extent of its use has not been determined as yet. The measure of ROIC will vary by country, area, and business unit depending on the controllable assets and profit measurements. Compaq's current practice is to review country/geography operations ROIC as a contribution margin level. Further information will be provided as it is made available.

ROIC is calculated as:
$$\frac{\text{Operating Profit} \times (1 - \text{Effective Tax Rate})}{\text{Average Invested Capital}}$$

The numerator of the formula is operating profit less taxes applicable to operating profit only. This is referred to as NOPAT (Net Operating Profit After Taxes). All items between operating profit and net income are excluded in this method of calculating ROIC, such as interest income/expense, other income and expense, and extraordinary income/losses. Again, the premise is to make ROIC operational and measurable.

The denominator of the formula is average invested capital. This includes operating cash (assumed to be 5% of annualized revenue), current assets, less non-interest bearing current liabilities (accounts payable, accrued expenses, deferred revenue, restructuring reserve, taxes payable), plus net PP&E and other assets. This excludes notes payable and current portion of long term debt. The result is then averaged with prior period ending invested capital.

COMPAQ ROIC CALCULATION

Definition Percentage measure of operating returns on capital invested in the business

Calculation
$$\frac{\text{Operating Profit} \times (1 - \text{Effective Tax Rate})}{\text{Average Invested Capital}}$$

Invested Capital for Period Current Assets (includes operating cash assumed at 5% annualized revenue)

Less Non-interest bearing current liabilities (current liabilities less notes payable)

Equals Working capital

Plus Net fixed assets

Plus Other assets

Equals Invested capital for the period

Average with prior period ending balance to obtain Average Invested Capital

ROIC CALCULATION EXAMPLE

	1995	1996	1997	1998
<u>ROIC</u>				
Effective Tax Rate	40%	40%	40%	40%
Operating Profit	100	190	280	390
Net Operating Profit After Taxes (NOPAT)	60	114	168	234
Operating Cash @ 5% revenue	50	75	90	110
Current Assets	355	488	549	634
Less: Non-Interest Bearing Current Liabilities	70	123	172	210
Net Working Capital (NWC)	335	441	466	533
PP&E	111	150	164	183
Other Assets	30	45	54	66
Invested Capital	476	635	684	783
Average Invested Capital		556	660	733
ROIC		21%	25%	32%

ROIC CALCULATION EXAMPLE (con't)

	1995	1996	1997	1998
<u>Related Financial Information</u>				
Economic Value Added (EVA):				
ROIC		21%	25%	32%
Cost of Capital		13%	13%	13%
EVA Return %		8%	12%	19%
EVA \$ (EVA Return % x Average Invested Capital)		\$42	\$82	\$139

Other Measurements: Cash Flow/Asset Management

CFOI:		9	173	139
DSO (Days Sales Outstanding)	75	65	60	55
Inv Days of Supply	55	54	53	52
PP&E Turns	9	10	11	12
DPO (Days Payable Outstanding)	35	38	40	42
Cash Flow Cycle Time	95	81	73	65

ROIC PROFIT & LOSS

	1995	1996	1997	1998
Sales	1,000	1,500	1,800	2,200
Gross Profit	300	450	600	750
%	30.0%	30.0%	33.3%	34.1%
Operating Expenses	200	260	320	360
%	20.0%	17.3%	17.8%	16.4%
Operating Profit	100	190	280	390
%	10.0%	12.7%	15.6%	17.7%
Net Int (Inc)/Exp	6	8	10	4
PBT (Profit Before Taxes)	94	182	270	386
Taxes @ 40%	38	73	108	154
Net Operating Profit After Taxes (NOPAT)				
Profit After Taxes (PAT)	56	109	162	231
%	5.6%	7.3%	9.0%	10.5%

ROIC BALANCE SHEET

	1995	1996	1997	1998
Assets:				
Cash	100	105	274	409
AR	208	271	300	336
Inventory	107	158	177	209
Other Current Assets	40	60	72	88
Total Current Assets	455	594	823	1,042
PP&E	111	150	164	183
Other Assets	30	45	54	66
Total Assets	596	788	1,041	1,292
Liabilities				
Notes Payable	82	116	161	147
Accounts Payable	68	111	133	169
Accrued Expenses	2	12	39	41
Current Portion Long Term Debt	4	4	4	4
EVA \$ Total Current Liabilities	156	243	337	361
Long Term Debt	50	46	42	38
Total Liabilities	206	289	379	399
Equity	390	499	661	893
Total Liabilities & Equity	596	788	1,041	1,292

ROIC CASH FLOW

	1995	1996	1997	1998
<u>Operating Activities:</u>				
PAT		109	162	231
Depreciation		11	15	16
Δ Accounts Receivable		(63)	(29)	(36)
Δ Inventory		(51)	(19)	(33)
Δ Other Current Assets		(20)	(12)	(16)
Δ Notes Payable		34	45	(14)
Δ Accounts Payable		43	23	36
Δ Accrued Expenses		10	27	2
Δ LTD (current portion)		0	0	0
Total Cash Flow – Operations		74	211	187
<u>Investing Activities:</u>				
Net Capital Expenditures		(50)	(29)	(36)
Δ Other Assets		(15)	(9)	(12)
Total Cash Flow – Investing		(65)	(38)	(48)
Cash Flow from Ops and Inv		9	173	139
<u>Financing Activities:</u>				
Δ LTD		(4)	(4)	(4)
Total Cash Flow – Financing		(4)	(4)	(4)
TOTAL CASH FLOW		5	169	135
Beginning Cash		100	105	274
Δ In Cash		5	169	135
Ending Cash		105	274	409

ROIC FINANCIAL COMPARISONS

	Compaq Quarter End 12/31/97	DIGITAL Quarter End 12/31/97
ROIC %	90.0%	6.2%
Cost of Capital %	13.0%	13.0%
EVA %	77.0%	-6.8%
Average Invested Capital \$	3.0B	4.0B
EVA \$	2.0B	-0.3B
Days Sales Outstanding	36 days	73 days
Days Payable Outstanding	48 days	30 days
Inventory Turns	13.5 x	6.0 x
PP&E Turns	15.4 x	6.4 x

Note: Estimated Compaq data for ROIC and EVA

COMPAQ *Services: A New Beginning*

Building a Common Language

This section defines some commonly used terms within the Services Division. Creating a common language is a step towards building a common culture.

COMPAQ Services

A New Beginning

Building a Common Language

This section defines some commonly used terms within the Services Division. Creating a common language is a step towards building a common culture.

BUILDING A COMMON LANGUAGE

The purpose of this dynamic document is to provide a resource for understanding the definition of the common language for all Compaq Services employees. If you would like to contribute to this document, please contact Pam Kenney, Director, Change Management Programs at 978-496-9839.

Affinity Diagramming

A tool used to identify and group ideas or content when there are many ideas and points of view. The purpose of Affinity Diagramming is to:

- Identify and group problems or defects.
- Gain a common view or consensus on groupings such as issues, problems, defects, or ideas.
- Organize these ideas or content into like categories.

Alliance

A firm with which you have a special business relationship or partnership.

Change Formula

The Change Formula is based on the premise that change is a process, not an event. Change will not occur unless there are several factors in place that are greater than the perceived cost changing. This can be represented by the following change formula:

$$C = (A \times B \times D) > X$$

C = Change

A = Dissatisfaction with the status quo

B = Vision of an ideal future state

D = Knowledge of practical first steps

X = Perceived cost of change

Channels

A firm whose relationship provides a route to go-to-market by reselling products and/or services.

Coaching

Coaching is the process of creating the climate, environment, and context that empowers individuals and teams. Effective coaching is a function of the relationship and commitment between coach and player.

BUILDING A COMMON LANGUAGE (con't)

Corkscrew Analysis

A team feedback tool that provides an objective set of questions and framework that turns observations and insights into usable actions. The questions help analyze what happened, why it happened, and what you will do differently in the future. The conclusions of this process are called "working theories."

DesignShop™

A DesignShop™ is a three phase process of "decision by design." The three phases are SCAN – FOCUS – ACT. This process differs from that of a typical planning meeting or negotiation session by fusing planning and action, design and decision-making, and long and short range goals. During a DesignShop™, participants are facilitated through a rigorous, iterative process of exploration, co-design, assessment and decision-making.

Skillful Dialogue

A process by which a group explores difficult issues from many points of view so that individuals can gain insights that might not necessarily be achieved individually. The ground rules for Skillful Dialogue include:

- Create a safe environment
- Make openness and trust the rule, not the exception
- Suspend assumptions

DTN

The DIGITAL Telephone Network. This is the internal cost-effective phone system that allows DIGITAL colleagues to access each other worldwide by just dialing seven numbers.

Employee Engagement

Employee Engagement is the planned process of actively involving employees in the organization. The outcome from employee engagement activities, such as forums, is increased commitment to the goals of the organization.

Environmental Scan

The process of defining your organization and its boundaries in organizational systems terms. It is a key to understanding the purpose, process, and environment of any system.

DesignShop™ is a trademark of Ernst & Young LLD/MG Taylor

BUILDING A COMMON LANGUAGE (con't)

Feedback	Communication occurring between organizations and groups to assess the quality of the interaction. This is absolutely necessary for organizational and individual learning.
Fit Model	The Fit model is an organizational design model that demonstrates the interdependencies between five organizational variables: Work, Organizational Structure, People Selection & Development, Information and Decision Systems and Rewards & Recognition. The important prerequisite for this design model is the definition of the business strategy.
GEO	GEO stands for Geography. There are six Compaq geographies: North America, Latin America, EMEA (Europe, Middle East and Africa), China, Japan, and Asia Pacific.
Meritocracy	A method of selecting people for job positions based on expertise, experience, and proven effectiveness.
Organizational Culture	The personality or characteristics of an organization such as beliefs, values, and behaviors that determine how things get done.
Partner	A firm with whom we have a business relationship.
Process Cycle	<p>A Process Cycle provides a structure for enhancing the effectiveness of meetings, projects, or work. It is a tool to organize the work into actionable steps to achieve an agreed upon result. The Process Cycle includes:</p> <ul style="list-style-type: none">• Purpose statement• Intended results• Steps to achieve results• Capabilities that are required to achieve results• Feedback for continual improvement

BUILDING A COMMON LANGUAGE (con't)

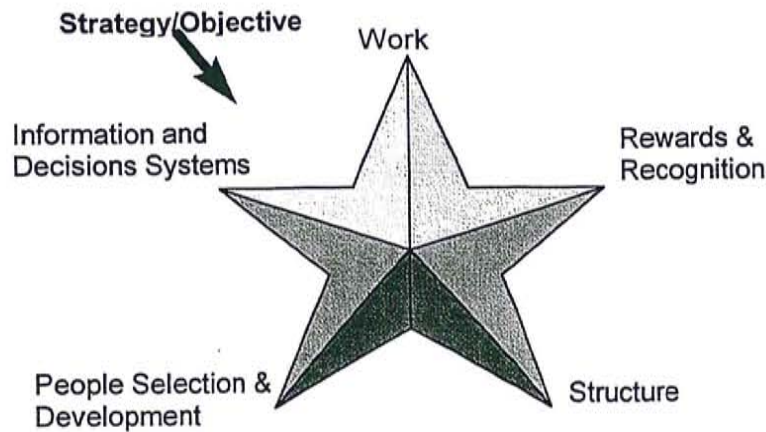
RASCI Chart	A RASCI (R esponsible, A pprove, S upport, C onsult, I nform) Chart is a responsibility matrix that identifies who will do what work and shows the relationships or dependencies among the people doing the work.
ROIC	<p>Return On Invested Capital. The basic principle of ROIC is to achieve improving returns employing an increasingly efficient net operating asset base. ROIC will be a measure in the planning, budgeting and reporting process in the new Compaq Services organization. ROIC is calculated as:</p> $\frac{\text{Operating Profit} \times (1 - \text{Effective Tax Rate})}{\text{Average Invested Capital}}$
SOHO	Small Office H ome Office
Team Norms	Team Norms are agreed upon ground rules or "norms" of acceptable behaviors for members of a workgroup or team. These norms determine team interaction in the completion of work.
Working Theory	The working conclusions derived from Corkscrew Analysis.

COMPAQ *Services: A New Beginning*

Organizational Fit Model

This section provides an overview of the Fit Model and how it is used as a tool to design organizations that support the business strategy.

THE ORGANIZATIONAL FIT MODEL



"Organizational design is the continuous search for coherence or fit of interdependent variables."

ORGANIZATIONAL DESIGN BEGINS WITH STRATEGY

Once a business strategy is defined, the Organizational Fit Model*, represented by the star, helps to examine and address five *interdependent* organizational variables in a holistic manner. The trick is to design, manage and lead an organization so that the variables are *mutually supporting*.

The definition of the business strategy includes decisions about: products/services to be offered, customers/clients, technology needed and location of the business. These decisions define the organization's boundaries and the environment needed to support the strategy.

INTERDEPENDENT COMPONENTS OF ORGANIZATIONAL DESIGN

- Work – The key considerations for work processes include: diversity, difficulty and variability.
- Structure – The considerations for an organizational *structure to execute the work* include: division of labor, departmentalization, configuration, and distribution of power.
- Information and Decision Systems – The considerations for *decisions systems and required information processing* include: decision mechanism, degree of data formalization, data base scope and frequency of decisions.
- Reward and Recognition Systems – The reward and recognition systems are critical to *ensure performance and behaviors* are acknowledged and rewarded. A healthy reward system will include both formal and informal systems.
- People Selection and Development – People systems to *engage and develop the individual* include personnel selection, training and development, transfer and promotion. People systems are linked to Reward and Recognition Systems.

*Adapted from J.R.Galbraith's "Organizational Design"

COMPAQ *Services: A New Beginning*

Facilitator Guide

This guide provides facilitators with suggestions for delivering communications and employee engagement sessions.

2. *Sample Agenda*

This is a sample agenda for a 2-hour session. You may customize your agenda to meet your employee needs and business requirements.

10 minutes	Welcome and Opening Remarks	Local Leader
40 minutes	Compaq Services Strategy Presentation	Local Leader
60 minutes	Dialogue on Local Impact/Q&A	All Participants
10 minutes	Closing Remarks and Wrap-Up	Local Leader

3. *Tips for Preparing to Present to Your Employees**

- Explain State of Affairs
Speak in terms of **how**, **what**, **why**, and **who** to be sure to communicate to different personality and listening styles. Include that information is changing daily. *The situation is...What I know is...What I don't know is...*
- Self Disclosure
Share your own feelings and thoughts. Be an owner (*what are our options*), not a victim (*they did this to us*). Redefine "positive" as the best option. *I personally feel...What I like...What I don't like...*
- Outcome
Define your perspective or next steps and an approach that enables others to be responsible and involved. State what you would like from the audience.

4. *Tips for Leading the Dialogue*

The following are guidelines for leading and wrapping up the dialogue:

- Encourage employees to ask questions and express concerns with the new organization. Also, encourage people to talk about potential opportunities.
- Acknowledge the complex dynamics and stresses during times of mergers and change, both on a personal and organizational level. Encourage people to support their colleagues who may be experiencing different levels of readiness for the changes.
- If you do not know the answer to the question, remember that an honest "I do not know" can help build trust. Provide support by letting people know what procedure you recommend for getting answers – where they should go or to whom they should talk to get more information.

*Adapted from *Aftershock – Navigating Through Change* by Harry Woodward

CAPABILITIES

- Accurate and timely materials, customized for local audiences.
- Participants with open minds who are willing to ask questions, express concerns and opportunities, and share observations.
- An environment that fosters active dialogue about the information presented.

FEEDBACK

- Do you feel more informed about the Compaq Services organization after attending this meeting?
- What are your suggestions for next steps in creating energy and shared responsibility for implementing the new strategies?
- Do you understand the channels for finding information and answering questions? What are your recommendations?
- What are your recommendations for future meetings?

SUPPORT MATERIAL

The materials in this and other sections of this Kit will give you the background and tools to help you create a forum for communicating with and engaging employees.

1. Presentations and Speaker Notes
 - Compaq Services: A New Beginning
2. Management Operations
 - Compaq Services Field Manager's Integration Handbook
 - Return On Invested Capital (ROIC) Guide
 - Building a Common Language
 - Organizational Fit Model
3. Handouts for Employees
 - Building a Common Language
 - Merger References and Resources
 - Key Messages
4. Tips and Tools
 - Tips for Managing During a Merger
 - Change Management Tools

PROCESS CYCLE FOR AN EMPLOYEE WORKSHOP SESSION

PURPOSE

The purpose of this session is to explore the impact of the Compaq Services strategy at the local level and to create shared meaning and ownership for implementation of changes.

This workshop session could be included within the initial staff meeting or large group meeting about the Compaq Services strategy, or it could be planned to follow the initial meeting within one or two weeks.

RESULTS

As a result of participating in this session, employees will:

- Gain a deeper understanding of the Compaq Services strategy.
- Identify ways in which the local teams can contribute to the successful implementation of the processes and programs initiated by the organizational changes.
- Gain greater understanding of the dynamics of change on a personal and organizational level, and how employees can help themselves and others through the stages of change.

STEPS

- | | |
|------------|--|
| 5 minutes | Plan your discussion as a group. <ul style="list-style-type: none">• Review the Purpose and Results to help participants focus on objectives.• Assign group roles: scribe and timekeeper. |
| 45 minutes | Dialogue <ul style="list-style-type: none">• As a team, summarize what you heard in the Compaq Services strategy presentation.• Engage in a discussion around questions, concerns, local challenges, and impact of the changes. |

STEPS (con't)

- 45 minutes (con't)
- Determine what local action will be required.
 - Who/what will it affect?
 - How will this change the way we conduct our business with customers and partners?
 - How will jobs change?
 - As you go through this discussion, be aware of how you, as a group, do your work, make decisions, and relate to each other personally.

Note: Your scribe should capture key points on a flip chart or white board so that the local manager can refer to these.

CAPABILITIES

- Participants with open minds who are willing to discuss and share observations.
- An environment that fosters active dialogue about the information presented.

FEEDBACK

- What are your recommendations for the next steps in creating energy and shared responsibility for implementing change?

First in New Breed...

COMPAQ

World-class
partnering
Reseller
channel
innovation
Volume
solutions
model
Market leader

TANDEM.
a Compaq company

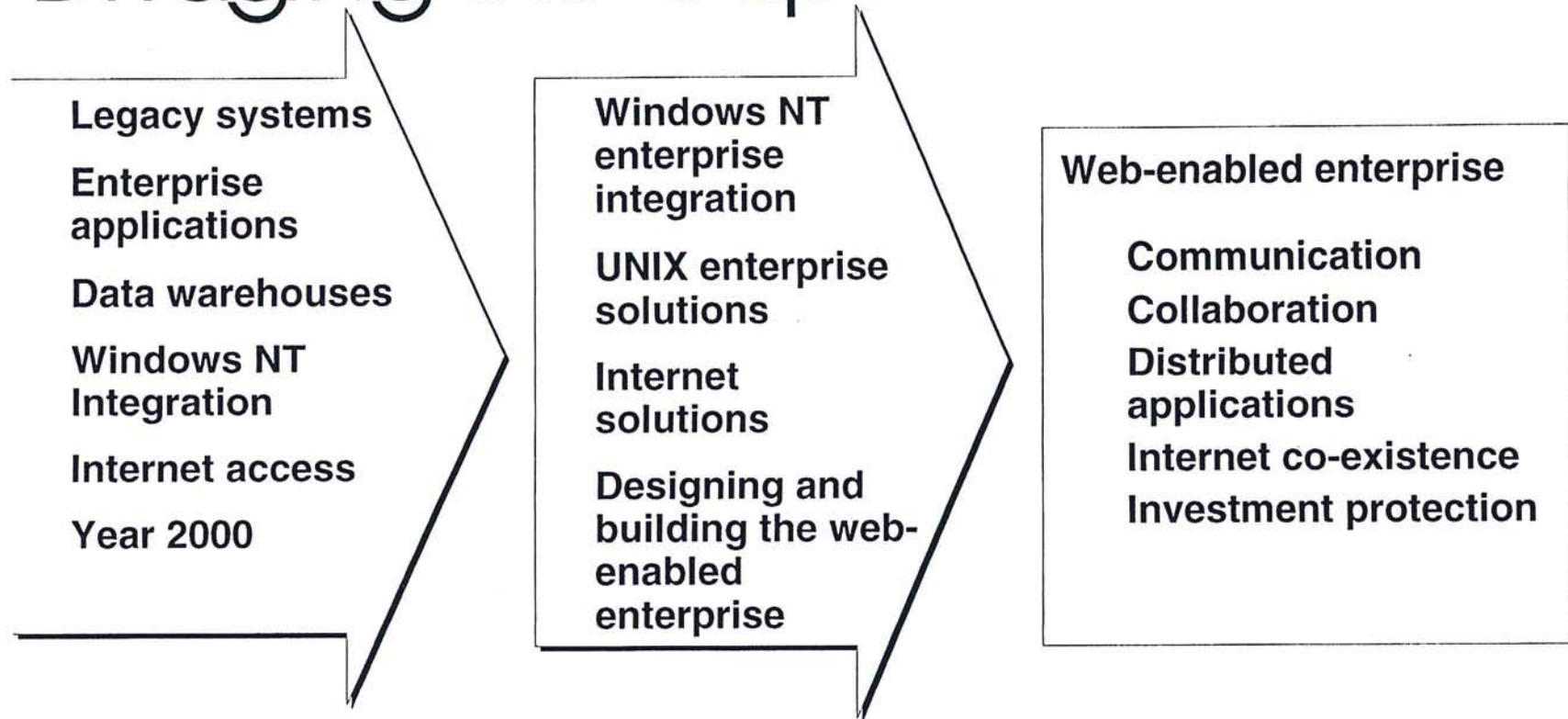
Non-stop
computing
Professional
Services
Industry
focused
solutions
Enterprise
alliances

digitalTM

Global delivery
Experienced
professionals
Integrated
lifecycle
solutions
Strategic service
alliances

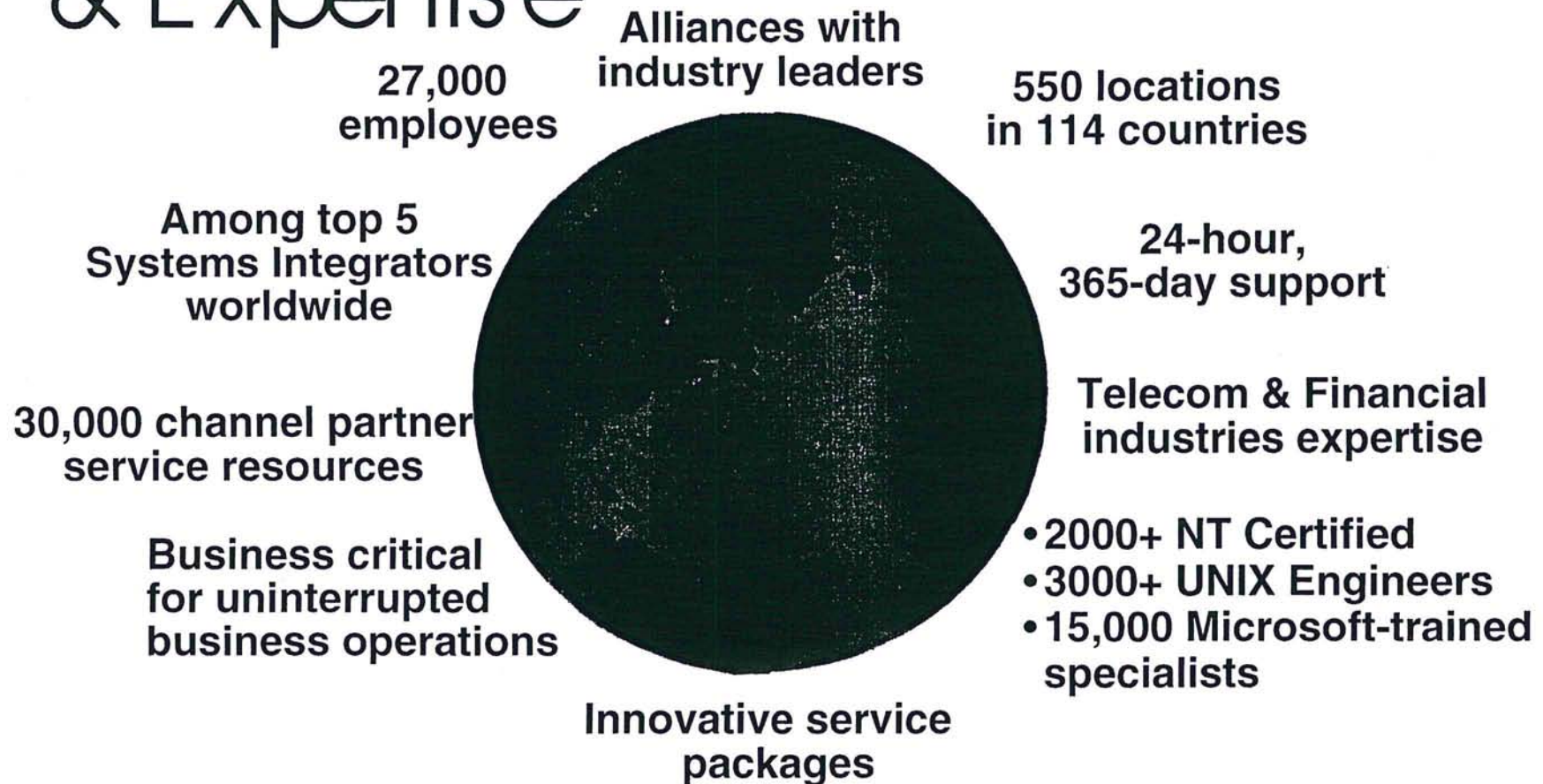
..of IT Service Provider

Bridging the Gap



Investment Protection ■ Time-to-solution ■ Total Cost of Ownership

Worldwide Capability & Expertise



The Services Agenda

- 1 Be #1 in customer satisfaction and loyalty
- 2 Create new opportunities for partners to sell and deliver services
- 3 Continue to attract the best talent and be the IT Service employer of choice
- 4 Expand share in high growth markets and in target industries
- 5 Grow to be a \$15 billion, Tier 1 Service provider by 2002

Why we will win

Unique, worldwide network

Enterprise experience

Standards-based, lifecycle solutions

Global reach, local relationships

Strategic industry alliances

Focus on high growth markets

Experienced, committed professionals

ANALYST BRIEFINGS AND PRESS CONFERENCE

TALKING POINTS JOHN RANDO

Introduction [After Customer Video – 2mins]

Slide #1 : Title

- Good Morning
- Thanks John... [LINK FROM JOHN ROSE]...
- Appropriate to be introduced by John this morning. The combination of the Enterprise Business, Services, and our Partners will enable Compaq to offer customers... from small local businesses to large global enterprises... the greatest range of IT solutions available to them today

Slide #2 : New Breed of IT Service Supplier

New Breed of IT Service Provider

- Today's announcement brings together the service skills and experience of Digital, Tandem and Compaq with reseller and service partners to establish a powerful, new breed of IT Service provider
- One that will enable new levels of productivity for our customers... new levels of industry leading service and support... and reduced total cost of ownership
- One that will drive unprecedented growth for Compaq and for our reseller channel partners...
- And one that will create exciting and challenging new opportunities for service professionals to grow and develop... and to work with global customers in major industries around the world
- Its success will be key to the new world of computing which Eckhard referred to in his opening remarks... and to the future growth and success of Compaq Computer Corporation

Slide #3 : Bridging the Gap

Changing Role for IT Services

- Compaq Services is without doubt, the first in a new breed of IT Service provider
- Today's customer expectations are high and demanding in ways that few service companies are able to match
- The challenges they face are immense... Y2K... new distributed applications... E-commerce... messaging... global mail backbones... maintaining legacy systems while at the same time implementing a Web-enabled enterprise... and continuous additional new technologies
- Customers need an IT Service provider who has the EXPERIENCE and PROVEN TRACK RECORD of working on strategic business initiatives and IT projects... taking on the role of IT architect and prime integrator, able to deliver more global, lifecycle solutions than ever before, wherever in the world these are needed
- They want quality, a single point of accountability, and dependability from an IT service provider who can work with partners... everyone from resellers to strategic service partners... to deliver results and business solutions, with reduced risk and in the shortest possible time
- Most of all they want an IT Service provider who can help them to realize the business benefits from Internet, standards-based environments... who can integrate services into projects from start to finish... from planning, design, on through implementation, even long-term management and support
- They want an IT Service provider who will commit to sustaining a long-term, durable relationship
- The financial numbers bear out the strategic importance of Services... by 2002... more than 5 out of every 10 IT dollars will be spent on services and software.
- Demand is so great... that it is impossible to satisfy customer needs without a qualified and certified partner network

Slide #4 : Worldwide Capabilities and Expertise

Expanded Reach and Capabilities

- Whichever way you look at it, Compaq Services measures-up to those challenging new customer demands. It is uniquely positioned to take full advantage of the business opportunities created by increased investment in IT Services
- We will combine the non-stop computing experience of Tandem with the business-critical and lifecycle experience of Digital... the Compaq reseller channel... strategic service alliances with industry leaders such as Microsoft, Computer Associates, Oracle, SAP and others... and an open, standards-based approach to technology
- This will enable us to establish worldwide reach and capability which no other competitor can match... not IBM... not HP... not Sun
- We will focus on three core businesses... networked systems integration... operations management... support and availability
- We will deploy more than 27,000 service professionals delivering lifecycle solutions from over 550 locations in 114 countries... complemented by almost 30,000 skilled reseller channel partner resources... to deliver the broadest range of lifecycle services available to customers today
- We already lead the industry in areas such as NT design, deployment, and integration with UNIX and mixed environments... with 3000 UNIX specialists... 2000 Microsoft certified engineers... and with more customers using our skill and experience than from any other competitor
- We intend to stay ahead of the pack. Set the pace by focussing on growth, innovative new tools, integration software, methods, investments in training and making sure that we measure up to our customers' expectations

Slide #5 : The Services Agenda

Simple Agenda – Focus on Growth

- Our worldwide services resources will be focused on a simple, CUSTOMER and GROWTH Agenda

First, we want to be #1 in customer satisfaction and loyalty

- We are committed to the productivity of our customers existing investment in Digital, Tandem and Compaq technology and to enable them to continuously evolve to the Internet, standards-based environment with fastest time-to-solution
- We will provide excellent service and support for all Compaq products... secure ongoing presence and loyalty in key Compaq accounts
- Our Compaq service professionals, and our network of certified service partners will use common methodologies, tools and practices... to extend our reach and capacity many times without compromising customer quality and flexibility
- Intend to lead the industry in innovative new approaches, tools, and methodologies... designed to continuously improve the return on IT investments made by our customers

Second, we want to create new opportunities for our partners to sell and deliver services on a broader range of products

- We want to bring the extensive capabilities and local presence of our resellers and strategic service partners to deliver added value for our customers... set the standard in channel partner support
- There is a significant market opportunity for packaged services. We will implement a custom to volume model... rapidly standardize services to achieve high volume business...beginning with custom services driven to standard... then to channels... then to Internet or product features
- We will continue to innovate in making the complex simple so that more of our partners can deliver to a broader market place... faster with less risk and at less cost

Third, we want to continue attracting the best talent in the industry and be the IT Services employer of choice

- Competitive market for the talented skilled architects and services professionals so much in demand today from customers and Service providers alike
- We have more experience in solving today's customer business problems... particularly in the enterprise... than any other competitor
- Leading international companies have chosen us as their IT architect responsible for managing complex systems, networks and applications because of our ability to attract and retain the best talent. Our goal is to continue attracting and retaining the best talent.

Fourth, we want to expand our share in high growth markets and in target industries

- Success so far. As Digital Worldwide Services in the last quarter... saw significant growth in M&M (+25%)... NT Integration (+32%)... Semiconductor industry (+22%)... Internet (+24%)... Outsourcing (+31%)
- Have a leadership position in key segments of the manufacturing, financial, telecommunications, and semiconductor industries
- Continue to build on that and expand into new areas of growth... opportunities to provide customers with business critical services... to ensure uninterrupted business operations

Fifth, our goal is to grow to be a \$15 billion, Tier 1 Service Provider by 2002

- Services will be a significant driver of growth... huge potential opportunities available
- The support and availability services market is estimated to be worth \$146 billion... the networked systems integration market estimated to GROW by over \$40 billion in the next two years... and the operations management market is estimated to be worth \$70 billion

- In this latter area our new, and highly innovative approach called FUTURE SOURCING will yield significant benefit to our customers in managing their future Internet, standards-based IT infrastructure.
- Together with Compaq Finance, we will architect innovative new solutions and financing, breaking new ground for customer productivity and total cost of ownership
- We also expect to see continued high growth in our professional service practices and target markets... indeed we expect it to be even more aggressive than our current 10% growth levels
- There is significant growth potential in support and availability with new opportunities to sell services now on the huge and growing base of Compaq products and to leverage server sales into the enterprise... close links and support for the Compaq product roadmap
- Powerful combination of Compaq and Microsoft and our Alliance for Enterprise Computing... with our Prime Integrator role... alone will open significant new enterprise opportunities
- Lastly, our strategy for growth does include plans to invest... in skills development... networking and outsourcing... business critical capabilities and tools... new emerging markets – China joint venture with Founder... and we expect our partners to invest in realizing the potential

Slide #6 : Why We Will Win

Close

- In closing, let me say that I believe we will be successful because of... our unique worldwide service network of resellers and strategic service partners... the breadth and depth of our experience and capabilities in delivering custom and standards-based enterprise solutions
- Because of our global reach and local relationships... our key strategic service alliances with industry leaders such as Microsoft, Computer Associates, Oracle, SAP, and others
- Because of our business focus on high growth markets... and combining the strengths of our global capabilities with the closeness of our local resources

- Most importantly... I believe that **EXPERIENCE**, and the high quality of our skilled Service professionals will make the difference for our customers
- It is the combined skills and experience of our service professionals... the extended reach and capabilities with our reseller and strategic service partners... and the continuing investment and support from our customers that will ensure success for Compaq Services
- Thank you
- I am delighted to introduce our next speaker, Mike Heil. Mike is my partner in managing the downstream customer interface on behalf of Compaq Computer Corporation
- Together, Mike and I are responsible for the entire, worldwide field organization who, as you know, are key to our success... and more importantly, to the success of our customers
- But before we hear from Mike... let's hear from another customer

[Customer Video – 2mins]

[ends]

