
HOW WE WANT TO RUN THE COMPANY

August 12 - 15, 1991

Heald Pond

21 August 1991

Russ Gullotti

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Book 20 of 49

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AUGUST 1991, HEALD POND WOODS ATTENDEE LIST

Henry Ancona	Vice President, Information Systems & Applications
Lyn Benton	Assistant Corporate Controller
Charles Christ	Vice President, Mass Storage
Dave Copeland	Vice President, Manufacturing Applications & Industries Group
Bill Demmer	Officer/Vice President, VAX/VMS Systems & Servers
Ralph Dormitzer	Group Manager, Low End Networks & Communications
Gary Eichhorn	Vice President, General Systems Business
Pier Carlo Falotti	Officer/Vice President/Corporate President and CEO, Europe
Dick Farrahar	Vice President, Personnel
Patti Foye	Utilities Business Unit Manager
Don Gaubatz	Group Manager, Workstations & Servers
Sergio Glacchetto	Vice President, Digital Services Europe
Barry Goldstein	Network & Communications Corporate Consultant
Russ Gullotti	Officer/Vice President, Special Services
Don Harbert	VMS Development Group Manager
Win Hindle	Officer/Senior Vice President
Marty Hoffmann	Officer/Vice President, General Counsel & Secretary
Dan Infante	Officer/Vice President, Information Management & Technology
Bill Johnson	Officer/Vice President, Corporate Marketing Planning
Dom LaCava	Officer/Vice President, UNIX-Based Software & Systems
Jesse Lipcon	Entry Systems Business Group Manager & Corporate Consulting Engineer

AUGUST 1991, HEALD POND WOODS ATTENDEE LIST

Frank McCabe	Vice President, Corporate Quality
Ken Olsen	President
Jim Osterhoff	Officer/Vice President, Finance
Bob Palmer	Officer/Vice President, Manufacturing
Dick Poulsen	Officer/Corporate Vice President/President, DEC International
Mick Prokops	Vice President, Budgets
John Rando	Digital Product Service Cluster Manager
John Rose	Personal Computer Systems Group Manager
Grant Saviers	Officer/Vice President, PC & Systems Peripherals
Dick Scarborough	Digital Service Worldwide Marketing & Planning Manager
Ken Senior	Secretary of the Executive Committee
John Sims	Officer/Vice President, Strategic Resources
Jack Smith	Officer/Senior Vice President, Operations
Pete Smith	Officer/Vice President, Application & Industry Marketing
Bill Steul	Vice President, Digital Services Business Group
David Stone	Officer/Vice President, Software Product Group
Bill Strecker	Officer/Vice President, Engineering
Sarah Sumner	Corporate Manager, Executive Compensation
Mike Thurk	Network & Communications Group Manager
Abbott Weiss	Group Manager, Retail/Wholesale Business
Don Zereski	Officer/Vice President, U.S. Area

Guests

Sumantra Ghoshal
Ed Schein

Support Staff

Bonnie Bedell
Libby Finn
Ann Jenkins

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SUMMARY OF DECISIONS

- Business Units run the Company. Everyone in the Company works for the Accounts.
- Business Unit plans and budgets are contracts and, once approved, are sacred.
- The New Management System (NMS) was reaffirmed as the basic management tool of the Business Units.
- A plan was developed for the revitalization of VAX/VMS.
- The roles and attributes of a Manager/Coach were defined.
- There will be a uniform format for all Business Plans, but no absolute rule.
- A review schedule for budgets and Business Unit Plans was established.
 - Quarterly Business Plan and Budget updated; Budget all commitments by week. Overhead in detail.
 - Weekly report \$, people, etc. for all commitments.
 - Monthly report sales, cost, profit for all Business Units.
- The definition and structure for Advisory Boards to the Business Units was established.
- In Q1, costs must be further reduced and the focus shifts to revenue growth.
- There will be a follow-up meeting in approximately five weeks.

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SUMMARY OF ACTION ITEMS

- Barry Goldstein -- Standards for Worldwide Video Conferencing System
- Dan Infante -- Integrated Information Architecture. (Bill Strecker is the Technical Consultant.)
- Ken Senior -- Organization of data for a Business Unit reporting system for Executive Committee and, when appropriate, for the Board of Directors.
- Mick Prokopis -- Collect and organize all Business Unit plans and budgets and continue to drive the New Management System.
- Grant Saviers -- Chair the Task Force on Roles, Tasks and Principles for PBU's, IBU's, ABU's, SCU's in Product Creation.
- All -- New Q1 Forecast by 23-AUG-91. Rolling six quarter budget by 27-SEP-91.
- All -- Communication to all employees of principle conclusions from Heald Pond.
- All -- Communication from Coaches to Business Unit Managers on Q1 actions & FY92 actions.
- All -- Everyone will make themselves available to Business Unit Managers to close business for Q1.
- John Sims -- Business Unit Managers will be interviewed for their views on how the system is working.
- Business Unit Managers -- Advisory Boards for Business Units will be established as required.

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COMMUNICATION TO EMPLOYEES

A group of 50 managers including Executive Committee members, Business Unit Managers and their Coaches met at Heald Pond from 12-AUG-91 through 15-AUG-91. They discussed a wide array of issues targeted at accelerating business performance improvement.

PRINCIPLE CONCLUSIONS

- I. The challenge for FY92 is to continue to unleash the potential of the Corporation and its individual entrepreneurs to return to high profitability and growth. Everyone in the Company works for the Accounts.
- II. Business Units run the Company. The future of the Company lies in the leadership and the success of the Business Units.
- III. A rigorous and disciplined approach to planning will be followed. Business Unit plans and budgets are contracts and, once approved, are sacred.
- IV. The meeting debated, re-evaluated and reaffirmed the New Management System (NMS) as the basic management tool of the Company and stressed the need for thorough implementation.
- V. The group underscored, in this critical time for the Company, the importance of open communication, of teams and team-work, and of re-fueling the Digital winning attitude.

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- VI. The group took steps to address the immediate situation of Q1. Costs must be further reduced and the focus shifts to revenue growth.
- VII. Our Company has extraordinary people resources to realize a 1990's leadership vision of a fully networked, global Company with distributed resources and distributed decision-making NOW.
- VIII. Every employee has an important role in our Corporation and each can contribute to this effort.

IMMEDIATE TALKING POINTS FOR COACHES WITH BUSINESS UNIT MANAGERS

The current Q1 forecast is unacceptable. The time to act is now! We need the Business Units to mobilize the Company by taking the following actions:

Q1 ACTIONS	FY92 ACTIONS
<ul style="list-style-type: none"> ● We expect all Business Units are already taking action to meet their Q1 profit plan. ● In addition, we need specific action to: <ul style="list-style-type: none"> - defer costs; - increase revenue; - excite employees about short term opportunities they can help close; - don't walk away from any Q1 business; get help from your coach. ● All senior managers are available to close Q1 business. Use them! ● Respond to your coach with a new Q1 forecast by 23-AUG-91 that meets or exceeds your plan. 	<ul style="list-style-type: none"> ● Finalize your FY92 budget to achieve substantial profit growth. ● Implement agreed upon headcount reduction early in the year. ● Level order flow can save the Company \$300M per year. Concentrate on this opportunity. ● Don't walk away from any business without vigorously engaging other Business Units and/or technical people who can help you achieve your revenue plan. ● Respond to your coach with a new six quarter rolling budget as scheduled for 27-SEP-91.

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BUSINESS PLANNING FORMAT FOR ALL UNITS

I. ENVIRONMENTAL APPRAISAL MARKET/EXTERNAL

- Market Assessment -- What Does the Customer Want?
- Competitive Analysis -- Strategy Today, Tomorrow, Next Year
- Trends (Technology)
- Economy (Outlook)
- Policy Change/Legislation
- Industry Sectors
- Technology (Enabling)
- Alternative Solutions

BUSINESS PLANNING FORMAT FOR ALL UNITS

II. BUSINESS OBJECTIVES

- Market Share -- Current
Competitive Target
Future
- Uniqueness -- Past
Present
Future
- Global Position
- Competition -- What is Their Response?
 - . Who goes away?
 - . Who follows us?
 - . How to lead? Past/Present/Future
- What Does This Do to the Company?
 - . Capital
 - . Cash
 - . Resources
 - . Plants
 - . People
- What Does This Do to Other Products?
- Profit and Return
- Why Will Customers Value This Product/Service
 - . Value added

BUSINESS PLANNING FORMAT FOR ALL UNITS

III. STRATEGY

- Product
 - Service
 - Support
 - Technology
 - Manufacturing Process
 - Application Software
- Environmental Impact Assessment
- Make/Buy Analysis
- How to Install
- Pages in Manual
- Partnerships
- Why Will This Win?
 - . Today
 - . Tomorrow
 - . Leadership
- Leverage Opportunities
- Customer Satisfaction
- Distribution Strategy
 - . Push
 - . Pull
 - . Channels
 - . Direct

BUSINESS PLANNING FORMAT FOR ALL UNITS

III. STRATEGY (Cont'd.)

- Pricing
- Cost -- Benchmarks -- Who?
- Packaging
- Global Standards
- NAS Standards
- Languages
- Performance Benchmarks -- Systemness
 - . What
 - . How
 - . Engineering
 - . Fit
- Skills/Talent
- Image
 - . Best?
 - . Lowest Cost?
 - . High Functionality?
- Product Positioning
 - . Size
 - . Scope
 - . Function/Fit

BUSINESS PLANNING FORMAT FOR ALL UNITS

IV. BUDGET

- Supports the Strategy/Objectives
- Actual BUP Revenue -- Benchmarked Basis
- Cost -- Benchmarked Basis
- Headcount
- Assets
- PBT
- Quarterized
- Multiple Years
- Feedback/Monitor/Control
- Contingency Plans/Triggers
- Sensitivity Analysis
- Order Rate/Backlog
- Sub-Contracts and Other Direct Expenses
- Capital and External Investments
- Exit Costs/Bailout
- Rate of Productivity Improvement

**ROE
Waterfall
Charts**

BUSINESS PLANNING FORMAT FOR ALL UNITS

IV. BUDGET (Cont'd.)

- Business Unit Price Process
- What Did You Spend? (Real Cash/Expenses)
 - . What did you get?
- Pricing

BUSINESS PLANNING FORMAT FOR ALL UNITS

V. DELIVERABLES

- The Product or Services
- Commitments
 - . FRS/Ramp to Volume
 - . Specification/Performance
 - . Cost (Product/Services)
 - . Cost (Development)
- Training Plans
- Sales Support
- Logistics Plan
- Launch Plan
 - . Demo/Seeds
 - . Pipeline
 - . Etc.
- Agency, Government, Etc. -- Approvals
- Standard Time to Market

BUSINESS PLANNING FORMAT FOR ALL UNITS

VI. RISK ASSESSMENT

- Sensitivity Analysis
 - . Market Window (Time)
 - . Product Schedule (Attainment)
 - . Pricing Risks/Margins
 - . Competitive Offerings/Share
- Impact on Existing Customers, Alliances, Etc.
- Major Dependencies That are Key to Success
 - . Materials, components, etc.
 - . Maturity of technology (i.e., "readiness")
 - . Resources availability, skills
- Internal Business Unit Dependence

BUSINESS PLANNING FORMAT FOR ALL UNITS

VII. PROGRAM/PROJECT STRUCTURE

- How to Manage
- Who Manages
- How Reviewed

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NEW MANAGEMENT SYSTEM

BUSINESS UNIT REPORTING

WEEKLY

CERTS, Load, Ships

Project Status (Exception Reporting)

Labor and Major Expenses

MONTHLY

Business Unit P&L Actuals vs Budget,
Direct Expenses in Detail

Functional Actuals vs Budget Expenses

QUARTERLY

Business Unit P&L Actuals vs Rolling
Eight-Quarter BOD and Revised Budget

IBU P&L's by Geography

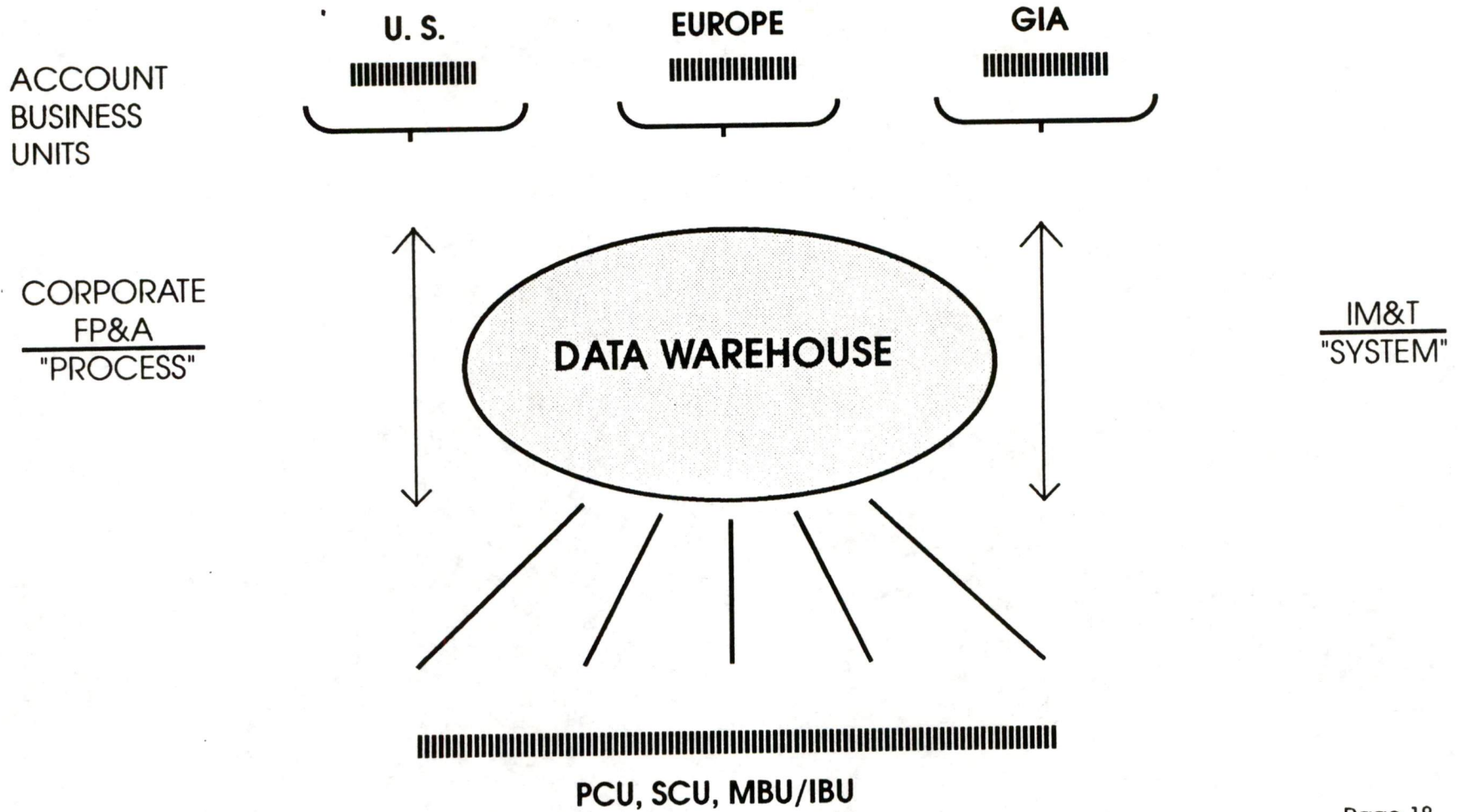
IBU ROA

PHASE II

Weekly and Monthly Reporting, Quarterly
Eight-Quarter Budget Revisions

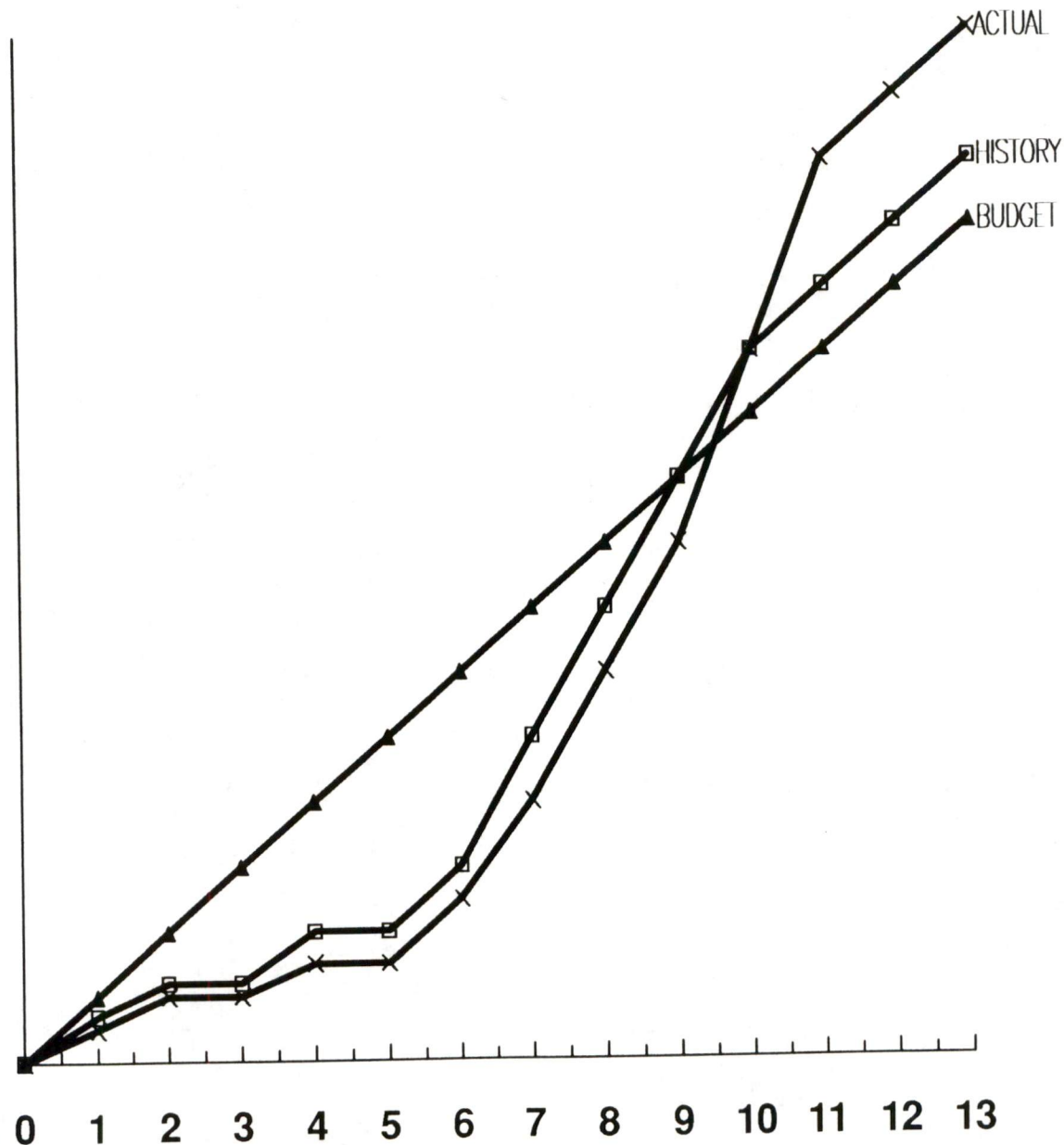
NEW MANAGEMENT SYSTEM

INFORMATION FLOW



WEEKLY BUSINESS TRACKING

CERTS
SHIPS
NOR
LOAD



* ACTUAL
□ HISTORY
▲ BUDGET

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THE FIELD MESSAGE FOR FY92

SELLING STRATEGIES FOR PRODUCTS

The "Product Marketing Message" Task Force at Heald Pond, 15-AUG-91, was asked to produce a message for the Field and for customers which would help to reduce the conflict in current product marketing messages, thereby helping us to sell more in FY92 and beyond. This message is to be entirely consistent with our current engineering strategy.

We identified three major issues for which we can reduce the conflict of current messages:

- 1) Which Operating System (especially Ultrix/VMS)?
- 2) Which UNIX?
- 3) Which Processor?

The "Which Operating System" alternatives were identified as:

- VMS is THE server; we integrate any desktop including UNIX. (The old DEC strategy.)
 - Our strategy is UNIX; we sell VMS when the functionality or applications require it (which is mostly). (The current HP strategy for their MPE, or non-UNIX, OS.)
 - We sell all Operating Systems, choosing the one required by observing the applications, customer policy, installed base and functionality required. (The de facto current DEC and IBM strategies.)
- The Operating System becomes irrelevant over time; the middleware (NAS) is the issue -- our Advantage VMS campaign.

THE FIELD MESSAGE FOR FY92

SELLING STRATEGIES FOR PRODUCTS

We chose the latter. We also agreed to propose (Harbert/Friedrich) a UNIX/VMS technical convergence strategy (which is NOT what we are doing today) in the future for Executive Committee consideration:

The draft messages follow. They need a review by Bill Johnson (overall marketing impact) and Kurt Friedrich ("which UNIX?" technical accuracy with respect to ACE wording). They can be used immediately by people needing to address the Sales Force, but should not be handed out until the final review is done.

David Stone (Scribe for the group).

1) Which Operating System do we recommend to our customers?

We believe that our customers have widely differing Operating System needs:

They need access to the appropriate applications, some of which are only available on a certain Operating System.

Many of them have policies governing their choice of computing products; e.g., they may say that they want UNIX (TM) everywhere or they may say that they want Personal Computers on the desk and VMS for departmental computing.

Our customers also have large installed bases of existing Operating Systems. Often the most manageable choice of Operating System is the same kind that they already have.

THE FIELD MESSAGE FOR FY92

SELLING STRATEGIES FOR PRODUCTS

Certain customer solutions demand specific Operating System functionality; e.g., managing very large databases or high transaction rates, highly available systems.

No one Operating System can meet all of these needs; hence, our policy is to supply a variety of Operating Systems. It is incumbent on you, the Sales Person, to work with your customers to select the Operating System(s) that best meet(s) their needs.

Regardless of Operating System choice, our customers require that their applications work together. In addition, customers and application suppliers gain important economies, flexibility and efficiency by having applications which can run on multiple operating systems. For this reason, we offer Network Application Support (NAS), which provides a consistent set of standards-based application programming interfaces and human interfaces to allow applications to satisfy these criteria. NAS, of course, is based on the interoperability and portability standards defined by the Open Systems Foundation (OSF) and the XOPEN group, thereby ensuring conformance to open standard interfaces.

Questions and Answers:

Q: But isn't NAS proprietary?

A: No. NAS is a collection of standard interfaces and products based on industry accepted norms (OSF, XOPEN, ISO) which are engineered by Digital to work harmoniously together. Examples include MOTIF for human interface, SQL for data interface, POSIX for system interface and the Distributed Computing Environment (DCE) for working with other applications.

THE FIELD MESSAGE FOR FY92

SELLING STRATEGIES FOR PRODUCTS

Q: What process do I use to work with customers?

A: Step through the applications, policy, installed base and functionality by the customer. Bill Johnson's Marketing organization is preparing a detailed process guide.

Q: What about the radically different pricing for different Operating Systems?

A: The different prices are based on two factors -- underlying hardware technology (Risc/Cisc) and Operating System functionality. We are committed to eliminate any price difference based on the underlying hardware technology. In particular, our next generation VAX technology will have essentially similar prices for similar performance hardware. We are also moving quickly (through the Advantage VMS campaign) to offer different prices for differing levels of VMS functionality. Through these two actions, we expect that for similar system functionality, VMS and UNIX (TM) will be priced similarly.

Q: Does this mean that you will stop supporting VMS?

A: Absolutely not. VMS is currently a very large business for Digital. Our new offerings of both VAX technology and VMS packaging will make VMS a very competitive Operating System for which we anticipate significant growth.

Q: Does this mean that you don't really believe in UNIX (TM)?

A: Absolutely not. Due to the significant market demand for UNIX (TM) systems, especially from our policy driven customers, we anticipate a significant growth in UNIX (TM) sales as well. We are absolutely committed to supplying these systems to our customers. We understand that

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THE FIELD MESSAGE FOR FY92

SELLING STRATEGIES FOR PRODUCTS

our customers will only buy from us when we have the best UNIX (TM) implementation. We are investing, and will continue to invest, to ensure that we have the premier UNIX (TM) implementation in the industry.

Q: What about Personal Computer Operating Systems?

A: There are a large number of Operating Systems currently running on Intel CPU based Operating Systems (MS-DOS, Windows, Open Desktop, OS-2 ...). We are committed to supplying all of these Operating Systems as customers require them. We do (and will continue to) interconnect them all to our servers, as well as other popular PC Operating Systems (e.g., Apple's Macintosh), by adding NAS client software to them and connecting them to our networks. As functionality permits (and demand requires), we will also move certain server functions to some of these systems.

2) What is Digital's UNIX (TM) strategy?

OUR UNIX (TM) STRATEGY IS OSF.

This means that we will base all of our UNIX (TM) added value on the technology supplied by OSF. Therefore, our UNIX (TM) offering will always contain all of the open standard system interfaces supplied by the OSF reference code. Our first delivery from this strategy will be the ACE ODT product in mid-calendar 1992 -- a fully ULTRIX compatible version of OSF-1 which includes POSIX, MOTIF and DCE. The ACE ODT developer's kit (with a major subset of the functionality) will be available early in calendar 1992.

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THE FIELD MESSAGE FOR FY92

SELLING STRATEGIES FOR PRODUCTS

We chose OSF as the specifier of the open standard system interface and deliverer of the implementation technology because of the broad acceptance of their open process for creating those interfaces and technologies. Our NAS program is based on these interfaces plus a number of other industry standards required by our customers. In addition, we create new functionality and offer it to the open industry standards process as appropriate (e.g., OSI, MOTIF, DCE, DME, OMG, ...)

Q: How does the ACE initiative fit with this strategy?

A: The ACE initiative (with more than 60 members and growing) has specified two Operating Systems -- one provided by Microsoft and one by Santa Cruz Operations (SCO). The Operating System supplied by SCO is based on an implementation of the OSF-1 technology packaged for the high volume market; it will be Ultrix compatible. SCO is supplying additional features to the Operating System to make it compatible with its existing Open Desktop (ODT) Operating System, which is based on UNIX (TM) System V Release 3. This ACE Operating System *IS* the Digital UNIX (TM) strategy. Your customers can be assured that all Ultrix applications will run on the ACE platform. Sell Ultrix now -- it carries forward to ACE.

Q: What about ODT?

A: See previous answer. We support ODT today on our Intel CPU based products, and we will continue to do so in the future. With ACE, SCO has committed that their future Intel based Operating System will be the same SCO Operating System now running on the MIPS CPU, ported to the Intel architecture. Therefore, compatibility is assured. Sell ODT now -- it carries forward to ACE.

THE FIELD MESSAGE FOR FY92

SELLING STRATEGIES FOR PRODUCTS

Q: What about AT&T's UNIX (TM) System V?

A: We will continue to supply our VAX-based AT&T System V Release 3 UNIX (TM) to the telecommunications market. In the future, we will supply AT&T System V Release 3 UNIX (TM) on our OSF-1 based UNIX (TM) product (Ultrix). The VAX product will be supported for telecommunications customers as long as there is a demand.

Q: Yes but... what about System V Release 4?

A: We have no plans to support a separate System V Release 4 product. However, each new OSF release will contain increasing compatibility with this system. We believe that the vast majority of our customers will specify or be satisfied with OSF/XOPEN/POSIX standard interfaces, which are supplied with the OSF-1 products.

3) Which Processor should I recommend?

Our processor strategy is based on single chip micro-processors packaged with differing capabilities for mass storage attachment. We are a strong believer in the Client-Server model of computing, in which applications and systems are positioned as close to the end user as possible. When proposing a solution to a customer's problem, you should (in the absence of a contrary request from the customer) maximize the distribution of processor power close to the end-user. This means partitioning the solution to the customer's problem into per-user application and data (on the clients) and shared applications and data (on the servers); the result is then linked together with a peer-to-peer network. To size the client and server systems, the primary parameter is the mass storage requirement. You pick the storage required and choose the processor which will solve that portion of the problem (with the appropriate growth factor applied). We will supply and keep current a chart of the system power versus storage to make this sizing simpler.

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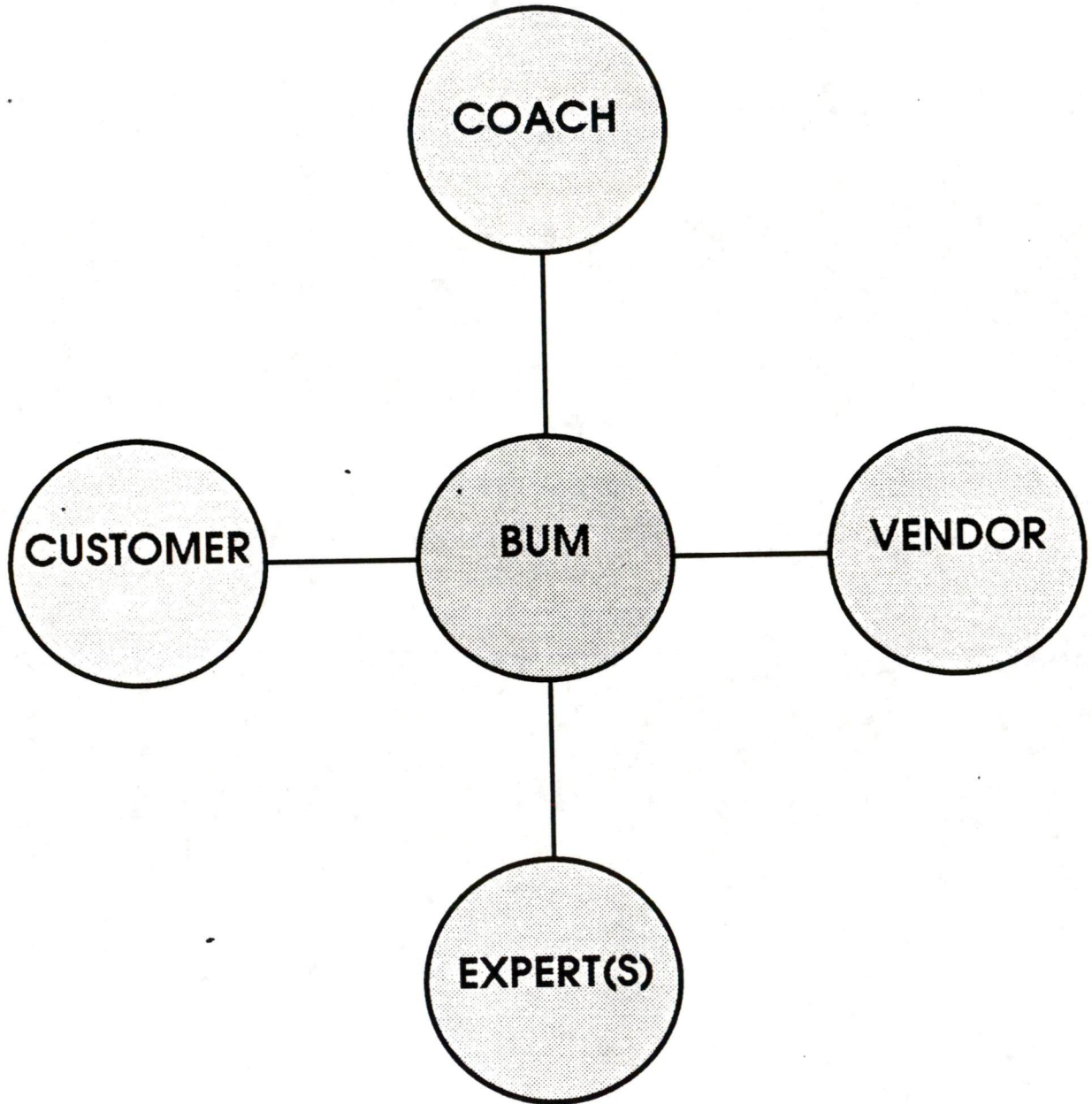
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ADVISORY BOARDS

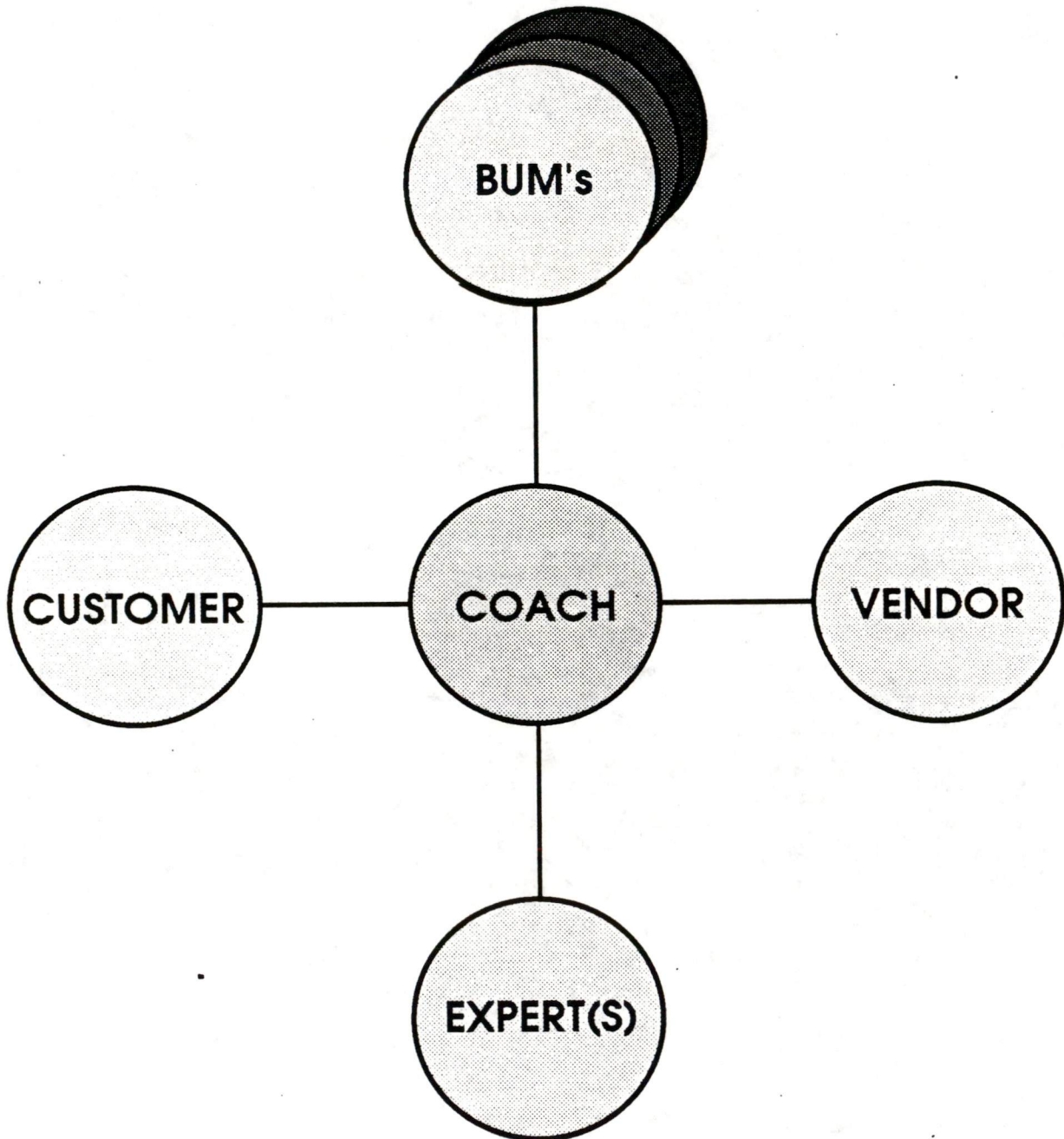
PURPOSE:	<ul style="list-style-type: none"> ● Improve business performance to become best in class.
OBJECTIVES:	<ul style="list-style-type: none"> ● Provide insight, wisdom, support, expertise, access to others, and counsel to the Business Manager. ● Influence development of Business Plan. ● Review Business Plan and make recommendations to Coach and Business Manager. ● Help resolve issues and identify new opportunities.
ROLES/ RESPONSIBILITIES:	<ul style="list-style-type: none"> ● Stakeholder members insure Business Plans incorporate interdependencies. ● Expert members provide world class knowledge and counsel. ● Review and make recommendations on Business Plan. ● Monitor progress against Business Plan. ● Help resolve problems. ● Acquire additional expertise as needed.
MEMBERSHIP:	<ul style="list-style-type: none"> ● Primary Digital customers and supplier(s). ● Expert(s) of diverse skills, experience and perspectives. ● Member(s) selected by Coach and Business Manager(s). ● Membership comprised of limited number of fixed members and others as needed. ● Fixed membership two year term with no substitutes.

ADVISORY BOARDS
BIG BUSINESS UNIT MODEL



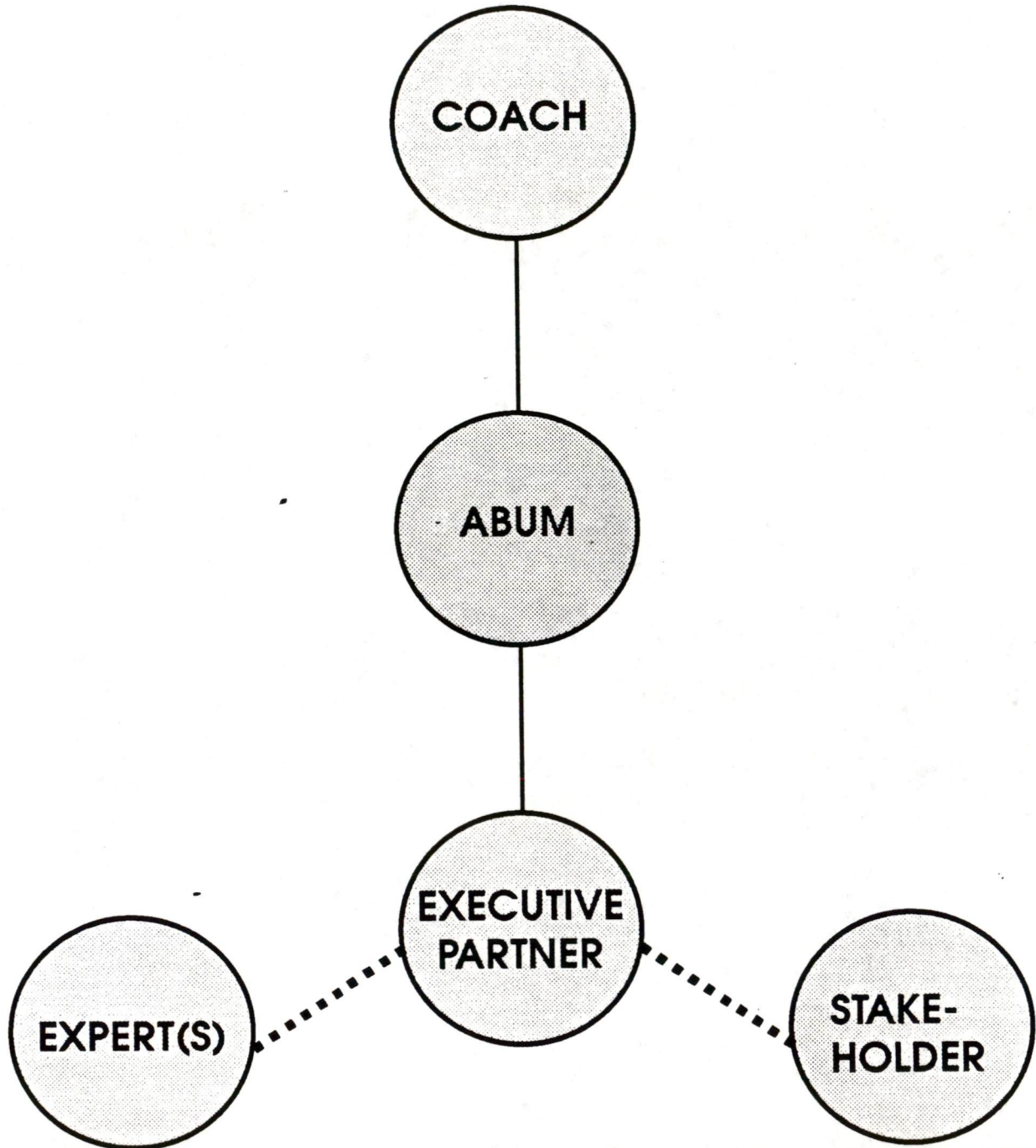
ADVISORY BOARDS

IBU - PCU - SCU ADVISORY BOARD MODEL
CLUSTER LEVEL



ADVISORY BOARDS

ACCOUNT BUSINESS UNIT MODEL



ADVISORY BOARDS

OPERATIONS:

- Quarterly formal meetings.
- Executive Committee does not operate through Advisory Boards.
- Coaches and Business Managers decide to have Advisory Boards.
- Development opportunity for Advisory Board members.
- Access to weekly and monthly reports.

NEXT STEPS:

- Complete template.
- Communicate to Coaches and Business Managers.
- Implement.

ADVISORY BOARDS

PROGRAM SCOPE

<u>ACCOUNTS</u>	<u>PCU/SCU's</u>	<u>IBU's</u>
Executive Partners = 100+	Clusters: PCU - 6 SCU - 3	Clusters: Industry - 4 Applications - 1
	Business Units 55-60	Business Units 25

ROLES, TASKS & PRINCIPLES FOR IBU, PCU, ABU, & SCU

IN PRODUCT CREATION

- Retain value of interdependencies with individual P&L's.
- What roles (strategy and architecture) are necessary to ensure the products work together?
- Systems engineering and systems integration are important core competencies. We can do very complex things.
- Become much more customer-driven. Become as disciplined as the Japanese -- collect, disseminate, analyze the things we learn in SI. Don't flow into the next generation products.
- More engineering involvement in opportunity phase, more cross-specialty development.
- Use Business Unit Boards of Directors; Coach acts as chairperson:
 - IBU/PCU/SCU managers for ABU's
 - IBU/ABU/SCU managers for PCU's
 - IBU/ABU/PCU managers for SCU's
 - Plus customers
 - Plus development opportunity
- Role of the Business Unit Board of Directors.
 - Communication
 - Consulting
 - Hears formal presentations
 - Advisory
 - Review/recommend

ROLES, TASKS & PRINCIPLES FOR IBU, PCU, ABU, & SCU

IN PRODUCT CREATION

- Role of Product/Technology Experts
 - Chief Technologist or Chief System Engineer
 - Participate on Boards of Directors
- Continue with a base Technology and Architecture Review Committee. Add SI resource.



Structured, Formal Process



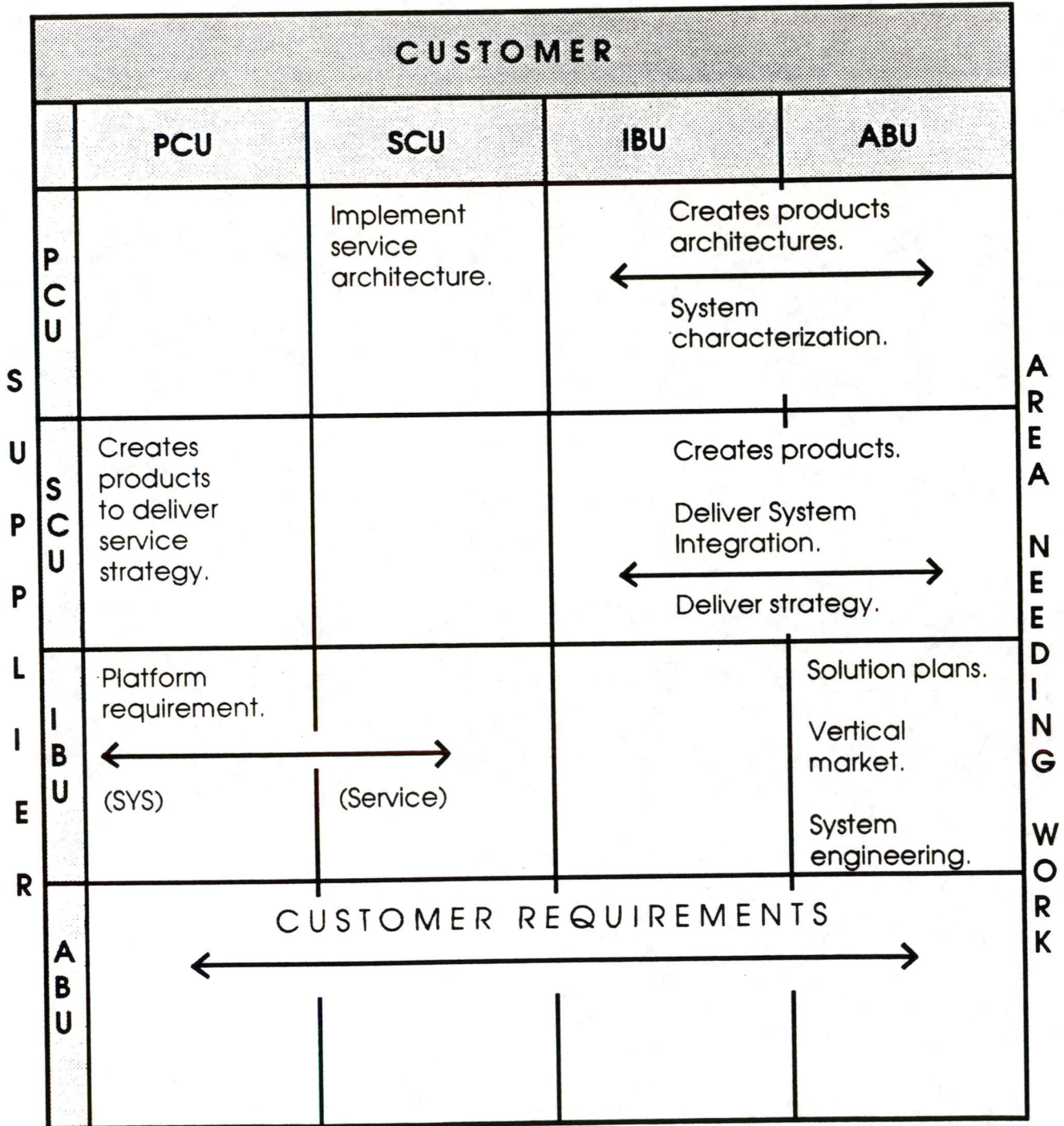
Ad Hoc Process

- Infrastructure to Make it Work
 - Video conferencing
 - Invest in "leading edge" information process (DB, filtering, context sensitive)
 - Call it "remote conferencing"
 - Deploy it == use it == sell it
 - Structured communication/conferencing (Mail, Notes, Audio, Video)

ROLES, TASKS & PRINCIPLES FOR IBU, PCU, ABU, & SCU

IN PRODUCT CREATION

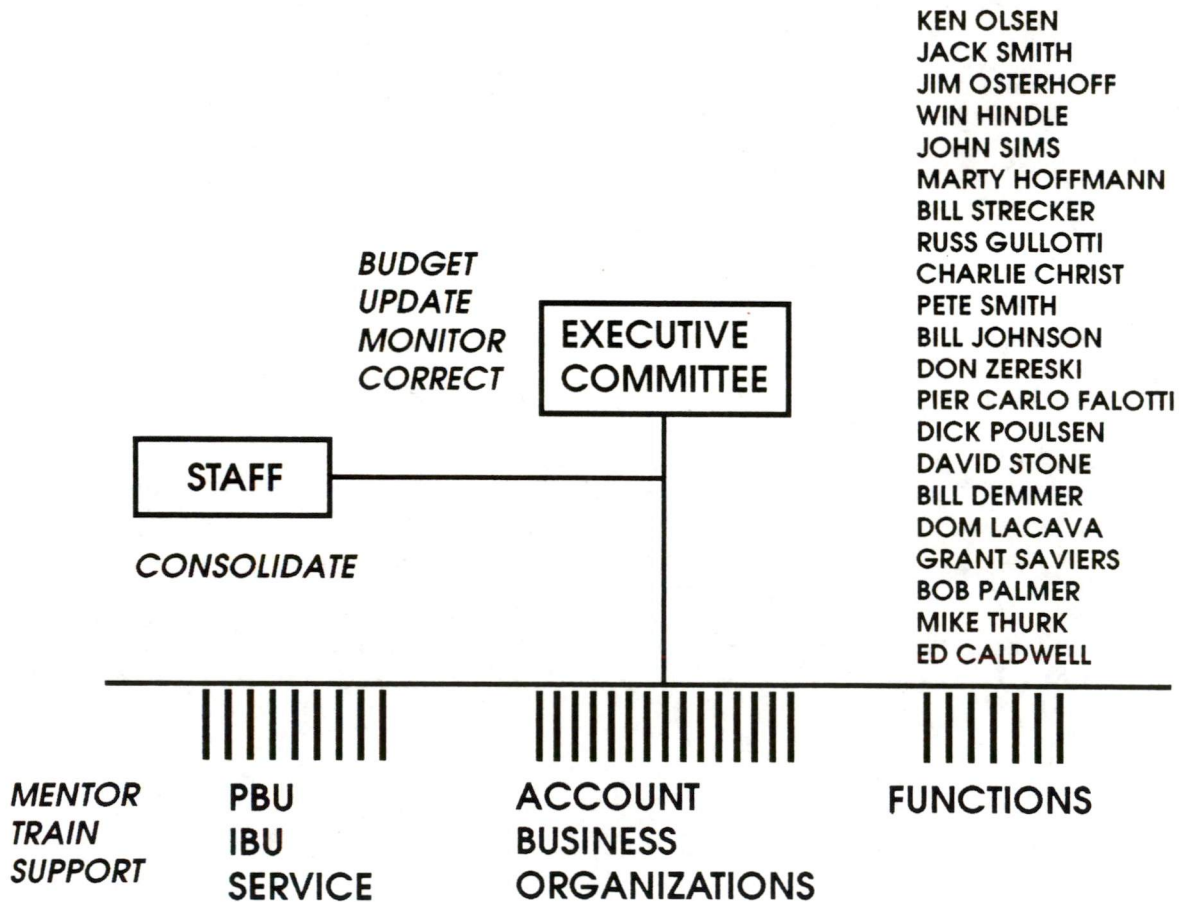
Define roles of players. (Assumes generic charter for each.)



HOW WE WILL MANAGE, BUDGET

AND ORGANIZE THE COMPANY

On Tuesday, 13-AUG-91, the Heald Pond participants made the following decisions and commitments about how we will manage, budget and organize the Company for FY92:



HOW WE WILL MANAGE, BUDGET

AND ORGANIZE THE COMPANY

- We will manage and budget by Business Unit.
- There will be clear plans and approvals; i.e., yes or no by Executive Committee.
- All plans and budgets will be reviewed together.
- The plan and budget, once approved by the Executive Committee, is a contract.
- Contracts cannot be changed except by Executive Committee (including not performing to your plan -- up side or down side).
- Jack can "visit", but cannot change, numbers.
- The Business Unit Manager has responsibility to adjust to changes so as to meet profit commitment.
- Functional spending (Personnel, Finance, Administration, etc.) is embedded in the Business Units. Functional leaders cannot cut resources. Resource decisions come from Business Units.
- Each Function sets standards and policies to achieve best in class. Functional excellence across all Business Units is the desired result.
- Decisions must happen in real-time. Business Units are obligated to tell the Executive Committee when there is a potential change to plans. Action and/or recovery should be clearly outlined.

THE SCHEDULE FOR REVIEW OF PLANS AND BUDGETS

- EACH QUARTER -- Business Plan and budget updated.
-- Budget all commitments by week.
-- Overhead in detail
- EACH WEEK -- Report dollars, people, etc. for all commitments.
- EACH MONTH -- Report sales, costs, profit for all Business Units.

V A X / V M S REVITALIZATION PLAN

On Tuesday, 13-AUG-91, the Heald Pond participants addressed the revitalization of VMS in FY92 and committed to the following action plan:

- EXECUTE CURRENT VMS ADVANTAGE PLAN BILL DEMMER
BILL JOHNSON
- EACH IBU TAKE ON VERY SPECIFIC PETE SMITH
VAX/VMS GOALS AND PROGRAMS
- ACCOUNTS/GEOGRAPHIES SIGN UP FOR PIER CARLO FALOTTI
INCREMENTAL REVENUE TIED TO DON ZERESKI
TARGET APPLICATIONS, BASED ON DICK POULSEN
ABOVE TWO PLANS
- FIX CUSTOMER SUPPORT MODEL OF RUSS GULLOTTI
VMS/LAYERED PRODUCTS WITH DAVE STONE
IMPROVED RESPONSE TO RESOLUTION, DON HARBERT
PARTICULARLY COMMERCIAL SYSTEMS
PROBLEMS
- SIGN UP DIGITAL AND THIRD PARTIES PETE SMITH
TO DEVELOP APPLICATIONS THAT WILL
SUPPORT NEW BUSINESS/MARKETS,
CONVINCING THEM THAT THIS IS A
SAFE CHOICE THROUGH NAS (INCLUDED
IN THE IBU BUDGET)
- COMMIT TO AN EXTRA \$400-500M REVENUE BILL DEMMER
- EXPLICIT FOCUS ON PROMOTING INTERNAL BILL STEUL
DEVELOPMENT OF SOFTWARE DAN INFANTE

ROLE OF THE COACH

On Tuesday, 14-AUG-91, the Heald Pond participants agreed to the concept and definition of a Coach, as follows:

DESCRIPTION OF COACH'S ROLE:

- Insures a Vision.
- Has a Competitive Dream.
 - Willing to change and elaborate with need;
 - Ensures the dream grows.
- Accepts Responsibility to Build a Team and the Environment for a Team.
- Players Self Select.
 - Pick the team they want;
 - Coaches build the environment.
- Coaches Must Know What not to Do.
- Coaches are Situational -- not Custodial.
- Lead Through Challenge.

ATTRIBUTES OF A GOOD COACH

- Proven Leader
- Listens
- Allows People to Make Mistakes
- Gives Room to Grow
- Willingness to Move/Promote People
- Loved and Respected
- Motivated by Team/Player Success
- Replaces Players Who Don't Contribute
- Honest
- Approachable
- Good Communicator and Thinker
- Understands Business
- Willingness to Go Extra Mile for the Team and/or Players
- Sets Example
- Recognizes Need to Balance Life
- Willing to Admit Mistakes and Carry Burden
- Protects Players
- Challenges Players for Growth
- Builds Loyalty and Pride Toward Organization
- Is Measured by:
 - Team's Success
 - Players' Success
 - Number of Start-ups, Spin-offs
- Passion
- Accountable (Open With Executive Committee)
- Keeps Network Open
- Interdependencies (Works With Fellow Coaches)
- Off-Load Executive Committee
- Team Directed at Outside Competition
- Values Team Groupings
- Opportunity to Share Resource

HOW WE WILL CREATE DISCIPLINE

IN THE MANAGEMENT PROCESS

On Tuesday, 13-AUG-91, the Heald Pond participants addressed the need for discipline in the management process. They agreed that Business Plans will:

- Have a uniform format and tools will be provided;
- Adhere to an 18 month rolling budget calendar;
- Include specific statements about interdependencies and risks;
- Be reviewed by the Executive Committee on committed dates.

The Executive Committee creates and approves a corporate budget from the portfolios of the Business Unit proposals.

A process manager will be assigned to consolidate and organize the plans.

There is a commitment to use our own technology to include all partners in the discussion via teleconferencing, etc. when plans are proposed.

Business Unit managers will periodically and systematically be interviewed for their view on how the system is working.

It is not acceptable to say the plan is substantially dependent on another group without agreement of the group.

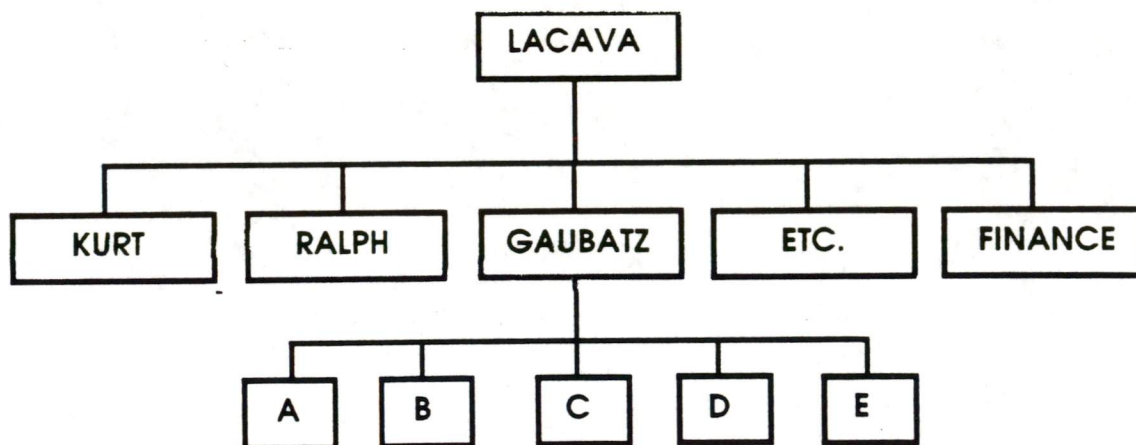
BUSINESS PLAN STAFF

1. Collector and Handholder Mick Prokopolis
2. Teams of PC Experts
3. Presentation for Executive Committee Ken Senior

SPECIFICATIONS FOR BUSINESS PLANS

1. Every plan goes on a corporate file. You can't change your own plan.
2. Everyone uses same fonts, charts, timescale.
3. Everyone uses same terms, words, initials and glossary.
4. Same video conferencing used throughout Digital.
5. Must be able to use projection in conference room.
6. Color is not necessary. Must be able to transmit in black and white.
7. Use framegrabbing (H.P.) to HDTV.
8. Do not hide information. Show everything. Formulate ahead of time the question you want Executive Committee to respond to.
9. The plan starts with an organization chart.

SAMPLE CHART



These are the Business Units the Executive Committee is reviewing.

10. The plan includes:

description;
features, advantages, market pitch;
competition;
system cost goals.

11. List all the overhead in detail.

Gaubatz ==
LaCava ==
Palmer ==
Corporate == Headquarters
== Sam Fuller
== Surplus Factories

12. List all benchmark costs. (See Sample on next page.)

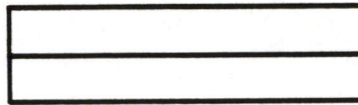
SAMPLE

	SYSTEM 1	SYSTEM 2	SYSTEM3
CHIP Monitor Board Disc Floppy Monitor Keyboard Adapters Cables			
PACKAGING Design Tooling Inventory Reserve.			
SOFTWARE			
INSTALLATION SHIPPING UNPACKING ORDERING SYSTEM DESIGN CHECK OUT			

13. Explain how to hook things up:

EXAMPLE

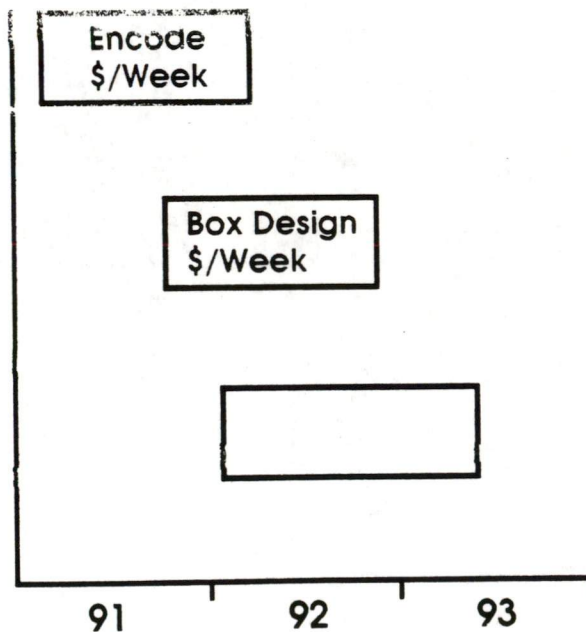
HOW DECNET
TCP/IP



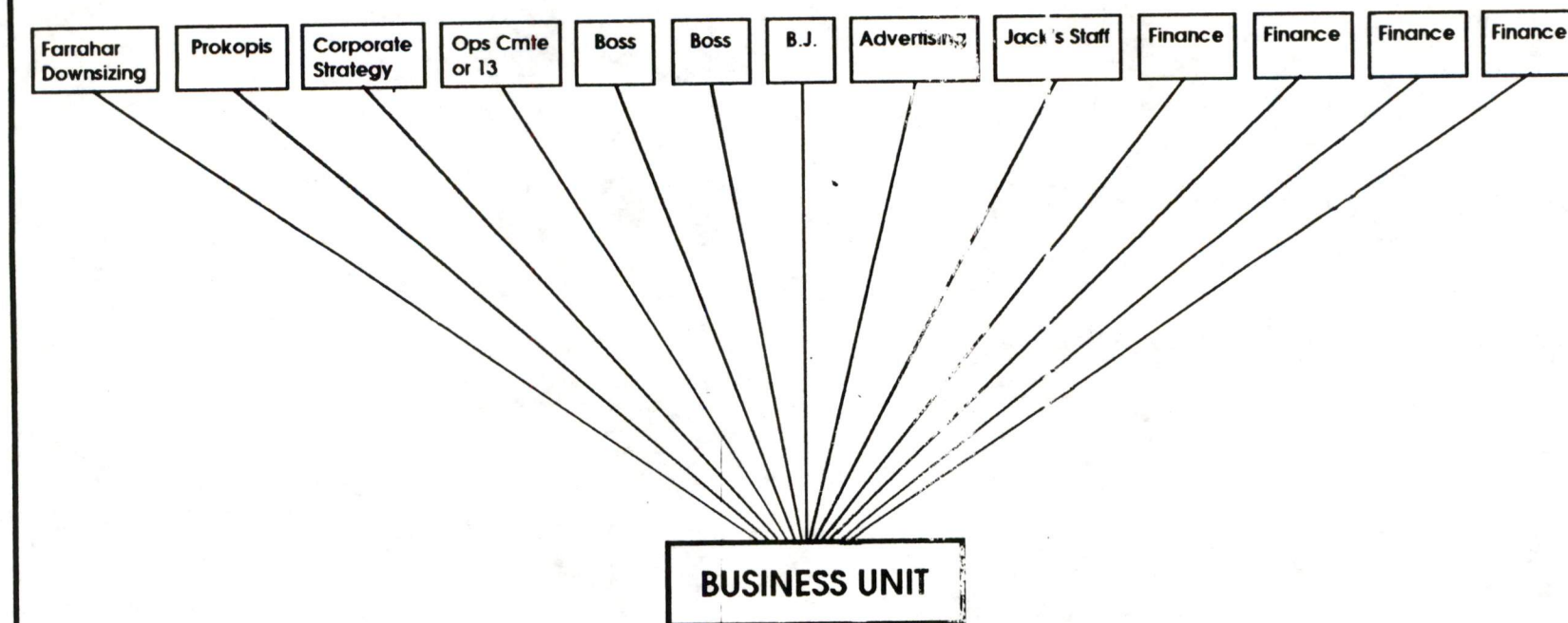
Scanner
CD ROM
Multiple Printers, etc.

14. Cash Flow.

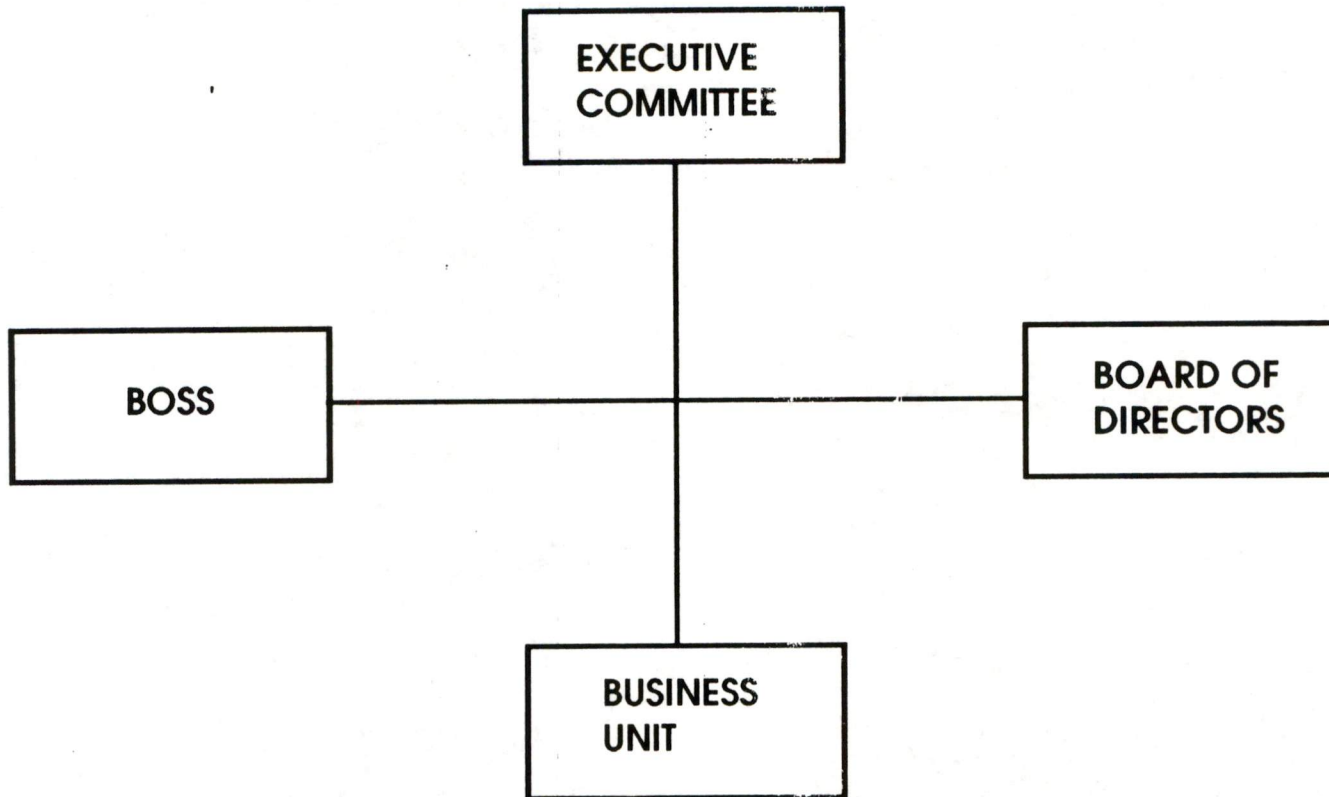
- All tooling;
- Inventory treated as cash;
- Cash = all expenses; then integrate.



OLD WAY OF MANAGING



NEW WAY OF MANAGING



THE SCHEDULE FOR REVIEW OF PLANS AND BUDGETS

- EACH QUARTER -- Business Plan and budget updated.
-- Budget all commitments by week.
-- Overhead in detail
- EACH WEEK -- Report dollars, people, etc. for all commitments.
- EACH MONTH -- Report sales, costs, profit for all Business Units.

RULES FOR CIVILIZATION

1. **Contracts are respected -- contracts with Executive Committee not changed by Finance, individuals, Vice Presidents' Staff.**
2. **Decisions, judgments, termination not by Staff or Committee or people without the responsibility.**

RULES FOR DIGITAL

Free Communication

Formal Decision Making

PLANS FOR NEXT STEPS

There will be a follow-up meeting soon to:

- Assess progress against decisions and action items.
- Assess financial results of actions taken in 1991.
- Address long-term issues.



ASSIGNMENT #1

The objective of this meeting is to identify and prioritize the issues that we should focus on over the next two days.

Even though the tasks of short-term performance improvement and long-term revitalization are highly interlinked, it may be useful to consider these two challenges separately so as to ensure that both receive due attention.

With regard to short-term performance improvement, do you feel absolutely sure that Digital will achieve this year's budgeted goals? What issues need to be resolved to ensure that this group of managers can collectively commit to achieving these goals? Identify all the issues you consider important. Then prioritize the top three. List them on the enclosed form in order of importance.

Now consider the challenge of revitalization. What are the key issues that need to be resolved to restore the vitality and leadership of Digital? As before, identify all important issues and list the top three in order of importance on the enclosed form.

Small group meetings tend to regress to the mean. Therefore, while you may like to achieve unanimity in your proposals, any strong dissenting view should receive consideration. List any such dissenting opinion in space provided on the form.

When you are done, please hand over the form to Bonnie Bedell, Libby Finn, Ed Schein or Sumantra Ghoshal.

COMMON THEMES:

SHORT AND LONG TERM ISSUES

- I. Process and Structures for Budgeting/Control/
Accountability/Discipline.

- II. Direction/Vision/Strategy.

- III. Management.
 - Team

 - Trust

 - Ken/Jack/Others - Roles

GROUP REPORT: SHORT TERM ISSUES

- Budget/Planning Process different from Operational Management Process (Ken - Business Unit, Jack - Function).
- No aligning strategy/mission accepted by all. No Constancy of purpose; therefore, entrepreneurial conflict.
- Vast overemphasis on hardware as saviour. Hardware % margins will never recover. Need to change investment pods towards Software and Services, especially Strategic Services.
- Need different formal structure and process.
- Jack and Ken have different approaches to managing and budgeting results. An inability to hold people accountable. People spend too much time on warfare for resources. Managers don't know collective goals. Some goals (individual) imposed from above; therefore, no accountability.
- Process for developing budgets not there; therefore, commitments not there. We play games.
- Team not encouraged; actively discouraged; we can't make it without teamwork.
- Short Term Integrated Plan must be openly arrived at. Fear current budget/plan does not work together.
- Integrated operational team must be instituted to respond to change, to commit products to Field and to accelerate learning.
- Commit now to FY92 Budget. Everyone sign up. Manage performance to Budget with clear accountability.

GROUP REPORT: SHORT TERM ISSUES (Cont'd.)

- Accelerate progress to benchmark performance:
 - 60 Days - Plan
 - 90 Days - Implement
- Divest some things - products, businesses. Free resources, focus, generate revenue.
- Increase trust by holding people accountable for plans and commitments. Set clean/crisp management processes.
- Company feels schizophrenic:
 - Monday/Tuesday run by Business Unit
 - Thursday/Friday run by functional basis
- Executive Committee and Corporate Operations Committee needs to inspect what they expect. Build contract processes and escalation processes. Don't execute people for raising issues.
- Sales force needs training. New blood has to be hired.
- Continual focus on accounts - no wavering.
- Meeting FY92 product schedules.
- One party line.

GROUP REPORT: LONG TERM ISSUES

- Need common agreement on how to run Company.
 - . Share common vision, stable for years.
 - . Process that has credibility on what work is approved/disapproved.
 - . How to structure with what processes to sell into commodities, system, SI markets.
- Listening to customers on future needs so that we exploit our unique strengths (Networks, NAS, Alpha, SI) to make good profits.
- Overcoming the distrust across stovepipes.
- Strategic Vision - need one even for short run.
- Timely Budget process (fully integrated) with discipline and accountability
- Business Units should match customer buying patterns.
- Common agreed upon vision, mission, objectives to align all Business Units and allow problem resolution at lower levels.
- Need Company process to review and approve investment proposals that encourage new ideas and cause decisions to stick.
- Investments should go to good proposals, whether they come from successful/powerful groups or not.
- Institute structure which holds marketing and sales accountable for defining product requirements.

GROUP REPORT: LONG TERM ISSUES (Cont'd.)

- Entire Alpha product line no later than 9/92.
- Formal disciplined decision-making process. Information in advance. Decisions well communicated.
- Formal program of moving senior people between functions to get better view of reality.
- Dichotomy - Running Company by Function and Geography vs Business Units.
- Need consistent, lasting common strategy we can all communicate.
- Grow SI business.
- Need Vision.
- Vision = Market Technology, Product Business Strategy. What will market be like in 1995? 2000?
- Increase specialization in selling. (Get simplicity and generate customer value, focus and training.)
- More Software Products. Target market needs 3-5 years (margin & growth).
- Move investment from CPU design into SI.
- Rebuild our human systems - values, rewards, motivation, etc. to give clear agreement to people whose plans are accepted, including dollars and resources. "NO MORE RUBBER CHECKS".
- Have courage to bring new college hires into Company.

OUTCOME FROM "THE ECONOMIST" STORIES

Listed below are the themes from "The Economist" stories written by the participants. It was suggested that these themes be used in the development of a vision for the Company.

- . WINNING: BEATING COMPETITORS
- . RESURGENCE OF ENTREPRENEURSHIP
- . CUSTOMER DRIVEN
- . CHOICES AND FOCUS ON PRODUCTS & SERVICES, BUSINESS & CUSTOMERS
- . SPECIALIST SUPPLIER
- . WORLD LEADER IN SPECIAL NICHES AROUND PRODUCTS & INDUSTRIES
- . LEADERSHIP
- . LEVERAGING TRADITIONAL STRENGTHS
- . DISTRIBUTED/INTEGRATED
- . DESKTOP AND MID-RANGE
- . ALPHA/ACE
- . INTEGRATION - MULTIVENDOR
- . BUSINESS UNIT
- . TQM
- . SI BASED SELLING MODEL

All of the stories were similar in the following ways:

- . *Upbeat*
- . *Realistic*
- . *Breadth of issues*
- . *Diversity of issues*
- . *Range of activities and successes*

THE BATTLE FOR REVITALIZATION

Heald Pond Meeting

August, 1991

Sumantra Ghoshal
INSEAD

digital

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INTRODUCTION AND OVERVIEW

- o DIGITAL IS CONFRONTING A CRISIS SITUATION

The problem and the solution lies in Quality of Management

- o THIS SITUATION IS NOT UNIQUE

Failure of Success is Widespread

- o TRANSFORMATION IS DIFFICULT, BUT POSSIBLE

The Dish is Sweet and Sour

- o DIGITAL WILL NOT CHANGE UNLESS YOU DO

Personal Commitment is Key

- o SUCCESS WILL DEPEND ON THE QUALITY OF PROCESS

This Meeting must reflect the New Approach

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YOUR VIEWS

- o "Performance problem is too nice a word. We are in crisis."
- o "Zero profit is a pretty absolute number. That is the advantage of zero: it is quite unambiguous."
- o "Our problems are far more serious than is visible in today's bad results. Our real weaknesses are masked by the fact that five years ago we had the right products and services, developed a large installed base, and built customer loyalty. We are living off that but those are eroding. Customers are looking elsewhere."
- o "We are in crisis today and we better believe it. But what worries me more is what lies ahead. I believe we are heading for disaster."
- o "It has not been months, it has been years that we are sliding. In '81-'82, externally, everyone said we were screwed up. But internally, we really believed in ourselves. This time the senior managers have lost confidence."
- o "We have a loyalty base with our people. We are living off it, but we are beginning to lose some of our key talent. It has started."

WHY HAS THIS HAPPENED ?

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CHANGING PATTERN OF GLOBAL LEADERSHIP

LEADERS IN
1970'S

CHALLENGERS
IN 1980'S

WINNERS
IN 1990'S

AUTOMOBILES

SEMICONDUCTORS

TYRES

PHOTOCOPIERS

EARTHMOVING
EQUIPMENTS

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FAILURE OF SUCCESS IS WIDESPREAD

STATUS OF 43 "EXCELLENT" COMPANIES, FIVE YEARS LATER

1. ALLEN-BRADLEY
(ROCKWELL)
2. DISNEY
3. BOEING
4. EMERSON
5. FRITO-LAY
6. IBM
7. INTEL
8. JOHNSON &
JOHNSON
9. MARS
10. MAYTAG
11. MCDONALD'S
12. MERCK
13. PROCTER &
GAMBLE
14. WAL-MART

EXCELLENT

1. BRISTOL-MYERS
2. DEC
3. DELTA
4. DOW
5. DUPONT
6. HUGHES (GM)
7. LEVI STRAUSS
8. MARRIOTT
9. STANDARD OIL
AMOCO
10. 3M

**SOLID BUT LOSS
OF LEADERSHIP**

1. AMDAHL
2. BECHTEL
3. CATERPILLAR
4. DANA
5. HEWLETT-
PACKARD
6. KODAK
7. RAYCHEM
8. SCHLUMBERGER
9. TI
10. TUPPERWARE
(DART)

**WEAKENED
POSITION**

1. ATARI
2. CHEESEBOROUGH
3. AVON
4. DATA GENERAL
5. FLUOR
6. KMART
7. NATIONAL
SEMI CONDUCTOR
8. REVLON
9. WANG

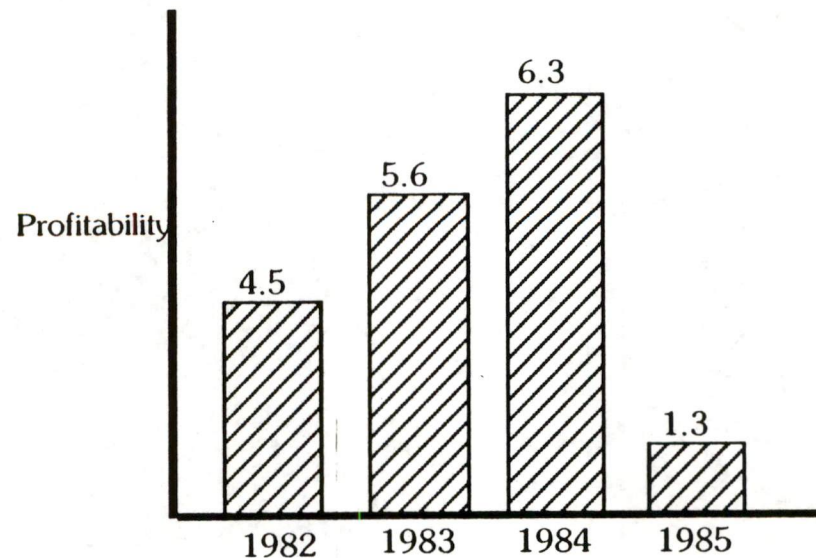
TROUBLED

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In 1985 Motorola was in Crisis



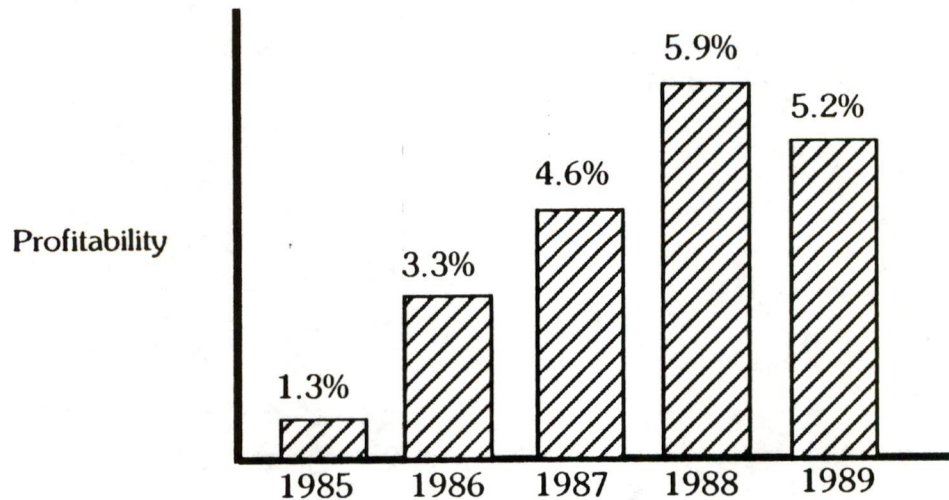
- o Competition had forced Motorola out of the DRAM market.
- o Company had slipped from second to fifth position as a supplier of semiconductors and was considering merger of semiconductor business with Toshiba's.
- o Japanese competitors were taking the lead in Pagers and Cellular Phone markets

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In 1991 Motorola was back in a leadership Position



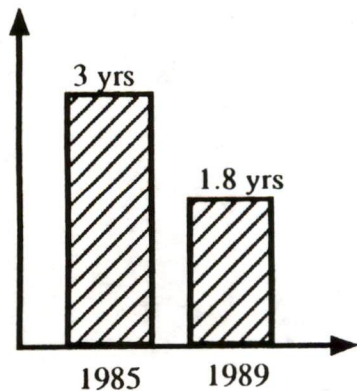
- o Leadership in Pagers and Cellular Phone markets through innovative, cost competitive products.
- o Back in the DRAM business.
- o Major supplier of semiconductors to Japanese Corporations. Fourth in the world, first among non-Japanese.

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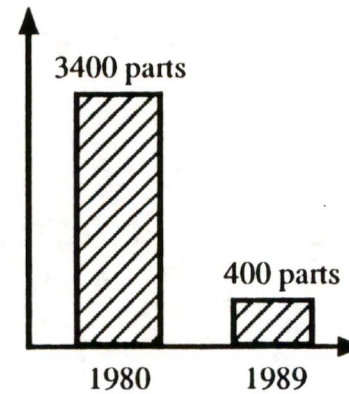
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Motorola Achieved Dramatic Improvements in Operating Efficiency

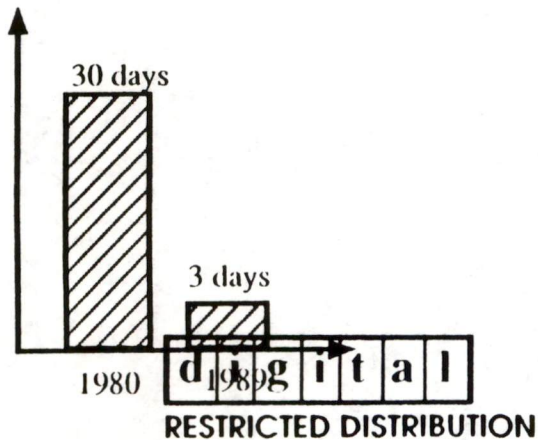
SHORTER DEVELOPMENT TIME
(Beginning of Development to beginning of production)



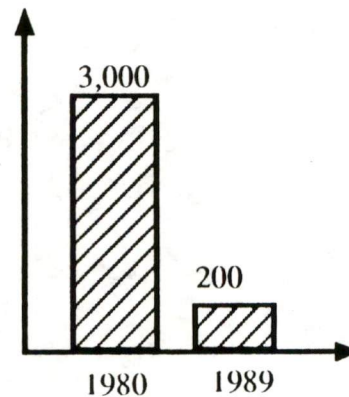
SIMPLER DESIGN
(Number of Parts)



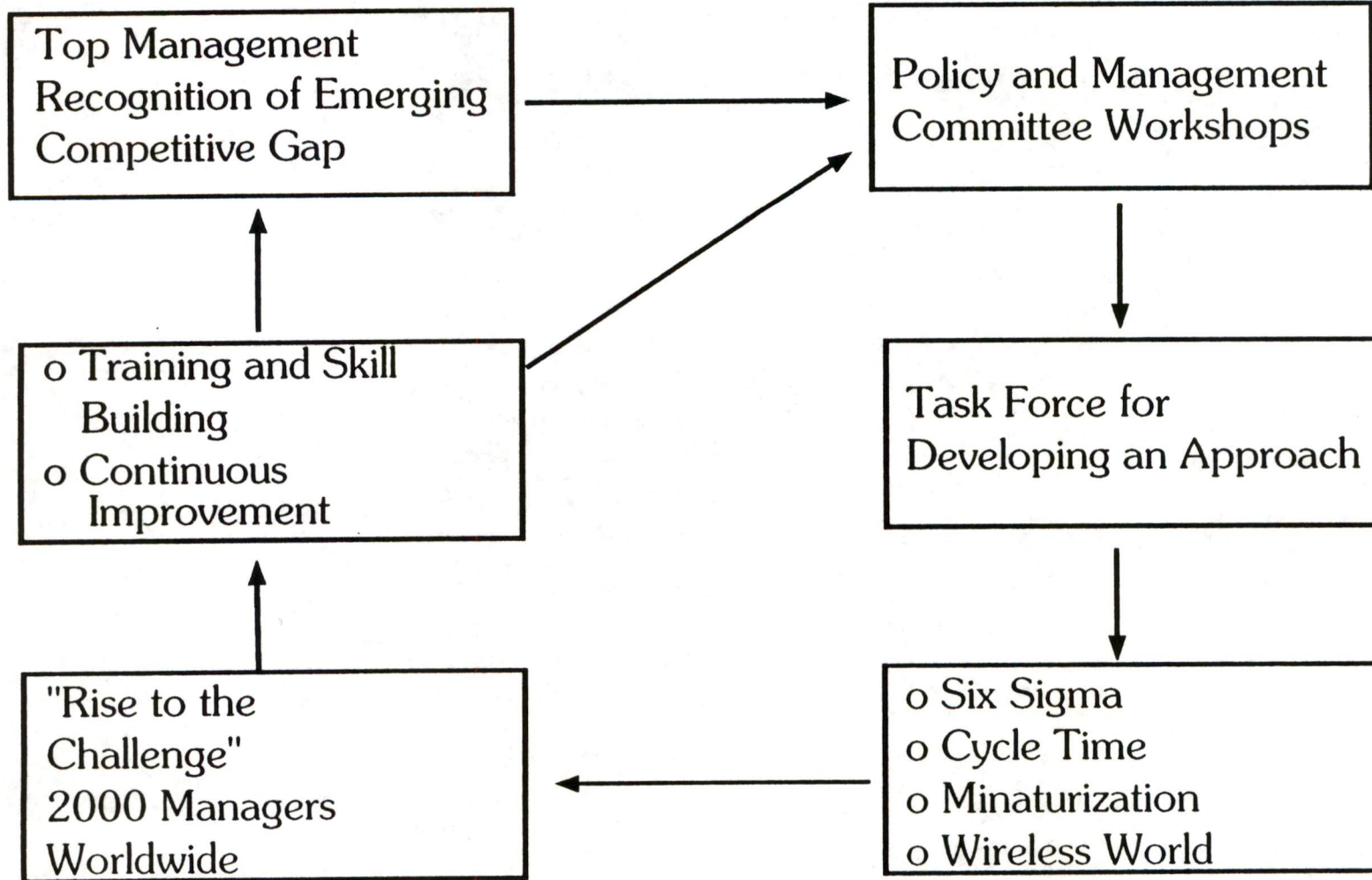
SHORTER PRODUCTION CYCLES
(Order to Shipments)



BETTER RELIABILITY
(Defect Per 1,000,000)



TRANSFORMATION AT MOTOROLA

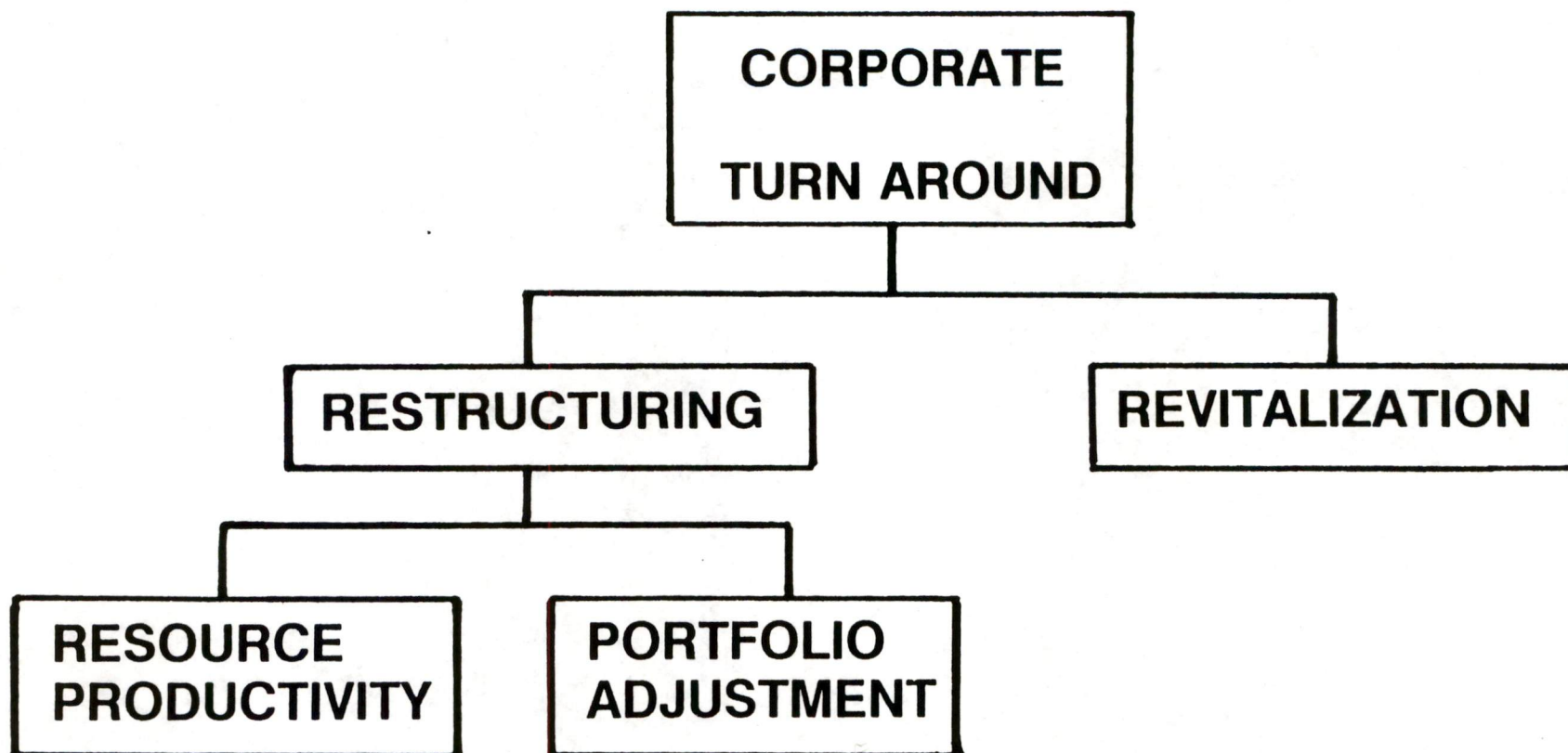


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THE DISH IS SWEET AND SOUR



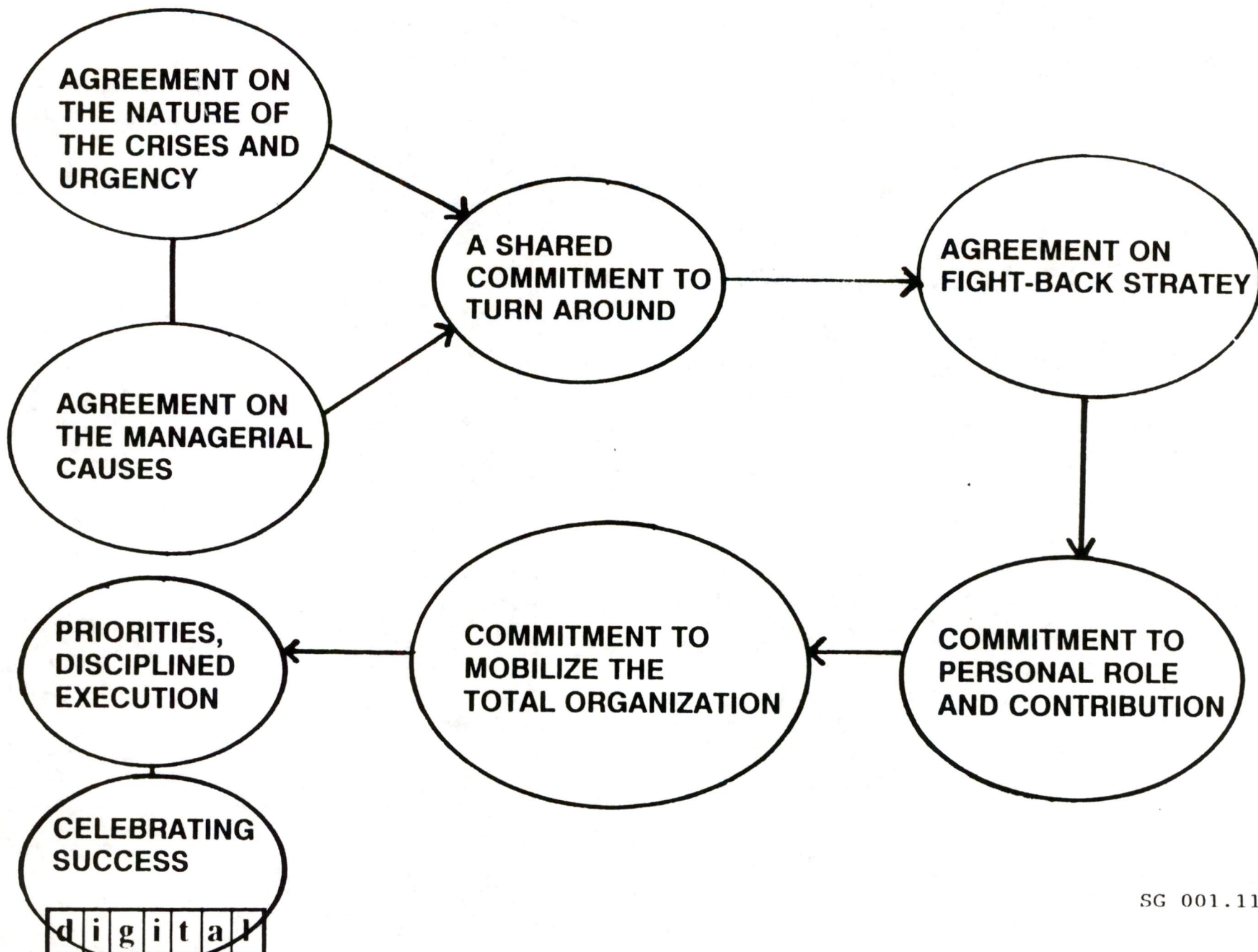
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PERSONAL COMMITMENT IS KEY



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DESIRED OUTCOMES

- o Clarity to strategy of restructuring and revitalization.
- o Common and shared understanding of the constraints and parameters within which the "fight back" strategy should be executed.
- o Recognizing the need to make choices - establishing criteria for those choices.
- o An approach to communicating these choices to the rest of the organization.
- o Liberating and empowering people: Recognizing the value-added of different levels of management.
- o Establishing priorities - disciplined execution

DESIRE TO WIN!

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PROCESS: SOME DO'S AND DON'TS

- o Open and candid discussions and debate on all aspects of Digital's reality: No sacred cows.
- o Re-examination of established beliefs and management styles.
- o Non-hierarchical, non-parochial approach: The enemy is outside Digital.
- o Dealing with facts, emotions, anxieties, beliefs and attitudes.
- o Listening: Seeking non-traditional solutions.
- o Business not as usual: Need for change.

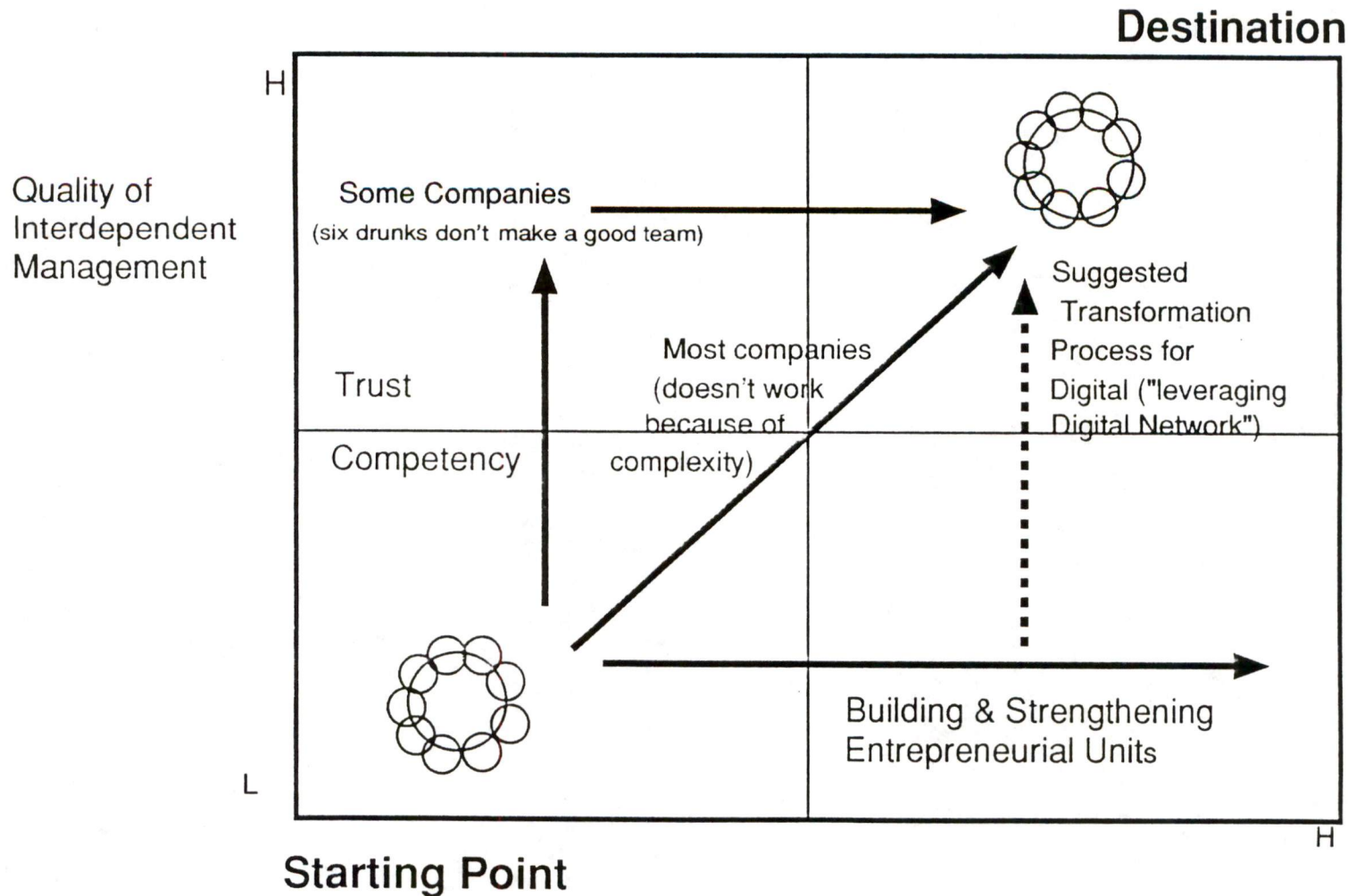
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Organizational Performance

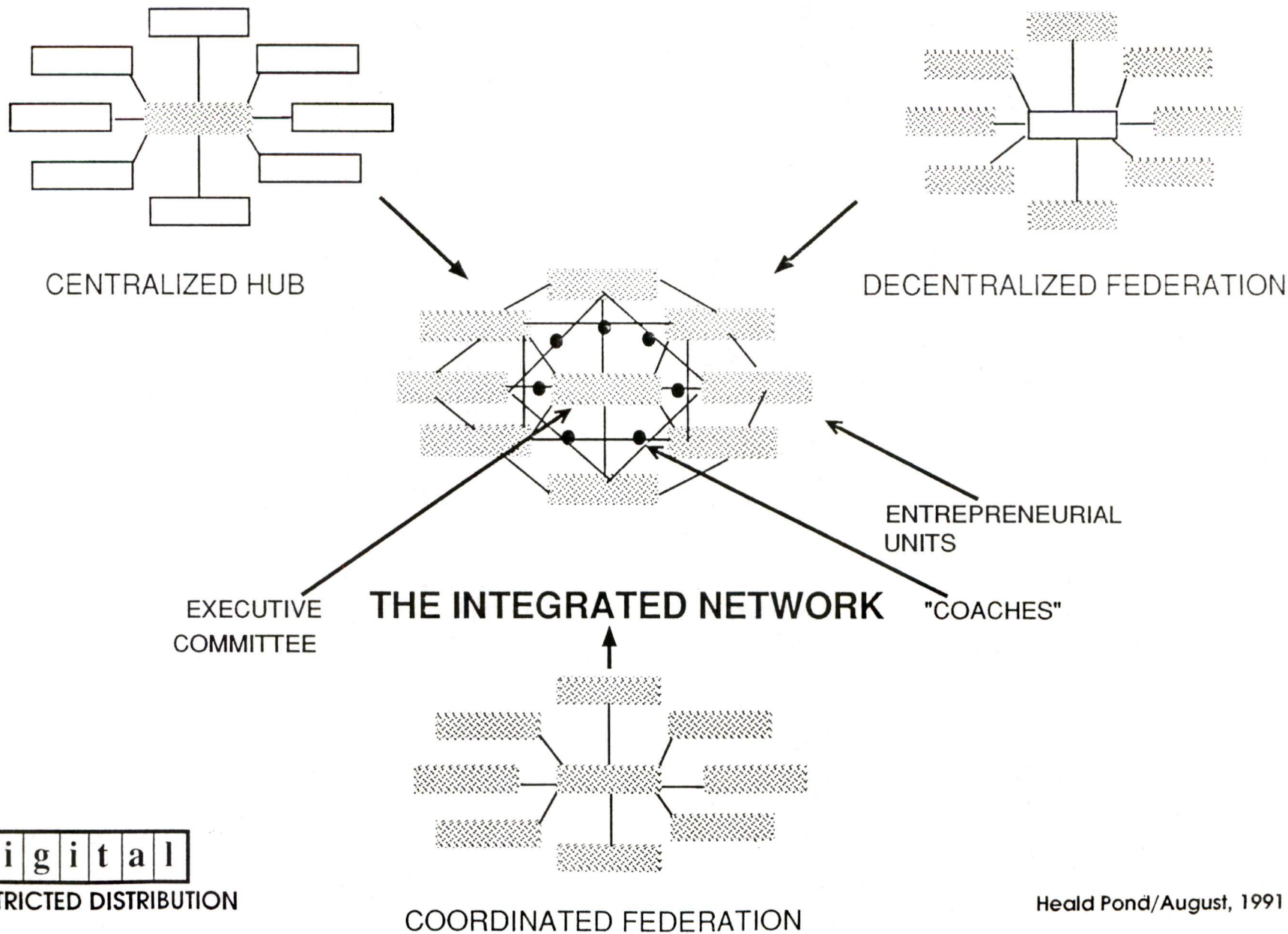
Sumantra Ghoshal



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Organizational Implications: The Integrated Network



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