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**I N T E R O F F I C E   M E M O R A N D U M**

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**Subject:** YOUR ACTION: PRE-READING FOR SLT WOODS

Attached is a book containing the Executive Summaries for each of the Business Unit Business Plans completed last week. The summaries are in the order of the agenda for the April 29th-30th meeting.

Please review these summaries prior to the meeting, which begins at 2:00 p.m. on April 28th. Copies of the presentations will be available at the meeting. Full Business Unit Plans are available, on-line, in the Business Planning System. Please contact your Business Planning Team representative if you would like copies.

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**FY94/95 Business Planning**

**Business Unit Business Plans  
Executive Summaries**

**Russ Gullotti**

**Business Planning Team  
April 23, 1993**

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# **FY94/95 Business Planning**

## **Business Unit Business Plans Executive Summaries**

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Personal Computers  
FY94-95 Business Plan  
Executive Summary

1.0 *This plan is preliminary and subject to change. Due to the fast-moving environment and changing assumptions about the PC business, this business unit plan is at a summary level only. The full business plan will be available on April 28, 1993.*

1.1 Business Unit Identification

The PC Business Unit is the lead organization for Digital's participation in the high-growth microcomputer market. The PCBU will provide standalone desktop and notebook computing power to the worldwide market for personal systems in high volumes at fully competitive price-performance levels.

The PCBU is uniquely responsible for the design and marketing of all Digital PCs, including marketing of Alpha-based PC products in the PCBU's channels. The PCBU will utilize PC specialists to supplement the company's overall direct sales force, will manage relationships with dealers and distributors, and will manage the PCs by DEC (Desktop Direct) telesales and fulfillment efforts worldwide. The PCBU will set worldwide PC prices and discount structures -- a critical requirement due to the slender gross margins set by the market. (Note that this is a plan for Intel-architecture client and low-end server machines. Plans for other appropriate equipment will be developed and integrated.)

The unit will work in close cooperation with:

- the supply chain, which will manufacture and buy out low-cost PCs in Taiwan, Kanata, and Mexico, and integrate them in (initially) seven worldwide locations;
- the CBUs and the US, Europe, and GIA sales organizations, which will continue to provide PCs to the installed base as industry-specific needs arise. The CBUs will effectively be customers of the PCBU in this process;
- the Digital field service organization, in a negotiated agreement to provide competitive warranty service;
- corporate engineering, in its development of Alpha PC technology and other technologies as appropriate.

The PCBU will be successful in proportion to the effectiveness of these cooperative relationships, and their ability to provide consistent power, speed, reliability, and low cost to the Digital customer base, at a controlled, market-based price.

1.2 Business Opportunity Assessment

The PCBU's target market is all business, government, scientific, education and home office PC buyers worldwide, with an initial focus on medium-large businesses and large public-sector purchasers. The size of this overall market (manufacturers' revenue) in early 1993 is approximately \$70B globally, \$25B in the United States. The PC market growth rate is approximately 8% in the U.S., 10% in Europe, and 12% in the GIA. PC sales now represent 45% of worldwide computer hardware expenditures.

Digital's PC business is growing at about 50% per year, five times the market rate. Although PC's are at present only 5% of Digital Equipment's revenues, the plan implies that PC's will grow to be more than 10% of Digital's revenues by 1995 (excluding Alpha). The PCBU plan would place Digital in the top five to seven microcomputer suppliers by 1995. As Digital is focusing on becoming more of an open systems vendor, success in the increasingly competitive PC market is critical to Digital's future. The increasing intensity of PC competition means that achieving top-seven status is essential for Digital. Smaller players, even if they are large companies, are being squeezed out for lack of scale, leading to shortages of key components and retail shelf space. By the end of 1994, the PCBU should have passed breakeven on a run-rate basis, and by the end of 1995, the unit's revenue run rate should be \$2B a year on Intel-based products.

	<u>Digital FY94 Volume</u>			
	<u>U.S.</u>	<u>Europe</u>	<u>GIA</u>	<u>Total</u>
Units	250K	250K	123K	623K
NOR	\$417M	\$417M	\$105M	\$1,040M

### 1.3 Competitive Environment

Digital is currently the ninth-largest manufacturer of PCs in the world, with 1.1% market share. The leading PC companies -- IBM, Compaq, and Dell -- are forcing consolidation of second- and third-tier competitors by eliminating product price/performance gaps and improving availability, service, and delivery levels. The long-term winners in the PC market will need to have low-cost, high-service operations, depending on purchasing and distribution scale to both reduce costs and provide leverage with suppliers and customers. Key competitive trends in the market include:

- increased efficiency / dramatic SG&A reductions
- broadening channel participation
- high-end and low-end product lines
- decreased differentiation among competitors with regard to product technology, delivery performance, and service and support levels

As PC hardware evolves toward a consumable commodity, opportunities for differentiation will most likely be found "outside of the box," through classic brand positioning and expanded service offerings (e.g., integrated network systems). Digital can and must leverage its effective brand strength, initially with the Digital installed customer base, and within a matter of months across the marketplace.

### 1.4 Customer Description

Digital's installed account base is the PC Business Unit's largest current customer group. The requirements of these customers are similar to those of the broader target customer group:

- reliable, high-quality PCs with competitive price/performance levels
- readily available service and support
- short delivery times for latest technology machines
- increasing need for integrated PC network and software solutions

Key customer trends include:

- growth of notebooks and other portables
- increase in the add-ons expected as standard: fax/modems, PCMCIA cards, pointing devices, etc.
- focus on client-server environments and networking
- repeat buying / educated buyers

Because PC sales cannot carry large SG&A costs and are sold primarily unbundled (from larger machines) today, the PCBU will utilize a group of PC specialists in the field to assist in sales support. Digital's target customers are evaluating and purchasing PC equipment through an increasing variety of channels, and only companies whose equipment and support are available through multiple channels of distribution can gain share in this environment. To achieve competitive scale as rapidly as possible, the PC Business Unit will selectively broaden the channels in which Digital participates



to include more two-step opportunities: dealers, value-added resellers, and superstores, as well as expanded three-step sales via distributors such as Merisel.

These channels require well-supported brands ("pull") and attractive retail margins ("push"). Digital will face challenges managing conflicts and costs serving customers through both direct and indirect channels. The PCBU will set the marketing and pricing policies necessary to minimize these conflicts.

#### 1.5 Business Strategies

The strategic objective for the PCBU is to become a scale competitor in the rapidly consolidating and growing PC market, achieving 2.5% worldwide market share by the end of FY95. Severe competitive cost pressures will characterize the marketplace during this period. The PCBU must take whatever creative steps are necessary to ensure that Digital will be both cost- and quality-competitive against large and effective competitors effective immediately. Digital is price-competitive, but not yet cost-competitive, today. Digital offers competitive-quality machines today, and the line is broadening rapidly to cover the necessary price and feature points.

The PCBU's primary marketing strategy is to penetrate the overall Digital account base first, taking full advantage of account relationships and Digital's worldwide reputation for providing superior systems solutions. FY94 is a year of transition for direct accounts, as the PCBU shifts a significant portion of its volume to distribution channels (e.g. telesales, retail) lower in cost than the traditional direct sales channel. This account "hand-off" is a critical dependency in Digital's planned growth over the FY94 and FY95 periods.

#### 1.6 Dependencies and Risks

The success of the PCBU plan depends on actions to be taken within the unit, actions to be taken within the rest of Digital, and on events occurring in the marketplace. Within the rest of Digital, the PCBU will depend on the supply chain to respond flexibly to product demand that may vary 30% above or below forecasts; the supply chain must still achieve target delivery quality and schedules. This flexibility is characteristic of the leading companies in the PC marketplace. If the supply chain does not operate flexibly enough and if the PCBU does not forecast well enough, the plan is at risk for up to \$50MM in obsolescence, freight, duty, and inventory carrying costs. The PCBU will also depend on the CBUs and geographies to deliver 50% of the volume as planned, even with the major structural and compensation changes occurring in those groups. A 10% volume shortfall from the CBUs equates to a revenue shortfall of \$54MM. The major organizational changes required across all of Digital could cause slippage in the plan of up to one quarter. And finally, the mix of demand by channel may turn out to vary from the plan. The exposure in that case is estimated at between \$5MM and \$10MM in operating profit.

	<u>FY94</u>
PCBU Unit Volume	307
CBU Unit Volume	<u>316</u>
Total Unit Volume	623

1.7 Notes to Financials

The financials are separately attached. Note that they do not include any Alpha-based products nor 1-800-SOFTWARE financials in this draft.

The overall SG&A proposed includes a PCBU SG&A of 16%. This is higher than the SG&A of the leading competitors by about 2 points, but the Digital structures and revenue required to achieve fully competitive SG&A will not be in place quickly enough to produce a full-year average lower than 16%. The end-of-year run rate SG&A should be around 14%.

Also in SG&A is a 1% corporate SG&A allocation. Financial information supplied to the PCBU by the corporation indicates a forecast corporate allocation of at least 4% of sales. This is not competitive with the marketplace, so the plan financials submitted indicate a 1% corporate allocation.

At present, the Digital service organization forecasts supplying the PCBU with warranty and other service support at a cost of 5.8% of sales. Although these costs are currently budgeted at that rate, this exceeds a competitive market rate by 50-75% and needs to be addressed further if the unit is to become profitable.

**DIGITAL EQUIPMENT CORPORATION**  
**BUSINESS UNIT BUDGET**  
**PCS**

	FY93	FY94	Y/Y%	FY95	Y/Y%
<b>\$M</b>					
<b>NOR</b>					
Product	765.0	1722.0	125.1%	2913.0	69.2%
Service	0	0	#DIV/0!	0	#DIV/0!
Total	765.0	1722.0	125.1%	2913.0	69.2%
<b>COGS</b>					
Product	689.0	1348.0	95.6%	2253.0	67.1%
Service	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Total	689.0	1348.0	95.6%	2253.0	67.1%
<b>GR MGN</b>					
Product	76.0	374.0	392.1%	660.0	76.5%
Service	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Total	76.0	374.0	392.1%	660.0	76.5%
<b>GR MGN%</b>					
Product	9.9%	21.7%	11.8	22.7%	0.9
Service	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Total	9.9%	21.7%	11.8	22.7%	0.9
<b>R&amp;E</b>	53.0	78.0	47.2%	92.0	17.9%
<b>SG&amp;A</b>	166.0	336.0	102.4%	523.0	55.7%
<b>OP</b>	-143.0	-40.0	72.0%	45.0	212.5%
<b>OP%</b>	-18.7%	-2.3%	16.4	1.5%	3.9
<b>Memo :</b>					
<b>IBP</b>					
NOR	260	339.0	30.4%	441.0	30.1%
COGS	37.0	37.0	0.0%	77.0	108.1%
<b>MCV</b>		37.0	#DIV/0!	0.0	-100.0%



Storage

FY94-95 Business Plan

Executive Summary

## 1.0 Executive Summary

### 1.1 Business Unit Identification

Storage designs, manufactures, and markets high performance Storage solutions for Digital Systems, Digital and non-Digital after-market, and the OEM market. Mass Storage is a vertically integrated business, forecasted to contribute in excess of \$1.7B of NOR equivalent revenue for FY93 (\$1.0B at IBP/NOR) of which the add-on and OEM business (about \$240 M) are a significant and growing portion of the business.

The Storage Business Unit includes three sub-segments: Subsystems/Video Image Servers, Tapes and Disks, and the Heads Business.

### 1.2 Customer Needs and Business Opportunity

The Storage customer base includes the Digital Customer and Product Business Units, distributors, and value added resellers, and OEM manufacturers.

All Storage customers expect to buy storage products which have competitive functionality and pricing, "money back guarantee", competitive warranty and service, and high quality and predictable supply. The opportunity for growth on the Digital platforms and non Digital platforms is through selling through direct merchandising (DMO), distributors, and value added resellers.

The OEM focus will be on high capacity/high performance disks, high performance/high capacity 1/2" cartridge tape, removable Optical, subsystems for multi-user/server micro and midrange systems (IBM, SUN, Novell LANs) and software. In addition Digital is in a strong position to sell thin film heads to other disk manufacturers.

### 1.3 Competitive Environment

Storage intends to capture 30% of the market in all of the market segments in which it intends to compete. This goal translates to off-base FY95 NOR revenue of \$1.8 billion and on-base FY95 NOR revenue of 1.4 billion.

<b>FY95</b>	<b>Heads</b>	<b>Heads</b>	<b>Disks</b>	<b>Disks</b>
Digital Goal	<u>On Base</u>	<u>Off Base</u>	<u>On Base</u>	<u>Off Base</u>
	\$230M	\$260M	\$1115M	\$670M
	<b>Tape/Op</b>	<b>Tape/Op</b>	<b>Subsys</b>	<b>Subsys</b>
Digital Goal	<u>On Base</u>	<u>Off Base</u>	<u>On Base</u>	<u>Off Base</u>
	\$472M	\$345M	\$500M	\$200M

The key competitors for the Storage market include Read-Rite, AMC, Seagate, Dastek, IBM, HP, Micropolis, Quantum, Exabyte, Archive, STK, and AT&T.

### 1.4 Business Strategies

Storage will satisfy all the storage needs of Digital's systems business (Initial system sale and after-market). Storage will provide high capacity/high performance storage (peripherals, subsystems and software) for non-Digital systems.

The Storage Business Unit's fundamental strategy is as follows:

Be the preferred storage supplier that meets 100% of the needs of the five Customer Business Units and the Product Business Units. This will be accomplished by a combination of buying entry level products, designing and manufacturing high capacity/high performance/high availability hardware and software products and working with EIC /external partners on low volume and industry specific products.

Be a significant force in key segments of the OEM business in order to significantly increase revenues/profit off the non-Digital base and leverage this to ensure leadership storage products for the Digital systems business.

## 1.5 Resource Requirements

Key internal to Digital dependencies including:

- Working with Central Engineering to establish integrated systems with Storage on behalf of the CBU's
- Operating systems groups (VMS, OSF, NT) coordination
- Implementing business practices which allow Storage to compete in an OEM environment

Dependencies on other Business Units/Functions

- Operating systems groups (VMS, OSF, NT)
- Storage management software (ESM)
- Supply chain (cost competitive components and logistics, predictability, and competitive SLA's)

## 1.6 Financial Summary

Revenue is expected to double from FY93 to FY95 (\$1.0 billion at IPB/NOR to over \$2.0 billion at IBP/NOR)

Operating profit grow from \$29M in FY93 to \$187M in FY95.



**DIGITAL EQUIPMENT CORPORATION  
BUSINESS UNIT BUDGET  
STG**

\$M	FY93	FY94	Y/Y %	FY95	Y/Y%
<b>NOR</b>					
Product	1080.0	1455.0	34.7%	2025.0	39.2%
Service	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Total	1080.0	1455.0	34.7%	2025.0	39.2%
<b>COGS</b>					
Product	876.0	1200.0	37.0%	1620.0	35.0%
Service	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Total	876.0	1200.0	37.0%	1620.0	35.0%
<b>GR MGN</b>					
Product	204.0	255.0	25.0%	405.0	58.8%
Service	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Total	204.0	255.0	25.0%	405.0	58.8%
<b>GR MGN%</b>					
Product	18.9%	17.5%	-1.4	20.0%	2.5
Service	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Total	18.9%	17.5%	-1.4	20.0%	2.5
<b>R&amp;E</b>					
SG&A	141.0	145.0	2.8%	148.0	2.1%
	34.0	39.8	17.1%	70.1	76.1%
<b>OP</b>					
OP%	29.0	70.2	142.1%	186.9	166.2%
	2.7%	4.8%	2.1	9.2%	4.4
<b>Memo :</b>					
<b>IBP</b>					
NOR	701.0	667.0	-4.9%	834.0	25.0%
COGS	1.0	0.0	-100.0%	0.0	#DIV/0!
<b>MCV</b>					
		48.0	#DIV/0!	48.0	0.0%



Components and Peripherals

FY94-95 Business Plan

Executive Summary

## 1.0 Executive Summary

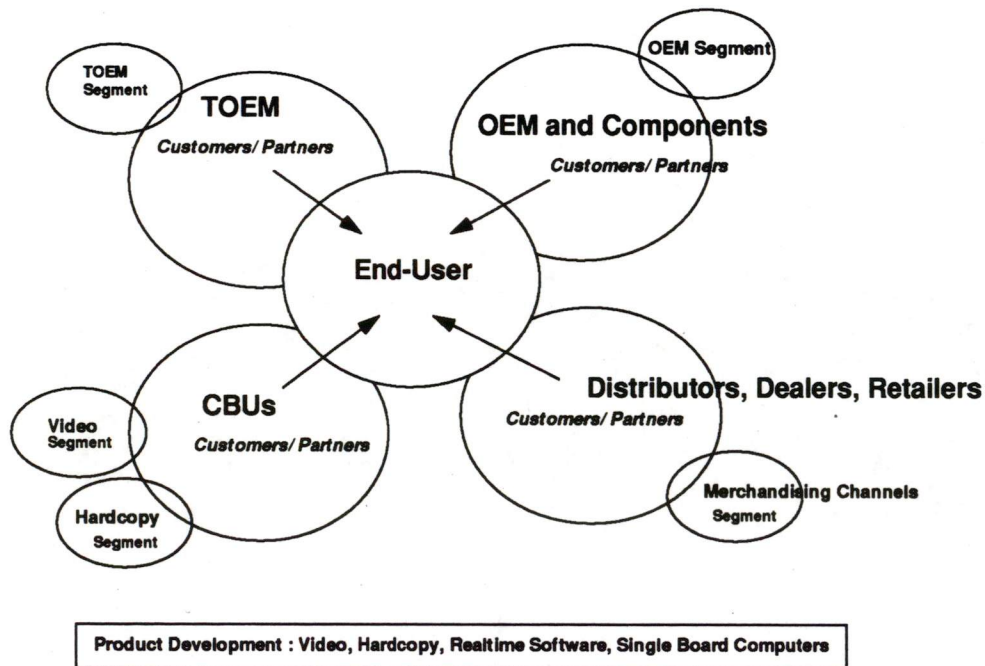
### 1.1 Business Unit Identification

The Components and Peripherals Business Unit mission is trifold:

1. Use new and existing channels to gain market share for Digital's commodity products outside our installed base of accounts.
2. Maximize penetration of DIGITAL's named industry accounts with Video and Hardcopy products.
3. Focus on TOEM business worldwide and grow the business for DIGITAL.

### 1.2 Customer Needs and Business Opportunity

The common theme which unites our segments into a single business



Our customers are **PARTNERS** who reach out to the End-User customer on our behalf. We must **guarantee** them products which give them a **competitive edge** and **profits for both of us** from our business relationship and practices.

### 1.2 Customer Needs and Business Opportunity (cont.)

A. Expanding the indirect channels market is an opportunity for DIGITAL to grow profitably. We have been and will continue to make a profit.

B. Our Partners Need the following to be competitive and profitable :

1. OEM Partners need customized business practices, strong technical field support and contact with engineering
2. Distributors, Wholesalers and Retailers need competitive products, pull marketing programs and advertising to make it easier for them to sell our products
3. All customers who buy from our partners want high quality products which are easy to use and which are compatible with the "open systems" computing environments of PCs, MACs, Novell networks , Token Ring, etc.
4. OEM Reseller & Component accounts demand that their suppliers provide high quality products, with leadership functionality, competitive prices, high predictability.

### 1.3 Competitive Environment

#### 1. Channels established

*C&P Response:*

- *Find new ways of doing business in indirect channels and develop new resellers worldwide*

#### 2. Markets, products, channels in constant change

*C&P Response:*

- *Offers opportunity to evolve new approaches*

#### 3. Brand recognition required to sell

*C&P Response:*

- *Develop brand recognition*

#### 4. Quality is an expectation

*C&P Response:*

- *Leverage high quality image*

#### 5. Price and margin sensitivity

*C&P Response:*

- *Achieve benchmark product and selling costs*
- *Achieve high volume and marketshare growth*

## **1.4 Business Strategies**

1. Leverage Technology - Use the technology advantage of Alpha to build and grow TOEM and OEM
2. Expand channels worldwide - Focus on developing Wholesale distributor and Retail partners to sell DIGITAL products to the general market
3. Market and sell to non-DIGITAL Named Accounts (DNAs) with "open" products such as the VXT2000+, the VT510 family, cost optimized PostScript DEClaser printers, LENAC products such as hubs, routers, and infoservers and Alpha workstations and NT servers through indirect channels
4. Achieve benchmark manufacturing and marketing capabilities
5. Develop and source products which work on multivendor platforms and support the general market

## **1.5 Resource Requirements**

### Strategic Alliances :

Manage the strategic alliance with Olivetti on behalf of the Corporation. Our intent is to deal with them on a profitable basis.

### Human Resources :

Create and inspire a collaborative, global work force, with clear vision, free of distractions, channeling its creativity and energy directly to our customer base to build DIGITAL's market and profitability.

## **1.6 Financial Summary**

Year over year revenue growth is planned to be 10% in FY94 and 20% in FY95.

We will achieve benchmark profitability in two stages, reaching 5% operating profit in the first year and 7% operating profit in FY95.

**DIGITAL EQUIPMENT CORPORATION  
BUSINESS UNIT BUDGET  
C&P**

	FY93	FY94	Y/Y%	FY95	Y/Y%
\$M					
NOR					
Product	1135	1250	10.1%	1500.0	20.0%
Service	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Total	1135.0	1250.0	10.1%	1500.0	20.0%
COGS					
Product	692.0	782.0	13.0%	976.0	24.8%
Service	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Total	692.0	782.0	13.0%	976.0	24.8%
GR MGN					
Product	443.0	468.0	5.6%	524.0	12.0%
Service	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Total	443.0	468.0	5.6%	524.0	12.0%
GR MGN%					
Product	39.0%	37.4%	-1.6	34.9%	-2.5
Service	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Total	39.0%	37.4%	-1.6	34.9%	-2.5
R&E	125.0	109.0	-12.8%	118.0	8.3%
SG&A	295.0	294.0	-0.3%	305.0	3.7%
OP	23.0	65.0	182.6%	101.0	55.4%
OP%	2.0%	5%	3.2	7%	1.5
Memo :					
IBP					
NOR	401.0	394.0	-1.7%	424.0	7.6%
COGS	124.0	25.0	-79.8%	31.0	24.0%
MCV		-28.0	#DIV/0!	-28.0	0.0%

*449 NOR - SG&A down from 9.6% to 9.3%*





Multivendor Customer Services

FY94-95 Business Plan

Executive Summary

## 1.0 Executive Summary

### 1.1 Multivendor Customer Services Business Unit

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MCS focuses on Information Technology (I.T.) services involving installation, repair, support, and interoperability of Digital and non-Digital hardware, software and network products.

MCS will provide *total* multivendor service solutions. We will meet customer needs for added-value services such as PC LAN integration and system management services by using our high volume, standardized service processes to competitive advantage. MCS will leverage Professional Services' strategic consulting and enterprise integration activities with quality, cost-effective multivendor product service solutions.

### 1.2 Customer Needs and Business Opportunity

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MCS' customers are individuals and teams in Large, Medium, or Small/Individual enterprises throughout the world who are users of I.T. or are responsible for its effective use. They are found in Digital's existing accounts (using Digital and non-Digital computing products) as well as in accounts with no Digital product or service presence.

They place high value on multivendor service solutions that help them meet their key business challenges, and they expect service solutions tailored to their computing environment and needs. MCS customers value the consistency and staying power of "brand name" service suppliers; however, there is an exception for commodity-like remedial services, for which independent servicers compete based on low pricing. The strongest overall influences in customer buying decisions are how well service offers fit their needs, with responsive terms and conditions; how cost-effective the solution is; and demonstrated technical, logistical, and operational service competencies.

### 1.3 Competitive Environment

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Evolving customer needs for service and the major trend towards open computing have combined to greatly expand the scope of the overall services market. The traditional Digital products services market sector (\$ 7 bil in 1992) is still an important area of focus; however, the growth opportunities are in multivendor and added-value services and in customer accounts outside Digital's current base.

The overall product services market is \$101 billion and growing 15% per year. Digital has 53.5% share of the \$ 7 bil traditional Digital products services sector, which is rapidly eroding. In the large and expanding multivendor, added-value services sectors, Digital has established a 5.5% share position within Digital's current base of accounts, and is beginning to address off-base opportunities.

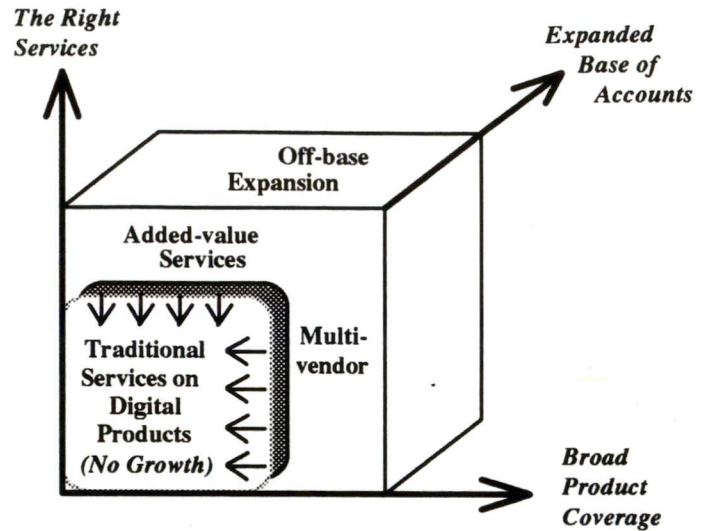
Among Digital's systems competitors, none has yet established a strong multivendor service business. H-P is showing the most intention; IBM and Olivetti are also engaged in multivendor services. The independent servicers such as Bell Atlantic and Granada are all less than \$.5 bil in revenue. This dynamic competitive environment warrants continuous monitoring but in general, is favorable for Digital MCS continued expansion.

### 1.4 Business Strategies

**Strategic Focus**

We are implementing four synergistic growth strategies:

1. Expand our services product coverage to non-Digital products
2. Expand the services we offer
3. Expand the accounts to which we offer services
4. Protect our installed service base



MCS is a top-tier, worldwide I.T. service provider with proven service people, methods and infrastructure. We will continually strengthen our capabilities through re-engineering and external service alliances, and offer the highest quality, best value, multivendor services needed by our expanding base of customers and channels. We will emphasize our service quality and capabilities to aggressively grow in multivendor, added-value services, where the competition is unformed, and to protect our traditional service business.

### 1.5 Resource Requirements

MCS will develop the broadest range of multivendor support services available on non-Digital products, sold into either the Digital or the non-Digital base. Establishing MCS as the worldwide service agent for select manufacturers, software publishers, and product fulfillment channels is our multivendor goal. Cash consuming acquisitions are not a prime approach.

MCS' 20,000 person workforce is our key competitive strength. We are undertaking initiatives to redesign the work of MCS, and we are developing staffing and development plans, including transition plans. We will emphasize communications and an environment of shared values, purpose, and diversity.

### 1.6 Financial Summary

Worldwide MCS (\$ Millions)	Fy93	Fy94	Fy95
NOR	\$ 4,741	\$ 4,700	\$ 5,000
Operating Profit	\$ 1,547	\$ 1,550	\$ 1,550
Oper Profit % NOR	33%	33%	31%

Assumes 10% per year reductions in corp. G&A.; Corp. R&E allocations to MCS reflect planned Engineering reductions and the Fy93 allocation algorithm.

**DIGITAL EQUIPMENT CORPORATION  
BUSINESS UNIT BUDGET  
MCS**

	FY93	FY94	Y/Y%	FY95	Y/Y%
<b>\$M</b>					
<b>NOR</b>					
Product	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Service	4741.0	4700.0	-0.9%	5000.0	6.4%
Total	4741.0	4700.0	-0.9%	5000.0	6.4%
<b>COGS</b>					
Product	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Service	2458.0	2375.0	-3.4%	2650.0	11.6%
Total	2458.0	2375.0	-3.4%	2650.0	11.6%
<b>GR MGN</b>					
Product	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Service	2283.0	2325.0	1.8%	2350.0	1.1%
Total	2283.0	2325.0	1.8%	2350.0	1.1%
<b>GR MGN%</b>					
Product	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Service	48.2%	49.5%	1.3	47.0%	-2.5
Total	48.2%	49.5%	1.3	47.0%	-2.5
<b>R&amp;E</b>	186.0	200.0	7.5%	200.0	0.0%
<b>SG&amp;A</b>	550.0	575.0	4.5%	600.0	4.3%
<b>OP</b>	1547.0	1550.0	0.2%	1550.0	0.0%
<b>OP%</b>	32.6%	33.0%	0.3	31.0%	-2.0
<b>Memo :</b>					
<b>IBP</b>					
NOR			#DIV/0!		#DIV/0!
COGS			#DIV/0!		#DIV/0!
<b>MCV</b>			#DIV/0!		#DIV/0!



Healthcare Industries  
FY94-95 Business Plan  
Executive Summary

## 1.1 Business Unit Identification

The Health Industries CBU is uniquely positioned within Digital to leverage activities among a complementary set of markets and accounts that comprise an industry value chain. Our accounts include healthcare providers in all segments (hospitals, ambulatory and long-term care, medical research and service companies, etc.); payors from government/ministries of health to insurance companies to individuals; suppliers, including pharmaceutical and biotechnology firms, medical device and equipment manufacturers, hospital supply companies, information management and consulting firms; and regulators, which are usually government-based, but may also be influential industry-driven forces. The ability to leverage Digital's information technology and market segment leadership positions throughout this extended enterprise is a unique competitive advantage that we can and must develop and exploit profitably during the next two - five years.

## 1.2 Customer Needs and Business Opportunity

Health Industries accounts have a compelling need to achieve cost efficiencies; to increase the quality of goods and services delivered; to improve discovery pipeline and time-to-market to insure future growth and preserve shrinking profit margins; and to comply quickly with revolutionary and imminent changes in the regulatory and legislative environment. These trends are consistent across the major industrialized countries of the world, although the U.S. is now the focus of the most dramatic political climate regarding healthcare reform, e.g., any flavor of managed competition will necessarily result in complete redesign of administrative and clinical business practices for providers, payors, regulators and suppliers.

## 1.3 Competitive Environment

The Competitive environment is as favorable as any that Digital faces. IBM has cut its Health Industries focus significantly this fiscal year, presenting a window of opportunity for Digital to exploit. In Healthcare alone, our relative size compared to IBM, our largest direct competitor, is a factor of two, not five. Hewlett Packard, on the other hand, is investing aggressively in Health Industries automation and could develop into a formidable competitor. Other significant threats come from the Services/Systems Integrators and Government defense contractors that are seeking new long-term growth markets. These companies have a history of success in the most critical area where Digital must establish a leadership position if we are to improve our profit margins in the long run.

## 1.4 Business Strategies

The top four Health Industries Business Strategies include: 1) Develop a broad range of repeatable solutions based on tool sets that enable complex large projects to be implemented with continuously improving profitability; 2) Develop strategic alliances with end users and supplementing our solid base of third party partners to deliver enhanced vertical applications, complementary consulting and service capabilities, and to leverage references; 3) Develop consultative selling skills and delivering solutions with return on investment that will enable a shift to a value pricing model, build account control, and ensure customer satisfaction; 4) Develop and implement a profitable IT infrastructure and services program to take advantage of the realignment of industry IT groups to help them achieve their own business re-engineering and cost goals.

We have put together a set of 12-15 Business Initiatives to present a direct response to customer needs. These Business Initiatives, listed below by market segment, will evolve as the cornerstone of our



management process geared to profitably developing and deploying strategic programs including administrative and clinical solutions for Health Industries:

Pharmaceutical

- ☒ Research & Development Initiative
- ☒ Manufacturing & Distribution Initiative
- ☒ Sales & Marketing Initiative
- ☒ Pharma IT Infrastructure Initiative

Healthcare/Gov't.

- ☒ Computer-based Patient Records Initiative
- ☒ Telemedicine and Telemedicine Information Services Initiatives
- ☒ Patient-Focused Care Initiative
- ☒ Clinical Imaging Initiative
- ☒ Healthcare CSO/VARs/TOEM Initiative
- ☒ New Business Development/SME Initiative
- ☒ Healthcare IT Infrastructure Initiative

Health Insurers/ Managed Care

- ☒ Claims Processing/Administrative Systems Initiative
- ☒ Inter-Enterprise Integration/EDI Initiative

## 1.5 Resource Requirements

Key dependencies inherent in the Health Industries plan center on the selling and delivery resources for our strategic business initiatives. Many of these resources are not now assigned and appropriately skilled. We are also dependent on establishing and leveraging CBU core competencies, building a knowledge organization, and implementing new business processes in an urgent timeframe. There are functional dependencies on Engineering and other CBUs, especially Finance/Insurance, Education and Defense, to develop synergistic strategies that will leverage mutual success.

## 1.6 Financial Summary

The Health Industries CBU will deliver \$646M NOR in FY94, \$704M in FY95, representing 9% CAGR over FY93. Profitability will improve by 15% from FY93 to FY94, to achieve break-even within 5 quarters. Another 10% improvement is projected for FY95, bringing Health Industries to a 5% operating profit in two years. Balance sheet positioning will be articulated as we achieve a better understanding of the asset base and turns required to support this business focus.

**DIGITAL EQUIPMENT CORPORATION  
BUSINESS UNIT BUDGET  
HIC**

	FY93	FY94	Y/Y%	FY95	Y/Y%
<b>\$M</b>					
<b>NOR</b>					
Product	474.4	509.4	7.4%	528.1	3.7%
Service	118.3	136.7	15.6%	176.0	28.7%
Total	592.7	646.1	9.0%	704.1	9.0%
<b>COGS</b>					
Product	269.8	274.4	1.7%	277.0	0.9%
Service	94.6	102.5	8.4%	110.0	7.3%
Total	364.4	376.9	3.4%	387.0	2.7%
<b>GR MGN</b>					
Product	204.6	235.0	14.9%	251.1	6.9%
Service	23.7	34.2	44.3%	66.0	93.0%
Total	228.3	269.2	17.9%	317.1	17.8%
<b>GR MGN%</b>					
Product	43.1%	46.1%	3.0	47.5%	1.4
Service	20.0%	25.0%	5.0	37.5%	12.5
Total	38.5%	41.7%	3.1	45.0%	3.4
<b>R&amp;E</b>	92.1	71.0	-22.9%	70.1	-1.3%
<b>SG&amp;A</b>	257.3	230.5	-10.4%	212.0	-8.0%
<b>OP</b>	-121.1	-32.3	73.3%	35.0	208.4%
<b>OP%</b>	-20.4%	-5.0%	15.4	5.0%	10.0
<b>Memo :</b>					
<b>IBP</b>					
NOR			#DIV/0!		#DIV/0!
COGS	122.0	104.0	-14.8%	107.0	2.9%
<b>MCV</b>		-5.0	#DIV/0!	-5.0	0.0%

*\$ 363 ~~140%~~*

*CM 140%*



Discrete Manufacturing and Defense

FY94-95 Business Plan

Executive Summary

## 1.0 Executive Summary

### 1.1 Business Unit Identification

The Discrete Manufacturing and Defense Business Unit will provide significant competitive advantage to customers in the Electronics, Automotive and General Discrete, Aerospace and Defense Industries by delivering world class solution for their product development, supply chain, and mission achievement challenges.

We will return this Customer Business Unit to profitability by focusing on four types of customers and no more than five solution growth areas and executing extraordinarily well.

The priority is to realign our resources to profitability serve current customers while expanding Digital's reach in four dimensions: Credible market position in UNIX; growth in professional services; smaller to medium size customers serving our large accounts; and emerging market opportunities in selected territories such as Asia.

### 1.2 Customer Needs and Business Opportunity

Our target customer base is defined by the following segments:

- Global, strategic accounts in each of our four market segments.
- Value chain customers, typically medium sized accounts serving these global vendors.
- Defense and Intelligence and other government agencies.
- TOEMs in our targeted industries.

Our customer needs are summarized by elements of their value chain:

- In engineering, reducing the cost, complexity and time of the design cycle -- principally through integrated CAD, CAM and CAE systems linked to manufacturing is an overriding concern.
- In manufacturing, the emphasis is on improved execution in the quality, yield and therefore cost areas as well as developing a much reduced planning to execution cycle to remain competitive (e.g. the 10 day car).
- In the distribution, logistics, and customer support aspects of the business the demand is for higher customer satisfaction and lower cost of delivery through integrated global business and IT systems.
- The defense and intelligence agencies are undergoing tremendous cost and mission discontinuities in response to the well known changes.

### 1.3 Competitive Environment

The overall DMD market of 47B\$ is expected to grow less than 2% a year over the plan period with notable exceptions in several sub-segments .

Industry segments:

- A shrinking (2-4% p.a.) Aerospace and Defense segment.
- A growing (3-5%p.a.) Electronics and Auto, Machinery and General Discrete segment.

Product/solution segments:

- UNIX applications and SI solutions are likely to grow 15-20%.
- Demand for host based proprietary systems will continue to erode at a double digit rate.

Our strongest market positions (e.g. Defense, Aerospace, Shop Floor, proprietary platforms, European Machinery, etc.) are in many cases not well aligned with relevant growth segments (e.g. UNIX, SI, certain GIA territories, sales and distributions systems, etc.)

Our major competitors are HP, SUN and IBM in our platform business. HP and SUN have the strongest position in the technical areas such as engineering and manufacturing, while IBM's presence is more typically in the FABS or sales, distribution or logistics parts of the business. In our professional service markets; EDS, Anderson Consulting, CSC and, to a certain extent, IBM's ISSC are the major competitors in addition to a growing number of European based firms.

# Industry Dynamics Demand Radical Change In How DMD Will Serve Its Customers

1

4

## Customer Needs Undergoing Dramatic Changes

- Rapid deployment of UNIX-hosted new applications being demanded to surround legacy systems
- Growing demand for solving business problems with IT, not purely infrastructure
- Significant portions of DMD targeted customers experiencing deep cost pressures equally significant shifts in spending occurring in government customers

2

## Competitive Pressure Growing on Proprietary Systems Providers

- 95% of 1993 client-server market (totalling in excess of \$23 Billion) on UNIX and DOS systems
- Proprietary gross margins continue their declines: systems account for less than 2% of industry profit in 1992
- UNIX suppliers are growing share at Digital's expense: YEAR-OVER-YEAR (1991 to 1989) comparisons show IBM at 39% share gain; Sun at 54% share gain; HP at 85% share gain; and Digital at 16% share loss

3

## UNIX Having Deep Effect On DMD

- UNIX platform growth in excess of 27% CAGR
- Commercial markets dominate UNIX server demand: more than 75% of market in 1993
- UNIX is an indirect channel business for servers: more than 60% of revenue is realized indirectly
- More than 50% of Manufacturing companies are projected to pursue UNIX oriented strategies (where all companies surveyed show 35%)

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## Indirect Channels Fueling Growth

- Indirect channels are projected to be 62% of 1996 revenue fulfillment
- Indirect channels volume (\$) is growing at a 15% CAGR 1992-96
- Sales models to support indirect fulfillment differ by 25 to 30 points from proprietary system selling

5

## Technology advances are shifting competitive advantage to applications software and professional services

- Dramatic increase in shift to client/server downsizing activities: 330% growth in revenues from these areas projected 1992-1997
- IT value delivery shifting dramatically from hardware to other value-added:
  - while 60% of market revenues are hardware, only 2% of industry profits derived here
  - while 13% of market revenues are software and services, more than 60% of industry profits derived here



## 1.4 Business Strategies

The three key thrusts of our strategy are:

1. Regaining a leadership position in our platform dominated business, principally with UNIX applications, through revamping our current approach to selling and marketing with the top 30 CSO/Developers.
2. Investing to grow in five PS/SI segments of our markets, where we expect to focus and dominate in:
  - Optimizing the sales, distribution and logistics systems of our multinational customers -- initially in the Electronics industries.
  - Streamlining and integrating the product development process of our Automotive and Aerospace customers.
  - Compressing the order-to-delivery cycle to Automotive companies, initially in Europe.
  - Improving the execution of manufacturing operations for our Automotive/Discrete Manufacturing, Electronics and Aerospace customers.
  - Exploiting our technical CASE solutions, both in broader technical markets and new commercial ones.
3. Restructuring and aligning the necessary channel and IT infrastructure elements will enable us to deliver more value at a lower cost to our customers. More specifically we intend to:
  - Establish integrated sales and delivery teams for each solution in the relevant territories.
  - Rapidly shift, for the appropriate market and product segments, much of our existing business to distributors or other lower cost, typically indirect channels.
  - Align and leverage the existing tools or capabilities of the corporation such as the downsizing program, our networking expertise, and other horizontal capabilities.

## 1.5 Resource Requirements

We are dependent upon several critical areas to achieve our plan. In the near term, we are counting on a redirected corporate commitment to UNIX and our top 30 CSO partners for growth, while, at the same time, we require an infusion of new skills -- in channel management, program management and industry leadership consultative selling.

## 1.6 Financial Summary

### Revenue growth

	FY92/93	FY93/94	FY94/95
PS/SI	6%	9%	18%
Products	<14%>	1%	3%
TOTAL	<10%>	3%	7%

### Operating profit margins (%)

FY92	FY93	FY94	FY95
-29	-26	-16	-6

~~\$ 842M Now 768M~~

FY93  
768

FY94  
\$ 783

FY95

**DIGITAL EQUIPMENT CORPORATION  
BUSINESS UNIT BUDGET  
DMD**

	FY93	FY94	Y/Y%	FY95	Y/Y%
<b>\$M</b>					
<b>NOR</b>					
Product	1321.0	1340.0	1.4%	1380.0	3.0%
Service	370.0	405.0	9.5%	480.0	18.5%
Total	1691.0	1745.0	3.2%	1860.0	6.6%
<b>COGS</b>					
Product	807.0	856.0	6.1%	850.0	-0.7%
Service	318.0	331.0	4.1%	345.0	4.2%
Total	1125.0	1187.0	5.5%	1195.0	0.7%
<b>GR MGN</b>					
Product	514.0	484.0	-5.8%	530.0	9.5%
Service	52.0	74.0	42.3%	135.0	82.4%
Total	566.0	558.0	-1.4%	665.0	19.2%
<b>GR MGN%</b>					
Product	38.9%	36.1%	-2.8	38.4%	2.3
Service	14.1%	18.3%	4.2	28.1%	9.9
Total	33.5%	32.0%	-1.5	35.8%	3.8
<b>R&amp;E</b>	290.0	279.0	-3.8%	260.0	-6.8%
<b>SG&amp;A</b>	710.0	558.0	-21.4%	520.0	-6.8%
<b>OP</b>	-434.0	-279.0	35.7%	-115.0	58.8%
<b>OP%</b>	-25.7%	-16.0%	9.7	-6.2%	9.8
<b>Memo :</b>					
<b>IBP</b>					
NOR			#DIV/0!		#DIV/0!
COGS	244.0	301.0	23.4%	364.0	20.9%
<b>MCV</b>		-20.0	#DIV/0!	-20.0	0.0%



Financial, Professional and Public Services

FY94-95 Business Plan

Executive Summary

# Financial, Professional & Public Services Business Unit

## FY94-95 Business Plan

### 1.0 Executive Summary

FPPS's mission is to transform Digital into a customer-driven solutions provider for the Financial, Professional and Public Administration market segments by combining business and industry knowledge, added-value applications and global service capability with leadership core information technologies.

#### 1.1 Business Unit Identification

The FPPS CBU develops, markets and delivers a superior set of solutions for the following market segments:

- Banking
- Insurance (non-health)
- Architecture, Engineering Construction, Real Estate and Property Management
- Computed Software and Services
- Other Professional Industries - including law firms, consultants, etc.
- Public Administration - civilian agencies in national, provincial, state and local governments

#### 1.2 Customer Needs and Business Opportunity

The FPPS markets are service businesses and the delivery of that service is their competitive edge. If Digital can position itself as the leader in IT-assisted customer service solutions, it will have a commanding position in this portfolio.

The top three needs of our customers are:

- o An information partner that knows their industry and can provide solutions for their business problems
- o Quality and reliability - do the job right, the first time
- o Value - provide sustaining competitive advantage

FPPS customers expect their suppliers to understand the nature of their business

# Financial, Professional & Public Services Business Unit

## FY94-95 Business Plan

problems from an insider's perspective and to creatively apply technological expertise to address their problems with the best combination of quality products and services. Large and medium firms are also interested in reducing operating costs and downsizing from older IT systems.

### 1.3 Competitive Environment

As the competitive environment progresses toward requirements that systems be OPEN, networked, secure, technically supported, compliant to industry and government standards, and heterogeneous, Digital's strong technological base becomes more of an asset in our markets. We are "technology with the people to put it to work", while they are "people with technology to back them up". In the near term, we can capitalize on this.

### 1.4 Business Strategies

FPP's strategic focus will concentrate on:

- o New sales and delivery models
- o Rapid response to targeted opportunities anywhere in the world
- o Renewed channel and partnering strategies
- o Moving work closer to customers and account teams

Our business goals are to:

- o Profitably develop, market and deliver value-added, integrated information technology applications and solutions in targeted, strategic market segments
- o Expand our knowledge of our customer's business

### 1.5 Resource Requirements

Our plan is to develop tighter strategic relationships with our software partners by:

- o Reviewing our relationships with our smaller software partners and

# Financial, Professional & Public Services Business Unit

## FY94-95 Business Plan

moving those with the most relevant applications to the distributor group as tiered VARs.

- o Developing an SI practice with a major consulting organization.
- o Re-energizing our indirect VAR channel by targeting specific segments.

Start-up business requirements will be applied to FPPS. Although some components of the CBU result from combining existing human resources, much remains to be created and implemented.



# Financial, Professional & Public Services Business Unit

## FY94-95 Business Plan

### 1.6 Financial Summary

FPPS will achieve breakeven operating profit levels in FY95 by aggressively streamlining marketing, communications, sales and delivery resources to focus more effectively on our potential customers and the development/delivery of solutions targeted at a few key business problems. Revenues will grow 8% in FY94 and another 8% in FY95 while we contain spending growth.

(\$B)	Financial, Professional & Public Services		
	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>
NOR	\$ 2.2	\$ 2.4	\$ 2.6
GM	0.8	0.9	1.0
GM%	35%	37%	40%
OP II	(0.4)	(0.2)	(0.0)
OP II %	(20)%	(10)%	0.0%

USA

FY93

FY94

FY95

NOR 500 - 550 M

+1.06%  
growth

580 NOR

DU 48%

19%

EM 23.6%

**DIGITAL EQUIPMENT CORPORATION  
BUSINESS UNIT BUDGET  
FPP**

	FY93	FY94	Y/Y%	FY95	Y/Y%
<b>\$M</b>					
<b>NOR</b>					
Product	1729.7	1785.4	3.2%	1855.4	3.9%
Service	487.9	596.4	22.2%	724.8	21.5%
Total	2217.6	2381.8	7.4%	2580.2	8.3%
<b>COGS</b>					
Product	1040.5	1052.5	1.2%	1086.0	3.2%
Service	407.8	447.3	9.7%	475.0	6.2%
Total	1448.3	1499.8	3.6%	1561.0	4.1%
<b>GR MGN</b>					
Product	689.2	732.9	6.3%	769.4	5.0%
Service	80.1	149.1	86.1%	249.8	67.5%
Total	769.3	882.0	14.6%	1019.2	15.6%
<b>GR MGN%</b>					
Product	39.8%	41.0%	1.2	41.5%	0.4
Service	16.4%	25.0%	8.6	34.5%	9.5
Total	34.7%	37.0%	2.3	39.5%	2.5
<b>R&amp;E</b>	324.7	236.7	-27.1%	185.0	-21.8%
<b>SG&amp;A</b>	890.9	883.2	-0.9%	834.2	-5.5%
<b>OP</b>	-446.3	-237.9	46.7%	0.0	100.0%
<b>OP%</b>	-20.1%	-10.0%	10.1	0.00%	10.0
<b>Memo :</b>					
<b>IBP</b>					
NOR			#DIV/0!		#DIV/0!
COGS	343.0	443.0	29.2%	498.0	12.4%
<b>MCV</b>		34.0	#DIV/0!	35.0	2.9%



Communications, Education and Media  
(CEM)

FY94-95 Business Plan

Executive Summary

## 1.0 Executive Summary

### 1.1 Business Unit Identification

CEM focuses on understanding and meeting customer needs by profitably providing leading IT solutions and products while maximizing the synergies across the CEM market base, which includes Communications (telecommunications wireline and wireless public network operators and equipment manufacturers), Education (primary, secondary, and higher education, libraries and researchers) and Media (cable, advertising, newspapers, publishers, broadcasting and theme parks).

### 1.2 Customer Needs and Business Opportunity

Customers are experiencing:

- Increased costs and reduced profits.
- Threats from emerging industry consortia.
- Inefficiency of legacy systems.
- Unsatisfactory information archiving and access.
- Erosion of quality and effectiveness.
- Increased competition through time-to-market and customer service.

Each of these creates an opportunity for Digital to respond by understanding the individual businesses and the synergies among them, anticipating customers' needs/opportunities and proposing imaginative solutions.

### 1.3 Competitive Environment

The nature of competition is rapidly changing in this market. Alliances between competitors are resulting in innovative product and service offerings that are impacting the evolution, and merging, the industries being served. CEM is positioning itself as a focused vendor of selected solutions with low cost and high quality, an understanding of its customers' business, fast time-to-market and capitalizing on strengths in SI, worldwide business capabilities and leadership networking. Competitors tend to be focused on either the volume (Apple, Sun) or value (EDS, Arthur Anderson) end of the spectrum. CEM spans the entire range and is seeking to maximize the benefit to the customer by being able to offer a full range of solutions.

In FY94, CEM will have 11.3% of its target market, which is \$13.6B in size.

### 1.4 Business Strategies

CEM will improve our customers' business performance through reduced costs, re-engineered internal operations and improved access to information. This will be accomplished by:

- Providing products (particularly Alpha) and solutions - sold through a consultative,

industry knowledgeable sales force and delivered by a world-class professional services organization.

- Focusing on Systems Integration business, that is value priced, well qualified and deliverable around the world.
- Developing/delivering (and owning when possible) key products and solutions focused on:
  - Communications - overhaul of OSS/network management legacy systems and provision of Intelligent Networks for new revenue generation.
  - Education and research - enhanced effectiveness and accessibility via Campus-Wide Integrated Computing, School District of the Future and Library Without Walls.
  - Media - integration of business processes and development of new solutions for prepress publishing, cable networks and entertainment creation/distribution.
- Influencing future standards and direction of the worldwide information highway (NREN, EARN and the Internet companies) to be the first and best provider of products and services that build and use the information utilities that emerge from these initiatives.

Key strategies that will drive CEM's business and, in which we commit to have the highest quality:

- Profitable growth.
- Instilling a sense of urgency and commitment in CEM.
- Revenue and profit improvement through
  - A shift to more SI business.
  - Reduction of channels conflict.
  - Internal cost reductions.
  - Winning new customers.
- Investment/disinvestment in market segments and partnerships based on profit potential.
- High quality as perceived by the customer.
- Rationalization and enhancement of the portfolio of products and solutions within a technology architecture.
- Instilling the solutions sale capability and incentive system throughout the organization.
- Strategy development of:
  - Multimedia.
  - Understanding and addressing customer needs.
  - Global business management.
- Clear communications with the field and all employees.

## 1.5 Resource Requirements

- Strategic Partners/Alliances will be sought in order to better satisfy customer solutions needs, and to gain market position. Potential partners include Alcatel, Northern

- Telecom, MCI, GTECH, Simon and Schuster and others.
- Human Resources will focus on acquiring direct sales personnel that are consultative, industry-knowledgeable, solutions-selling capable, and having them in place very quickly.
  - Cost reductions in the field and all functions will accelerate. If necessary, divestiture of less profitable territories and market segments will follow.
  - CEM requires high quality, operational data/information on which to make key decisions and measure effectiveness.

## 1.6 Financial Summary

CEM will reduce today's operating loss in half over the next year, and turn profitable in FY95:

	<b>Financials</b>		
	<b>(\$Mils)</b>		
	<b>FY93</b>	<b>FY94</b>	<b>FY95</b>
Revenue	\$1438	\$1538	\$1692
Operating Profit	(\$340)	(\$185)	\$5

**DIGITAL EQUIPMENT CORPORATION  
BUSINESS UNIT BUDGET  
CEM**

	FY93	FY94	Y/Y %	FY95	Y/Y %
<b>\$M</b>					
<b>NOR</b>					
Product	1053.3	1103.9	4.8%	1199.9	8.7%
Service	384.3	434.3	13.0%	491.6	13.2%
Total	1437.6	1538.2	7.0%	1691.5	10.0%
<b>COGS</b>					
Product	668.3	699.4	4.7%	675.1	-3.5%
Service	322.7	347.5	7.7%	388.4	11.8%
Total	991.0	1046.9	5.6%	1063.5	1.6%
<b>GR MGN</b>					
Product	385.0	404.5	5.1%	524.8	29.7%
Service	61.6	86.8	40.9%	103.2	18.9%
Total	446.6	491.3	10.0%	628.0	27.8%
<b>GR MGN%</b>					
Product	36.6%	36.6%	0.1	43.7%	7.1
Service	16.0%	20.0%	4.0	21.0%	1.0
Total	31.1%	31.9%	0.9	37.1%	5.2
<b>R&amp;E</b>	209.2	168.2	-19.6%	149.8	-10.9%
<b>SG&amp;A</b>	577.4	507.6	-12.1%	473.2	-6.8%
<b>OP</b>	-340.0	-184.5	45.7%	5.0	102.7%
<b>OP%</b>	-23.7%	-12.0%	11.7	0.3%	12.3
<b>Memo :</b>					
<b>IBP</b>					
NOR		0.0	#DIV/0!	0.0	#DIV/0!
COGS	202.0	250.0	23.8%	328.0	31.2%
<b>MCV</b>		-17.0	#DIV/0!	-14.0	17.6%





# Consumer & Process Manufacturing

## FY94-95 Business Plan

### Executive Summary

## **1.0 EXECUTIVE SUMMARY**

### **1.1 BUSINESS UNIT IDENTIFICATION**

The CPM Business Unit helps its customers achieve business excellence by providing a full range of industry specific, functional and enterprise solutions that leverage information technology. CPM serves 7 industry markets (some with sub-segments) worldwide. For the most part, these industries are mature, relatively slow growing, relatively concentrated, with market offerings that are essentially commodity-like, and with fairly complex value chains. The critical business problems common to companies in most of these industries focus on cost minimization, distribution and inventory optimization, achieving superb customer service, maximizing yields and equipment utilization, and managing safety and environmental vulnerabilities and global competition. CPM's Industry/Market Segment Units are described in Section 2.0.

### **1.2 CUSTOMER NEEDS AND BUSINESS OPPORTUNITY**

Each of the Industry Market Segments within Consumer and Process Manufacturing (See Section 2.0) has a very different profile of customers and channels of distribution. Although this portfolio of industries are generally mature and relatively slow growing, the problems they are experiencing (e.g., globalization) intensifying competition, restructuring, etc. (see 3.0), are driving greater than typical IT expenditures. We intend to focus our efforts on high value added solutions within each of these Industry Market Segments which capitalize on areas of our core competencies. Where possible, we will direct our efforts towards solutions that span multiple segments in meeting customer needs, such as managing supply chain re-engineering, environmental compliance and deregulation. We will also focus on the industry market leaders, where we believe Digital can meet the business requirements with a value added, market differentiating solution.

### **1.3 COMPETITIVE ENVIRONMENT**

The CPM Business Unit competes against a diverse set of vendors and their partners in a variety of dimensions. Our business content mix is diverse, but with the majority of revenues deriving from "standard systems" sales generated by the Digital direct salesforce. Secondly, CPM drives a significant percentage of revenues by "standard systems" sales through VARs and OEMs. The last major component of the CPM business mix is attributable to "tailored solutions" (e.g., SI business) sold directly by our salesforce in concert with partners. In each of these three dimensions we compete against a different set of competitors. Since the CPM industries are diverse, a useful way of examining the competitive environment and market trends is by looking across all the CPM industries and characterizing our common competitors across the vertical businesses by channel of distribution.

John



Roger



Rum



#### **1.4 BUSINESS STRATEGIES**

FY94 will be a pivotal year as we transition to the new business structure and strategies. As we set these new long range strategies and structures in place, we need to focus on a number of critical tactical issues to assure both short and long term success. These tactical areas of focus are:

1. Direct profit/loss results;
2. Transition from a products focused business to a solutions focused business; and,
3. Determination and rapid implementation of channels and partners strategy.

In addition, CPM will focus on 6 key strategies in FY94, which we believe will allow us to achieve our business objective of profitable growth. They are:

1. Reposition ourselves in the marketplace by:
  - Opening up new markets for existing products and services.
  - Opening up new markets with new and enhanced products/services.
  - Developing new products for existing markets.
2. Further penetrate existing markets with existing offerings.
3. Enhance existing market offerings.
4. Develop an initial market for new offerings.
5. Influence channel behavior.
6. Improve overall operating effectiveness.

#### **1.5 RESOURCE REQUIREMENTS**

As a management principle, CPM will utilize Digital's resources only if those resources have demonstrable value added to achieving the Business Unit's strategic and financial goals. We intend to drive this concept both internally within the Business Unit, and across the rest of the Corporation, as we review and give feedback to the Functional Business Plans. It is clear this will result in work elimination, work redefinition, and the identification of resources required to meet the Business Goals that may not exist in the Corporation. Investments in the latter will only be made when the Business Unit determines those investments will lead to profitable growth, or when resources are freed through disinvestment in less feasible business alternatives.

1.6 FINANCIAL SUMMARY

	<u>FCST</u> <u>FY93</u>	<u>FY94</u>	<u>FY95</u>
Revenue	\$1449	\$1492	\$1580
Gross Margin	\$ 550	\$ 567	\$ 600
%	38%	38%	38%
Operating Profit	(\$283)	(\$137)	\$ 16
%	(20%)	(9%)	1%

↑  
20

**DIGITAL EQUIPMENT CORPORATION  
BUSINESS UNIT BUDGET  
CPM**

	FY93	FY94	Y/Y%	FY95	Y/Y%
<b>\$M</b>					
<b>NOR</b>					
Product	1054.0	1032.0	-2.1%	1065.0	3.2%
Service	395.0	460.0	16.5%	515.0	12.0%
Total	1449.0	1492.0	3.0%	1580.0	5.9%
<b>COGS</b>					
Product	579.0	560.0	-3.3%	573.0	2.3%
Service	320.0	365.0	14.1%	407.0	11.5%
Total	899.0	925.0	2.9%	980.0	5.9%
<b>GR MGN</b>					
Product	475.0	472.0	-0.6%	492.0	4.2%
Service	75.0	95.0	26.7%	108.0	13.7%
Total	550.0	567.0	3.1%	600.0	5.8%
<b>GR MGN%</b>					
Product	45.1%	45.7%	0.7	46.2%	0.5
Service	19.0%	20.7%	1.7	21.0%	0.3
Total	38.0%	38.0%	0.0	38.0%	0.0
<b>R&amp;E</b>	227.0	197.0	-13.2%	158.0	-19.8%
<b>SG&amp;A</b>	606.0	507.0	-16.3%	426.0	-16.0%
<b>OP</b>	-283.0	-137.0	51.6%	16.0	111.7%
<b>OP%</b>	-19.5%	-9.2%	10.3	1.0%	10.2
<b>Memo :</b>					
<b>IBP</b>					
NOR			#DIV/0!		#DIV/0!
COGS	224.0	240.0	7.1%	294.0	22.5%
<b>MCV</b>			#DIV/0!		#DIV/0!