

**SENIOR MANAGEMENT  
WOODS MEETING  
TYNGSBORO, MASSACHUSETTS  
04/05/06 JANUARY 1993**



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**RUSS GULLOTTI, Registered Volume #6**

**UPDATE ON P&L TASK FORCE ACTIVITIES**

**CORPORATE WOODS - JANUARY 5,6, 1993**

VIN MULLARKEY 1/5/93

COMPANY CONFIDENTIAL

# **P&L TASK FORCE PRESENTATION OUTLINE**

TASK FORCE GOALS AND PARTICIPANTS

BUSINESS UNIT AND FUNCTIONAL MODEL

BUSINESS MODEL STRUCTURE (P&L)

FY-93 AND FY-94 REPORTING RESTATEMENTS

TRANSITION FROM OLD STRUCTURE TO NEW STRUCTURE

BUDGET AND CONTRACTING PROCESS

OVERVIEW OF P&L TASK FORCE PROGRAMS

PROGRAMS REQUIRING DECISIONS

# P&L Task Force Mission

- Define the Business Unit P&L/Asset structure
- Define what management information is required to support the Business Units
- Develop a supporting ("business context") P&L structure focusing on horizontal views of the Company (e.g products)
- Develop a budget restatement and recommitment process
- Evaluate our systems capability and develop a plan to support these requirements

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## **P&L Task Force Members**

<b>Sheldon Aronoff</b>	<b>Engineering</b>
<b>Hayden Anderson</b>	<b>Management Reporting</b>
<b>Fran Barton</b>	<b>Europe Sales/Service</b>
<b>Rich Butler</b>	<b>Services</b>
<b>Bob Faulconer</b>	<b>Corp. Budgeting</b>
<b>Jim Flanagan</b>	<b>Business Units</b>
<b>Lois Haskins/ Karen Kupferberg</b>	<b>Industry Marketing</b>
<b>Mark Hollyer</b>	<b>Manufacturing/Logistics</b>
<b>Bob Jackson / Tony Wallace</b>	<b>US Sales/Service</b>
<b>Len Levy</b>	<b>IM&amp;T</b>
<b>Donna McCarthy</b>	<b>Corp. Controller's Office</b>
<b>Vin Mullarkey</b>	<b>Team Leader</b>
<b>Rick Ryan</b>	<b>Channels</b>
<b>Dave Spratt</b>	<b>GIA Sales/Service</b>
<b>Bruce Steele</b>	<b>Corp. Controller's Office</b>
<b>Gerry Uva</b>	<b>Corp. Controller's Office</b>

## P&L TASK FORCE - KEY PROGRAMS

<i>MEASUREMENTS</i>	<i>BUDGETING/ CONTRACTING</i>	<i>REPORTING</i>	<i>FORECASTING</i>	<i>OTHER PROGRAMS</i>
<b>P&amp;L STRUCTURE (2)</b>  <b>ASSETS (3)</b>  <b>CURRENCY (2)</b>  <b>REVENUE RECOGNITION (2)</b>  <b>WARRANTY (2)</b>  <b>MANUFACTURING COMPETITIVE VALUE /MCV</b>  <b>ENGINEERING COMPETITIVE VALUE /ECV (2)</b>  <b>OPERATIONAL METRICS (4)</b>	<b>BEGINS IN FEB (2)</b>  <b>ENDS WITH 6/17 BOD (2)</b>	<b>P&amp;L REPORTING</b>  <b>REVENUE BOUNDARIES (1)</b>  <b>ACCOUNT MAPPING (1)</b>  <b>ASSET REPORTING</b>  <b>SUPPORTING REPORTS</b>  <b>WEEKLY CERTS</b>  <b>SELLING EXPENSE (2)</b>  <b>SI REVENUE/COST</b>	<b>BUS. UNIT BASED (3)</b>  <b>FUNCTIONAL INPUT (3)</b>  <b>QUARTERLY (3)</b>  <b>PRODUCT DEMAND FORECAST (3)</b>	<b>PRICING PROCESS (4)</b>  <b>INVESTMENT PROCESS (4)</b>  <b>OLD TO NEW TRANSITION</b>

# GENERAL DIRECTION OF DIGITAL'S BUSINESS UNITS

P C  B U S I N E S S  P&L	C    B O    U M    S P    I O    N N    E E    S T    S S    S  P&L	S    C    B T    O    U O    M    S R    P    I A    O    N G    N    E E    E    S T    S S  P&L	Discrete Mfg & Defense Business Unit  P&L  - SI/Prof Svcs - Applications - Services - Product Definition - Marketing - Sales Plan	Natural Resources & Process Business Unit  P&L  - SI/Prof Svcs - Applications - Services - Product Definition - Marketing - Sales Plan	Financial, Prof'l & Public Svcs Business Unit  P&L  - SI/Prof Svcs - Applications - Services - Product Definition - Marketing - Sales Plan	Communications & Consumer Business Unit  P&L  - SI/Prof Svcs - Applications - Services - Product Definition - Marketing - Sales Plan	Multivendor Services Business Unit  P&L
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WORLDWIDE SALES & MARKETING

WORLDWIDE SI/PROFESSIONAL SERVICES

WORLDWIDE ENGINEERING

WORLDWIDE MANUFACTURING & LOGISTICS

CORPORATE FUNCTIONS (FINANCE, PERSONNEL, LEGAL, CORP. MARKETING, etc.)

INFORMATION MANAGEMENT & TECHNOLOGY (IM&T)

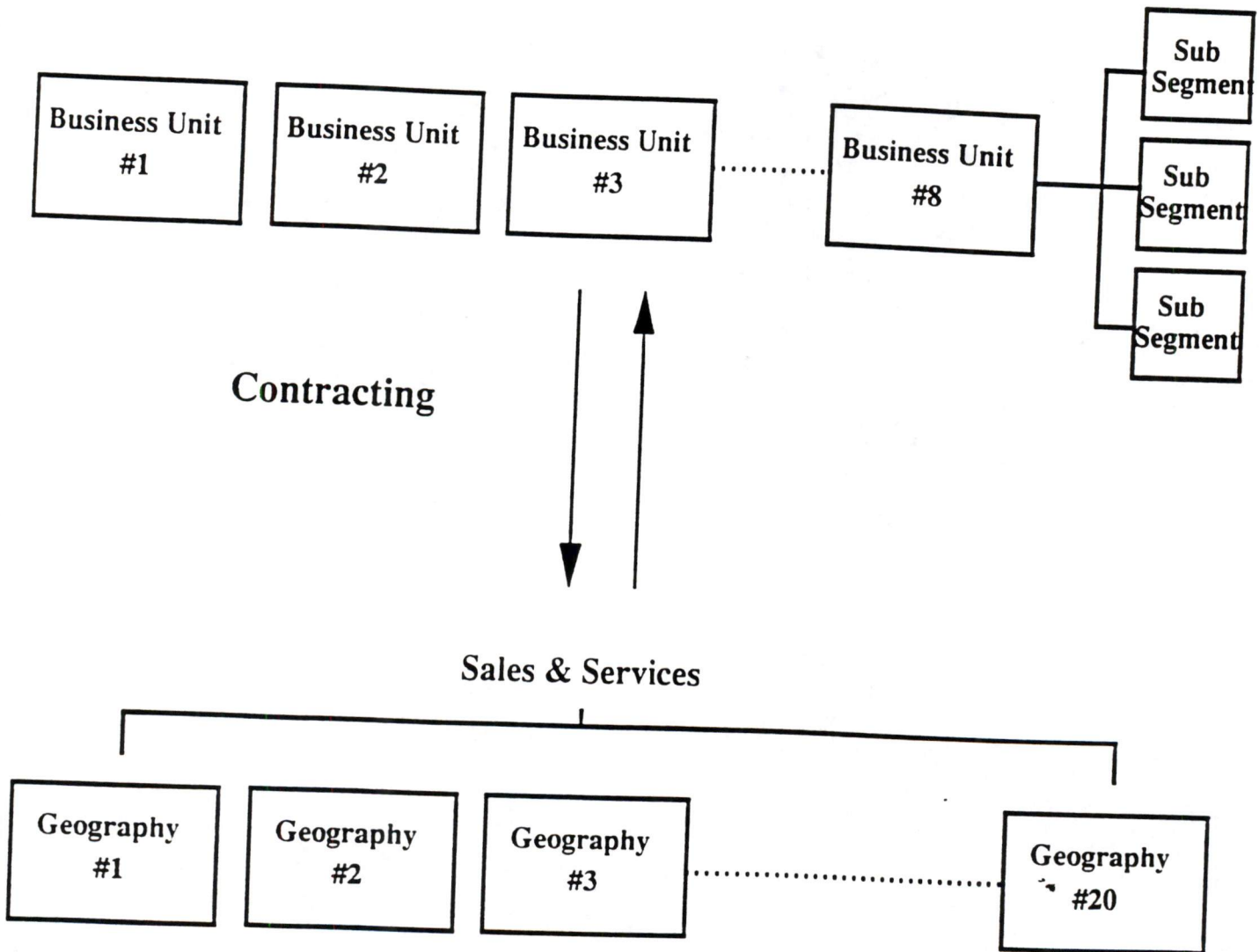
# P&L/Information Hierarchy

## Definitions

- Business Unit: Related to the eight Business Units in the new model.
- Sub-Segment: A subset of a Business Unit.
- Supporting: Related to horizontal, business context views of the company.
- Backup: Management information for a Business Unit developed according to the needs of the Business Unit and its sub-segments.



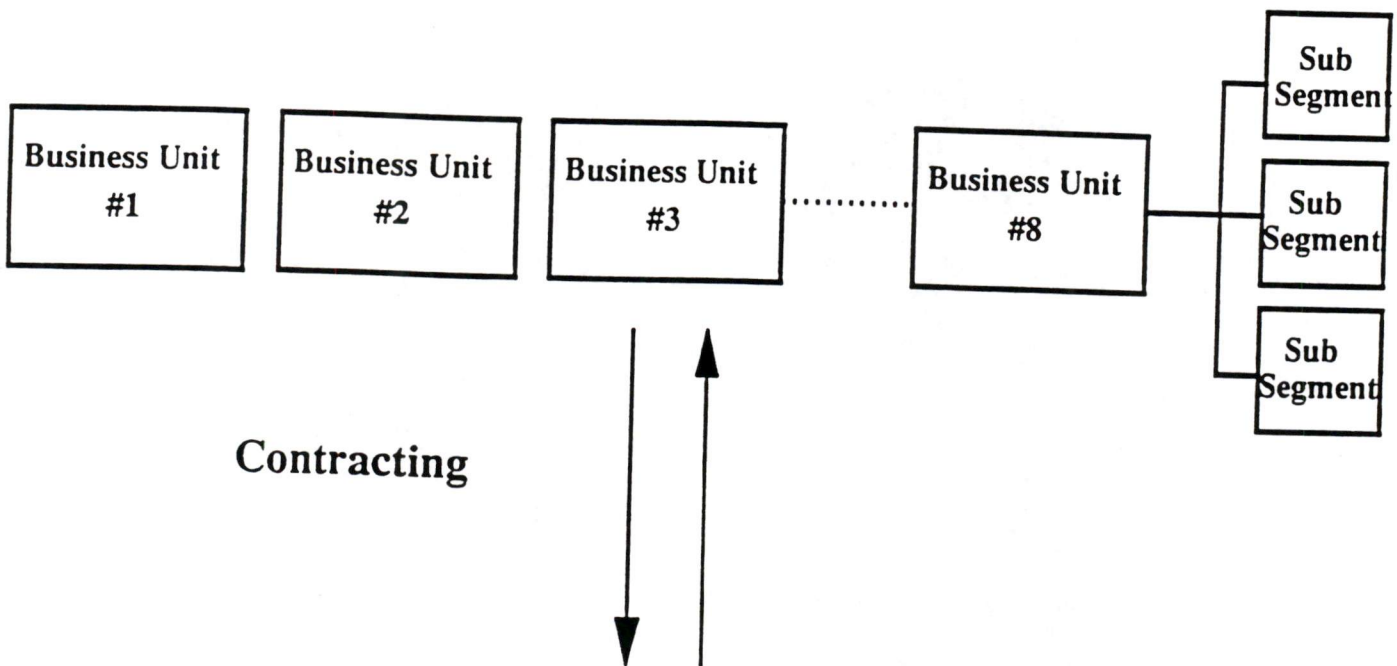
# Business Unit Structure and Relationships



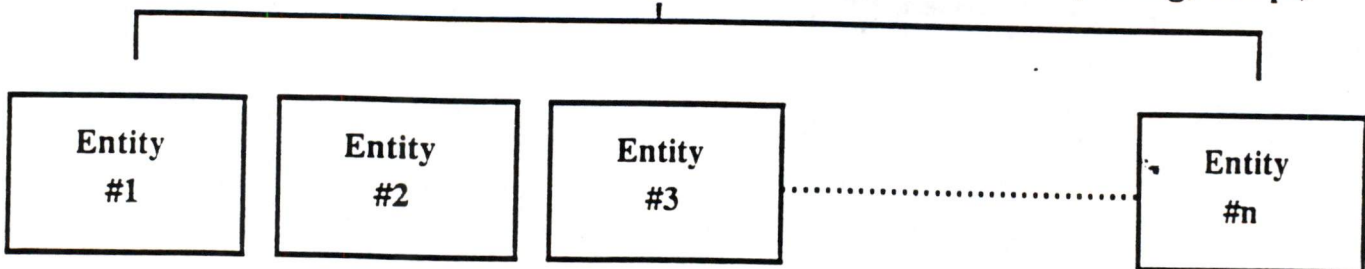
Company Confidential

VM004 9/21/92

# Business Unit Structure and Relationships



Functional/Geographic Entities  
(Sales, Prof. Serv, Engineering, Mfg & Log, HW & SW Serv, Mktg, Corp.)



# Business Unit P&L

Budget/Fcst/Actual

Hardware Revenue

Software Revenue

Service Revenue

NOR

COGS Hardware

COGS Software

COGS Services

Warranty Expense

Gross Margin

Direct Expense (BU)

Contracted Expense

-Selling

-Engineering

-Other

Direct Contribution Margin

Marketing Expense - Corporate

Corporate Operations

Operating Profit

# OPERATIONAL P&L

**TECHNICAL  
PRODUCT  
SALES**

**PROFESSIONAL  
SERVICES**

**SI  
SOLUTIONS**

REVENUE

ACCOUNT MGMT

COST OF DELIVERY

LOCAL SUPPORT COSTS

SPAN MGMT COSTS

HQ COSTS

PROFIT

# Business Unit P&L

## by Business Unit Sub-Segment

	BU Sub- Segment 1....	BU Sub- Segment N	BU Total
Hardware Revenue	\$ X	\$ X	\$ X
Software Revenue	X	X	X
Service Revenue	<u>X</u>	<u>X</u>	<u>X</u>
NOR	\$ X	\$ X	\$ X
COGS Hardware	X	X	X
COGS Software	X	X	X
COGS Services	X	X	X
Warranty Expense	<u>X</u>	<u>X</u>	<u>X</u>
Gross Margin	\$ X	\$ X	\$ X
Direct Expense (BU)	X	X	X
Contracted Expense			
-Selling			X
-Engineering			X
-Other			X
Direct Contribution Margin	\$ X	\$ X	\$ X
Marketing Expense - Corporate			X
Corporate Operations			X
Operating Profit			\$ X

# Total Company P&L By Business Unit & PL10

	Storage Bus. <u>Unit</u>	Comp Bus. <u>Unit</u>	PC Bus. <u>Unit</u>	Multi Vend Svc Bus. <u>Unit</u>	Cust Bus. <u>Units</u>	<u>Product Line 10</u> \$ <u>Resp.</u>	<u>Corp</u> <u>Total</u>
Hardware Revenue							
Software Revenue							
Service Revenue							
NOR							
COGS Hardware						X	McDonough
COGS Software						X	McDonough
Warranty Expense							
Gross Margin							
Direct Expense (BU)							
Contracted Expense							
-Selling							
-Engineering						X	Strecker
-Other							
Direct Contribution Margin							
Marketing Expense - Corporate							
Corporate Operations							
Operating Profit							

# Business Unit Backup Management Information\*

## Revenue

Industry Segment

Customer

Country

Product (SW & HW)

Application (?)/Solution

Customer Programs (Projects)

Channel

Discounts & Allowances

Royalty & Rental Income

## Expense

Sales Expense by Channel/Country

Contracted

## Other

Designated Sales people

Orders

Backlog

Accounts Receivable/Country

Inventory/Country (Finished Goods)

Market Share

\* As appropriate, additional to be defined

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# Supporting "Business Context" P&Ls (Horizontal)

Assumption: The Company will be managed primarily through Customer-focused Business Units.

However

We need to develop and maintain Business Unit information for the horizontal/supporting dimensions of the company to facilitate decision making and achieve and maintain competitiveness.

## Supporting ("Business Context")P&L Reporting

Products (HW & SW)  
Professional Services  
Country  
Channels  
Global Accounts  
Applications/Solutions

P&L Reporting at  
Contribution Margin level



## P&L Task Force FY93 Reporting Restatements

- **Purpose and Scope:**
  - > To provide simulated revenue and transfer cost planning information to allow the new business managers to begin their budgeting and contracting process.
    - \* Q1, FY93 -- completed in December
    - \* Q2, FY93 -- completed in January
    - \* FY92 -- completed in January
    - \* Q3/Q4 FY93 -- with new reporting structure (week 3)
- **Program Manager:** Faith Zellner
- **Process:**
  - > For January we will use:
    - \* Today's Woods' decisions for Business Unit boundaries:
      - # PC
      - # MVS
      - # Storage
      - # Components
    - \* We will use the current IBUs mapped to the new CBUs.
    - \* As new mapping becomes available, we will phase in and re-run periods previously run. Numbers will change.
- **Resources:**
  - > The December run requires focused effort by the existing resources (mainly Corporate plus some help from geographies; possibly some additional equipment.)

# Budget Restatement & Recommitment Process

## Guiding Principles

- Delivery of the FY93 Operating Budget must not be jeopardized
- It is critical that commitment to the FY93 operating plan and its key components be maintained
- The strength of the commitment to the FY93 plan is in our current functional structure
  - 3 Geographies: Revenue & Field Expense commitments
  - Manufacturing: Product cost/expense commitment
  - Engineering Groups: Product delivery and expense commitments
  - Others: Expense commitments

# Budget Restatement & Recommitment Process

## Proposal

- For FY93, maintain a functionally-based set of commitments
- Maintain focus on current opportunities
  - Open VMS
  - Global networking
  - Downsizing
  - High margin Products and Services (e.g. 7000's)
- Capitalize on FY93 opportunities resulting from the new organizational direction
  - Engineering consolidation
  - Merchandising BU focus
- Separate easily walled-off new entities as soon as possible
- In FY93, the new Business Units should focus on:
  - Upside opportunities to FY93 Operating Plan
  - Developing new organization
  - Setting foundation for developing and delivering FY94+ plan
  - Becoming fully operational on 7/1/93

# Budget Restatement & Recommitment Process

## Checklist

- The consolidated restated/recommitted FY93 budget must be at least equal to the current FY93 plan
- The current manager will maintain participation in delivering the new commitments
- Receiving managers of new budget restatements must be committed to delivering their part of the plan

# FY94 Operational Budget & Contracting Process

## Overview

- These major activities taking place in parallel:
  - delivery of the FY93 plan
  - begin development of Corporate strategic plan
  - develop FY94/95 operating plan
  
- The FY94/95 Operational Plan will:
  - deliver Business Unit business plans achieving profitable growth in FY94/95
  - deliver supporting functional plans achieving benchmark by Q4, FY94
  - be integrated into a Corporate operating plan
  - be completed for final review at the June 17th Board meeting

# **FY94 Operational Budget & Contracting Process**

## **Principles**

- Charter and roles of new organizations should be as clear as possible before the cycle begins
- Managers of new organizations should be in place and key resources aligned before cycle begins
- As a context for budgeting, Business Units will develop first-pass business models before 8-quarter budgets are begun
- As a context for budgeting, based on competitive Benchmark operating goals, functions will update their functional models/plans before 8-quarter budgets are begun
- Contracting for sales and services will be between the 9 Business Units and the 12-15 Territories
- Product Line 10 will be used for Manufacturing and Engineering uncompetitiveness and not charged to the Business Units
- Full integration of account plans is required by the last day of FY93

# FY94 Operational Budget & Contracting Process

## Process Steps

- High-level Corporate financial goals will be established
- Business Units and Functions will exchange business models and competitive functional plans
- These plans will be reviewed by Senior Management to identify and evaluate:
  - quality and depth of planning assumptions
  - overlaps/omissions
  - key dependencies/resource requirements
  - competitiveness of functional plans
  - gaps to Corporate financial goals
- After any revisions required to meet Corporate goals, Senior Management will approve Business Unit plans as directionally correct
- Business Units will contract with functions for required level of support
- Operational budgets, reflecting these contracts, will be reviewed by Senior Management and 'reworked', as necessary, to meet Corporate goals

# **FY94 Operational Budget & Contracting Process**

## **Business Unit Plan Outline**

1. Statement of Charter and Strategic Objectives
2. Environmental Appraisal: customer, competition, technology
3. Market Strategy/Competitive Advantage
4. Business Model Scenarios
5. Business Goals
6. Solution Set: products and services
7. Market Plan by Area (Territory) by Channel
8. Quantitative Goals: eg. market share, customer satisfaction
9. Resource Requirements (owned and contracted)
10. Investments Required
11. Interconnections/Interdependencies
12. Risk/Opportunity Assessment



# **FY94 Operational Budget & Contracting Process**

## **Functional Plan Outline**

1. Statement of Strategic Objectives
2. Environmental Appraisal
3. Competitive Advantage
4. Benchmark Metrics
5. Business Goals
6. Quantitative Goals/Scenarios
7. Market Plan by Business Unit (Areas/Territories only)
8. Resource Requirements
9. Investments Required
10. Interconnections/Interdependencies
11. Risk/Opportunity Assessment

# **FY94 Operational Budget & Contracting Process**

## **Oversight Committee Role**

### **Charter/Purpose:**

- Ensure FY94/95 Operational Budget process produces an implementable plan which meets the Corporation's commitments to the Board
- Charter sub-groups to develop:
  - detailed processes and supporting rules
  - solutions to point issues

### **Responsibilities:**

- Provide cross-Business Unit/Functional leadership to design and drive the Operating Budget process
- Ensure needs of all key constituencies are met
- Provide leadership to ensure contracting process works
- Provide linkage into senior management

### **Membership:**

- Include senior representatives from all key constituencies: Business Units, Functions, Corporate Planning

# FY94 Operational Budget & Contracting Process

## Timetable

December/January	Business Unit managers names and organizations aligned
January	Corporate goals for earnings, market share, cash developed/communicated
January/February	Business Units develop first-pass Business Models; Functions update competitive models; account planning begins
Mid-February	Business-unit strategy and functional competitiveness check-in with senior management (sections 1-5 of plans)
February-April	Contracting process between Business Units and functions takes place
April 28-30	Business Units and functional operational budgets reviewed and approved at Management Woods
May	Detailed 8-quarter operating budgets and final account plans developed
June 17	BOD review and approval

# FY94 Operational Budget & Contracting Process

## Next Steps

- Appoint Corporate Budget Manager
- Bring cross-Business Unit/cross-functional Budget Oversight Committee together to provide guidance on and operational support for:
  - process
  - contents of business plan and functional plan
  - overall time-table
  - major issues requiring decisions
  - bi-weekly, 1-2 hours
- Form working-group(s) to design specific formats for various submissions and determine more detailed calendar

## P&L TASK FORCE - KEY PROGRAMS

<i>MEASUREMENTS</i>	<i>BUDGETING/ CONTRACTING</i>	<i>REPORTING</i>	<i>FORECASTING</i>	<i>OTHER PROGRAMS</i>
<b>P&amp;L STRUCTURE (2)</b> <b>ASSETS (3)</b> <b>CURRENCY (2)</b> <b>REVENUE RECOGNITION (2)</b> <b>WARRANTY (2)</b> <b>MANUFACTURING COMPETITIVE VALUE /MCV</b> <b>ENGINEERING COMPETITIVE VALUE /ECV (2)</b> <b>OPERATIONAL METRICS (4)</b>	<b>BEGINS IN FEB (2)</b> <b>ENDS WITH 6/17 BOD (2)</b>	<b>P&amp;L REPORTING</b> <b>REVENUE BOUNDARIES (1)</b> <b>ACCOUNT MAPPING (1)</b> <b>ASSET REPORTING</b> <b>SUPPORTING REPORTS</b> <b>WEEKLY CERTS</b> <b>SELLING EXPENSE (2)</b> <b>SI REVENUE/COST</b>	<b>BUS. UNIT BASED (3)</b> <b>FUNCTIONAL INPUT (3)</b> <b>QUARTERLY (3)</b> <b>PRODUCT DEMAND FORECAST (3)</b>	<b>PRICING PROCESS (4)</b> <b>INVESTMENT PROCESS (4)</b> <b>OLD TO NEW TRANSITION</b>

## Programs, Leaders & Interdependencies

	BU Boundaries (Flanagan)	BU Acct. Map (Haskins/ Rosenberg)	Old to New Transition (Uva)	P&L Measurement (Uva)	Asset Measurement (O'Leary)	Currency Respons. (Nanavati/ Uva)	COD/ Selling (TBD)	MCV (LeBlanc)	Operat. Metrics (Mullarkey)	Warranty Xfer (Butler/ Hollyer)
FY '94 Oper. Plan/ Contract Process (TBD)	★	★		★	★	★	★	★	★	★
S/T P&L Report (Steele/Zellner)	★	★	★	★	★	★	★	★	★	★
FY'94 P&L Report (Steele/Anderson)	★	★		★	★	★	★	★	★	★
Forecast Process (Butler)	★			★	★	★	★	★	★	★
Support Reports (Steele)	★	★		★	★	★	★	★	★	★
Mgt. Rptg. Phase 3 (Jaillet)	★	★		★	★	★	★	★	★	★
Pricing Process (TBD/Uva)	★					★				
Demand Planning/ Solutions Fcst (TBD/McCluney)	★				★					
Investment Process (Mapps)			★		★				★	

6. PRICING PROCESS (BILL JOHNSON)

DEFINE PROCESS FOR PRICING PRODUCTS COMMON TO ALL BUSINESS UNITS.

7. DEMAND PLANNING (JIM MCCLUNEY)

DEVELOP THE PROCESS FOR FORECASTING DEMAND REQUIREMENTS THROUGH THE BUSINESS UNITS.

8. INVESTMENT PROCESS (CHARLES MAPPS)

DEVELOP A PROCESS FOR REVIEWING AND APPROVING INVESTMENT PROPOSALS THAT ARE COMMON TO MULTIPLE BUSINESS UNITS.

9. BUSINESS UNIT BOUNDARIES (JIM FLANAGAN)

DEVELOP THE BOUNDARIES AND GUIDELINES FOR ESTABLISHING REVENUE ASSIGNMENTS TO THE IBU'S AND CBU'S.

10. BUSINESS UNIT ACCOUNT MAPPING (LOIS HASKINS/LARRY ROSENBERG)

DEVELOP A PROCESS TO MAP ALL ACCOUNTS TO IBU'S/CBU'S AND A SYSTEM TO SUPPORT REPORTING REQUIREMENTS ON MAINTENANCE NEEDS.

16. SI PROJECT REVENUE AND COST ASSIGNMENT/PAARS (RICH BUTLER)

DEVELOP AND IMPLEMENT THE REVENUE AND COST ASSIGNMENT POLICY AND PROCEDURE FOR CHARGING COST OF SERVICE DELIVERY TO THE BUSINESS UNITS.

17. MANUFACTURING COMPETITIVE VALUE/MCV (TONY SPIRITO)

DEVELOP ONE COMPREHENSIVE COMPETITIVE MANUFACTURING STANDARD FOR EACH PRODUCT. COMPETITIVE GAP TO P/L-10.

18. OPERATIONAL METRICS (JIM MCCLUNEY/BOB JACKSON)

ESTABLISH CRITICAL NON-FINANCIAL METRICS TO MEASURE OPERATIONAL PERFORMANCE OF THE FUNCTIONS/PROCESSES.

19. WARRANTY TRANSFER (RICH BUTLER)

PROPOSE A PROCESS FOR HANDLING WARRANTY REVENUE AND COST. (EXPENSE TO BUSINESS UNITS VERSUS REVENUE TO MVS BU VERSUS EXPENSE TO ENGINEERING OR MANUFACTURING).

20. REVENUE RECOGNITION (MARIAN O'LEARY)

EVALUATE A REVENUE RECOGNITION POLICY THAT IS MORE FOCUSED ON THE CUSTOMER AND CUSTOMER ACCEPTANCE.



# P&L TASK FORCE PROGRAMS REQUIRING CORPORATE LEVEL DECISIONS

<b>JANUARY:</b>	BUSINESS UNIT REVENUE BOUNDARIES	<i>J. FLANAGAN</i>
	BUSINESS UNIT ACCOUNT MAPPING	<i>L.HASKINS</i>
	SI PROJECT REVENUE	<i>C.REID</i>
<b>FEBRUARY:</b>	BUDGETING/CONTRACTING PROCESS	<i>B.FAULCONER</i>
	P&L STRUCTURE (REV 2)	<i>G. UVA</i>
	REVENUE RECOGNITION POLICY	<i>M. O'LEARY</i>
	SELLING EXPENSE ASSIGNMENT	<i>R. BUTLER</i>
	WARRANTY RESPONSIBILITY	<i>R. BUTLER/ M. HOLLYER</i>
	CURRENCY RESPONSIBILITY	<i>A. NANAVATI/ G. UVA</i>
<b>MARCH:</b>	FORCASTING PROCESS	<i>R. BUTLER</i>
	DEMAND PLANNING PROCESS	<i>J. McCLUNEY</i>
	BUSINESS UNIT ASSET MEASUREMENTS	<i>M. O'LEARY</i>
<b>APRIL:</b>	PRICING PROCESS	<i>B.JOHNSON/ TBD</i>
	INVESTMENT PROCESS	<i>C. MAPPS</i>
	OPERATIONAL METRICS	<i>J. McCLUNEY/ B. JACKSON</i>

**SENIOR MANAGEMENT WOODS MEETING  
04/05/06 JANUARY 1993  
PARTICIPANT LIST**

Henry Ancona  
Larry Cabrinety  
Bobby Choonavala  
Charlie Christ  
Dick Farrahar  
Russ Gullotti  
Win Hindle  
Marty Hoffmann  
Charlie Holleran  
Bill Johnson  
John Klein  
Frank McCabe  
Ed McDonough  
Vin Mullarkey  
Bob Palmer  
Enrico Pesatori  
Dick Poulsen  
John Rando  
Bruce Ryan  
Willow Shire  
John Sims  
Adriana Stadecker  
Bill Steul  
Bill Strecker  
Mike Thurk

Woods # 5

Jan 4, 5, 6

(1)

## Personal actions

\* likely to have a sales / Mktg / channels person.  
- discuss @ Rose Ann.

\* Bring US Design model to Leadership Comm.  
action: Joel

also - Joel should determine some element of a CBE structure unless if it is separate from geo. what O/H do they need?

\* reunite Troika memo  
draft separate M&A announcement - high press (pictures etc)

\* ancona as planning / ops - Dick S to him?  
ash Henry?

\* Tony plug in to the timetable for getting to a  
BoD as presented by Adriana

\* Note to Rose Ann - her programs are isolated from Bus Units -

\* Vin Mullarkey says ABMRS will not suffice to allocate revenues to CBE. Why not?

→ \* Re US Design

- how accommodate Sub-segments as part of Bus Unit - (avoid O/H.) Sub-segments are not P&S.

\* How Dick as Planning Mgr for US?  
- Caputo?

\* Frutz xfer printers (people?) to Lakmety.

Personal Actions

\* Do we have Traversi?  
- If so get him also be on Adriana's task force for implementation.

\* We have decided that order fulfillment, admin, quote support, spares/repairs (and more - get list from McDonough presentation) direct fulfillment, etc. will be lead by McDonough's supply chain.

\* Why was I surprised by McDonough's presentation that he manages the customer engagement process? Shift occurs from SG + A to logistics expense?? Tony know? Neal should have told me. Neal must write a memo describing this decision to USRT. (I hear significant change but I'm not sure) - eg Atlas' direct delivery is now Neal.

DSO

\* Ron Bunker will attend my first comp meeting or Tommy will know the Bunker comp proposal for discussion.

Q - what % is at risk (perf incentives) - does it grow over time?

What do we do about sales mgmt compensation.??

\* Jan 8<sup>th</sup> CBU definitions published  
- areas map "major accts" by Jan 22  
- issues resolved 2/15  
\* - Tony connected to via Melalrey task force? ABRS deal?

\* Send note to USRT re: No dual roles for US org.

see (3)

## Staff Update

- ① Bob's staff = leadership team.
- ② New Bus Unit Mgrs (2) present
- ③ great progress
- ④ temporary / CBEU model.

DUN

Problems are not complex

- costs
- clarity
- leadership
- customer focus

Show Tony's slide on "upside" progress.

\* I signed up to write a definition of a territory, area, country (?)  
write a draft for Dick P / Bobb C.

---

\* US ~~is~~ is a territory  
Name the 4 geography (District zone)

---

Key actions of MIT

① Staff Henry's team 6-18 mos  
(who?)

② Staff process re-engineering  
(2 yrs) (who?)  
Is it Nealon?

Send a memo to Adm. ask her if its Nealon)

**SENIOR MANAGEMENT WOODS MEETING**  
**05 JANUARY 1993**  
**AGENDA**

- 8:30 - 9:00 a.m..... Opening Remarks <sup>0</sup>  
-- *Bob Palmer*
- 9:00 - 9:10 a.m..... Agenda Review <sup>0</sup>  
-- *Adriana Stadecker*
- 9:10 - 10:00 a.m..... Decisions to Date/How the <sup>1</sup>..... Update  
New Business Model Will Work  
-- *Adriana Stadecker/Vin Mullarkey*
- 10:00 - 10:30 a.m..... BREAK
- 10:30 - 12:00 Noon ..... Decisions/New Business Model (Cont'd.)..... Update
- 12:00 - 1:00 p.m. .... WORKING LUNCH
- 1:00 - 2:30 p.m. .... Supply Chain <sup>2</sup>..... Update  
-- *Jim McCluney/Adriana Stadecker*  
*Craig Auman*  
*Jon Braley*  
*Carl Kooyoomjian*  
*Rich Powers*  
*Pete Rego*  
*Tom Tracey*  
*Linda Trafton*
- 2:30 - 3:00 p.m. .... BREAK
- 3:00 - 4:00 p.m. .... Supply Chain (Cont'd.)..... Update
- 4:00 - 4:30 p.m. .... Implementation Task Force <sup>3</sup>..... Decision  
-- *Adriana Stadecker*
- 4:30 - 5:30 p.m. .... Logisitics Proposal <sup>4</sup>..... Decision  
-- *Ed McDonough*
- 6:00 - 7:00 p.m. .... Reception
- 7:00 p.m..... Dinner





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**SENIOR MANAGEMENT WOODS MEETING**  
**06 JANUARY 1993**  
**AGENDA**

- 8:30 - 10:00 a.m. .... Sales & Service Metrics ..... Decision  
-- *Ron Bunker*
- 10:00 - 10:30 a.m. .... BREAK
- 10:30 - 12:00 Noon ..... Territory Proposal ..... Decision  
-- *Bobby Choonavala*  
-- *Russ Gullotti*  
-- *Dick Poulsen*
- 12:00 - 1:00 p.m. .... LUNCH
- 1:00 - 2:30 p.m. .... Revenue Boundaries ..... Decision  
-- *Vin Mullarkey/Jim Flanagan*
- 2:30 - 3:30 p.m. .... Technical Value Chain ..... Update  
-- *Dick Fishburn*
- 3:30 - 4:00 p.m. .... BREAK
- 4:00 - 4:30 p.m. .... Implementation/Next Steps ..... Update  
-- *Adriana Stadecker*
- 4:30 - 5:00 p.m. .... Communication .....  
-- *Adriana Stadecker*
- 5:00 p.m. .... Closing Remarks .....  
-- *Bob Palmer*

LEADERSHIP WOODS  
04/05/06 JANUARY 1993

- OPPORTUNITY
- LEADERSHIP
- VALUES
- ORGANIZATION
- COST REDUCTION
- REVENUE GROWTH
- PROFITABILITY
- STRATEGY

Bob Palmer  
January 1993



# IMPLEMENTING DIGITAL'S TRANSFORMATION

- \* The Customer Business Units managers will make decisions on which industries we will invest in and which ones we will sell into, but not invest. The purpose of these business units is to rapidly increase our share of the solutions and other businesses for their assigned accounts, and to rapidly increase market share in their specific markets.
- \* All activities in the Company will be funded by these Business Units. All these activities will need to add value as seen by the customers.
- \* All designated accounts will align with a given Business Unit.
- \* A process will exist for business units to agree to our common products and services offerings, and our pricing strategies.
- \* A number of activities will be provided to the business units at competitive costs (Engineering and Manufacturing/Logistics).

Adriana Stadeck  
January 1993

# IMPLEMENTING DIGITAL'S TRANSFORMATION

- \* Other activities will be provided to the business units at actual costs (Sales, Marketing, SI, Services and Functional Support).
- \* The Company sells and services its customers through five customer engagement processes or value chains:
  - Merchandising
  - Resellers
  - Complex Systems
  - Systems Integration/Consultative Selling
  - Multivendor Services
- \* The Company will have a network of certified professional service centers which will provide selling support and delivery of professional services to our Accounts.

# VALUE-ADDED ORGANIZATION

Corporate Value Added	Span or Affordability Value Added	Local Value Added	Territory/BU Agreed Upon Plans	
<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">BUs</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">ENG</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">WW Sales</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">WW PS/SI</div> <div style="border: 1px solid black; padding: 5px;">Supply Chain</div>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 20px;">                     Remote Support                      /                 \                      Mfg Tech Appl                 </div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 20px;">                     Prof Svc Center                      /                \                      Ind                Comp                 </div> <div style="border: 1px solid black; padding: 5px;">                     Span of Control/                      Reach Mgmt                      CBU                      Sales                      PS/SI                 </div>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 20px; width: 80%;">                     Local Support                 </div> <div style="border: 1px solid black; padding: 5px; width: 80%;">                     MVS Service Delivery                 </div>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">                     Appl Spec                      CSO Direct                 </div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">                     Mass Merch                 </div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">                     DEC Direct                 </div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;">                     Products or Services                      Sales Specialists                 </div> <div style="border: 1px solid black; padding: 5px;">                     Professional Service Centers/                      Territory                 </div>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 20px;">                     Non Covered Accts/                      Market Plan                 </div> <div style="border: 1px solid black; padding: 5px;">                     Digital Covered Accts/                      Acct Plans                 </div>

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## IMPLEMENTING DIGITAL'S TRANSFORMATION

- \* The Sales & Services organizations will be organized into 12-15 territories.
- \* The role of the Territory Manager is to jointly develop, with the Business Units Managers, comprehensive business plans. The Territory Managers will implement these plans throughout the fiscal year and manage the local value added work in support of the achievement of these plans. Variations to the plans will be discussed and agreed upon with the business unit managers.
- \* During FY93, the Areas will be held accountable for delivering the revenue commitments and transitioning to the new business model.
- \* As we understand our business models we will assess the need for and the affordability of Area-type span of control structures.
- \* For FY94, Business Units will negotiate with Territories for revenue commitments. Area VPs will facilitate the transition to the new business model, as needed.



# IMPLEMENTING DIGITAL'S TRANSFORMATION

- \* The role of Corporate Functional Organizations is to develop a direction and plan in support of the business units for the territories to implement.
- \* Corporate structures do not need to be replicated in each Area or territory. Corporate structures should only be established in order to provide span of control or reach management based on the affordability and customer based value-added.

# CUSTOMER BUSINESS UNITS

DISCRETE MFG. & DEFENSE	
Industry Segments	Solutions
. Automotive	Mfg. Planning
. Aerospace	Mfg. Execution
. Electronics	Engineering Product
. Defense	Data Management
	Defense Logistics/ Intelligence

CONSUMER & PROCESS MANUFACTURING	
Industry Segments	Solutions
. Travel/ Transportation	Quality Control
. Consumer Packaged Goods	Geographic Info. Sys.
. Retail/Wholesale	Customer Response Sys.
. Chemical	Sales Info. Systems
. Utilities	Store Systems
. Environment	
. Forest, Mining, Metals & Glass	
. Oil & Gas	

COMMUNICATION, EDUCATION & ENTERTAINMENT	
Industry Segments	Solutions
. Telecom	Corp. Telecom
. Cable	Messaging
. Media	Wireline
. Entertainment	Wireless
. Education	

FIN'L, PROF'L & PUBLIC SVCS	
Industry Segments	Solutions
. Banking	Retail Branch Sys
. Insurance (except Health)	Trading Systems
. Software & Data Svcs.	Workflow Docu- ment Mgmt.
. Arch., Eng., & Construction	Registry Appl.
. Other Prof'l. Svcs.	
. Public Admin	

HEALTH	
Industry Segments	Solutions
. Healthcare	Hospital Info. Sys.
. Health Insurance	New Drug Applications
. Pharmaceuticals	
. Social Security	
. Gov't Hospitals	

# GENERAL DIRECTION OF DIGITAL'S BUSINESS UNITS

P C  B U S I N E S S  P&L	C O M P O N E N T S  P&L	B U S I N E S S  P&L	S C B T O U R P I A O N E S T S  P&L	Discrete Mfg & Defense Business Unit  P&L  - SI/Prof Svcs - Applications - Services - Product Definition - Marketing - Sales Plan	Consumer & Process Mfg Business Unit  P&L  - SI/Prof Svcs - Applications - Services - Product Definition - Marketing - Sales Plan	Financial, Prof'l & Public Svcs Business Unit  P&L  - SI/Prof Svcs - Applications - Services - Product Definition - Marketing - Sales Plan	Communication, Education, & Entertainment Business Unit  P&L  - SI/Prof Svcs - Applications - Services - Product Definition - Marketing - Sales Plan	Health Industries Business Unit  P&L  - SI/Prof Svcs - Applications - Services - Product Definition - Marketing - Sales Plan	Multivendor Services Business Unit  P&L
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WORLDWIDE SALES & MARKETING

WORLDWIDE SI/PROFESSIONAL SERVICES

WORLDWIDE ENGINEERING

WORLDWIDE MANUFACTURING & LOGISTICS

CORPORATE FUNCTIONS (i.e., FINANCE, PERSONNEL, LEGAL)

INFORMATION MANAGEMENT & TECHNOLOGY (IM&T)

# IMPLEMENTING DIGITAL'S TRANSFORMATION

## THE PROCESS

- \* Context for change:
  - o defining the problems we are trying to solve.
  - o identifying possible alternatives
  - o understanding the environment in which we operate:
    - externally --> competition
    - internally --> structure & decision-making processes
  
- \* York, Maine --> Senior Management Woods (#1)
  - o significant discussions regarding trends in the marketplace. Movement towards commoditization/PCs and Systems Integration/SI.
  - o based on inputs from Senior Management Group, Bob proposed the creation of business units.

## IMPLEMENTING DIGITAL'S TRANSFORMATION

o chartering of various taskforces for further understanding of the proposed model:

- Business Units/Industry Groupings
- Channels vs. Direct Sales
- Core Competencies
- Business Models/P&L
- Roles & Responsibilities

\* Salem, Mass. --> Senior Management  
Woods (#2)

o developed organizational model that further clarified roles & responsibilities of:

- Business Units
- Countries/Territories/Areas
- Systems Integration/Professional Svcs.
- Product Marketing

## IMPLEMENTING DIGITAL'S TRANSFORMATION

- \* Stonehedge I --> Senior Management Woods (#3)
  - o testing the new model "in practice":
    - banking in Europe
  - o International accounts.
  - o Operational planning/"contracting"(FY94-95).
  - o Strategic planning.
  - o New taskforces chartered:
    - Business models
    - Implementation taskforce
    - "Revisiting" the Industry Clusters
    - Support of the Business Units (value added of "functions")
    - Revisiting the roles & responsibilities

## IMPLEMENTING DIGITAL'S TRANSFORMATION

- \* Stonehedge II --> Senior Management Woods (#4)
  - o Closed on the grouping of industries.
  - o Discussed and supported Engineering direction.
  - o Chartered further analysis regarding functions.
  - o Discussed Business Model and Contracting process (including roles & responsibilities).
  - o Accepted recommendations of Implementation taskforce regarding value chains, "funding of infrastructure" and next steps.

## IMPLEMENTING DIGITAL'S TRANSFORMATION

- \* Stonehedge III --> Senior Management Woods (#5)
  - o Understand decisions to date.
  - o Confirme the Business Models and the Contracting process.
  - o Decide how we want to move forward.



# IMPLEMENTING DIGITAL'S TRANSFORMATION

## Decisions to Date

- \* The Company's P&L will be managed by nine Business Units. Five of the nine are Customer Business Units defined by natural groupings of industries. The remaining four are defined by the nature of their products and services.

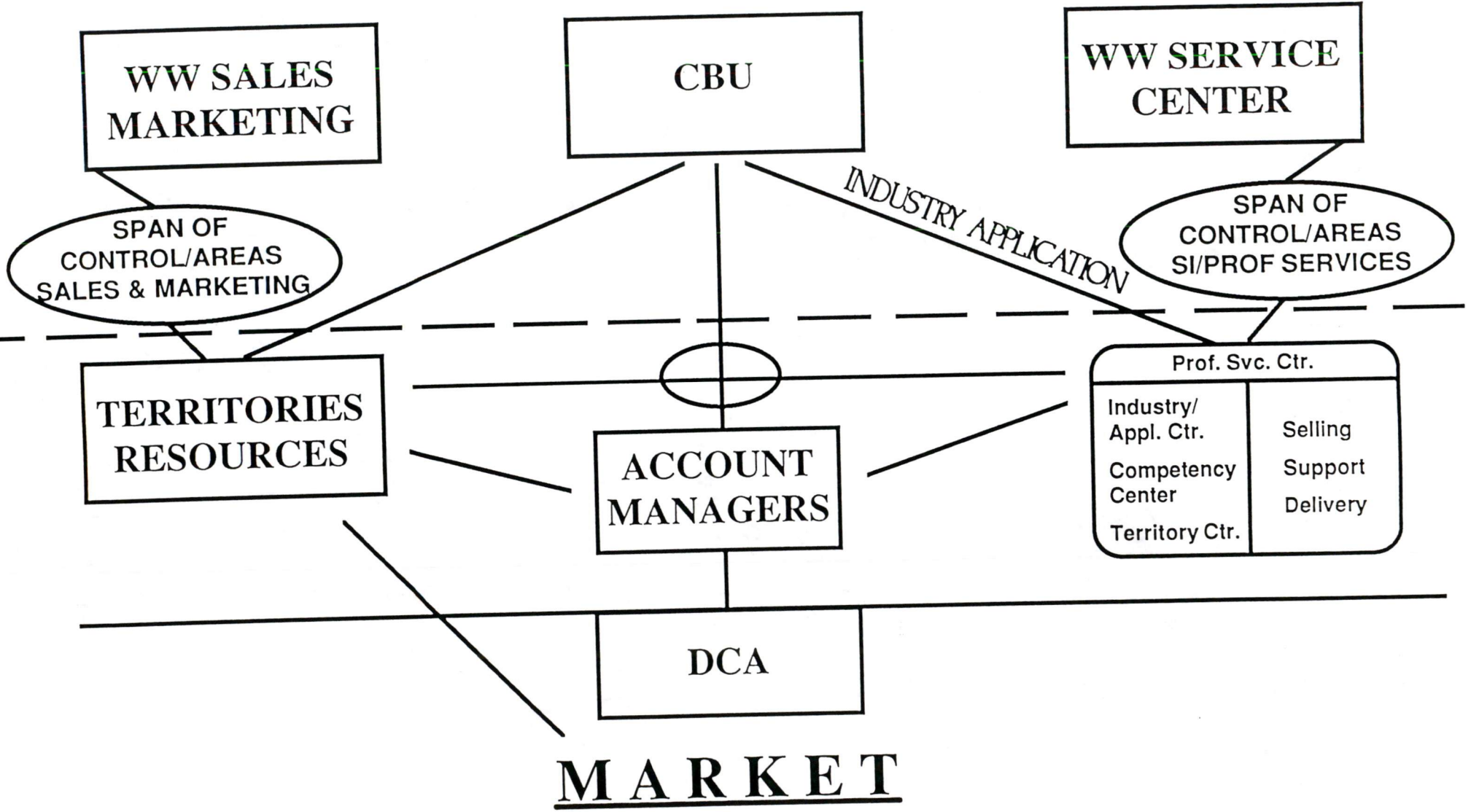
### Customer Business Units:

- Discrete Manufacturing & Defense
- Health Industries
- Financial, Professional & Public Services
- Communications, Education & Entertainment
- Consumer & Process Manufacturing

### Products and Services Business Units:

- Components & Peripherals
- Storage
- Multivendor Customer Services
- Personal Computer

# NEW ORGANIZATIONAL MODEL



*(Territory managers to manage directly the entire market on behalf of the Business Units.)*

# FY94 PLANNING CALENDAR - MAJOR MILESTONES

TIME	RESP	ACTIVITIES
December	Bob Palmer	Decide on Industry Clusters
December	Bob Palmer	Announce Business Unit Managers
December	Bill Strecker	Review and approve product direction
By January 15	Bill Johnson	Align accounts by CBUs
By January 15	Prod Mktg Engr/ MVCS	Identify major products and services offerings
By January 15	Bill Johnson/ SI/Prof Svcs	Identify major solutions by CBUs
By January 15	Bob Palmer/ Vin Mullarkey/ Adriana Stadecker	Name Operational/Business Planning Manager

# FY94 PLANNING CALENDAR - MAJOR MILESTONES

## Cont'd

TIME	RESP	ACTIVITIES
By January 15	Area VPs	Establish FY94 Territories and prepare for FY94 contracting process
By January 30	Bill Johnson/  Vin Mullarkey	Identify major solutions by CBUs  Build Company's financial models for each value chain (incl complex systems - Dick Fishburn)
January/February (1/2 day weekly meetings)	Adriana Stadecker & Team (As appropriate)	Operationalize in an integrated way the "new structure" between Business Units & Accounts: - Confirming the model/structure - Spans of Control/structure - Allocation of Resources - Staffing
February/March	Oper Mgr/ Appropriate Team	Design and implement a process to agree on products/services offerings (FY94/95)

# FY94 PLANNING CALENDAR - MAJOR MILESTONES

## Cont'd

TIME	RESP	ACTIVITIES
Q3	Adriana Stadecker and Team	Corporate Wide Processes Reengineering Benchmarking: Diagnosis and Opportunities Sizing, Integrate with FY94 & FY95 budgets.
January/February	Ron Bunker (?)	Complete work on metrics and measurements and develop implementation plan for FY94
March/April	Oper Mgr/ Appropriate Team	Establish and implement a process for the Business Units to "contract" with Territories and Functions
April 15	Bob Palmer & Senior Leadership Team	Strategy Review with BOD

# FY94 PLANNING CALENDAR - MAJOR MILESTONES

## Cont'd

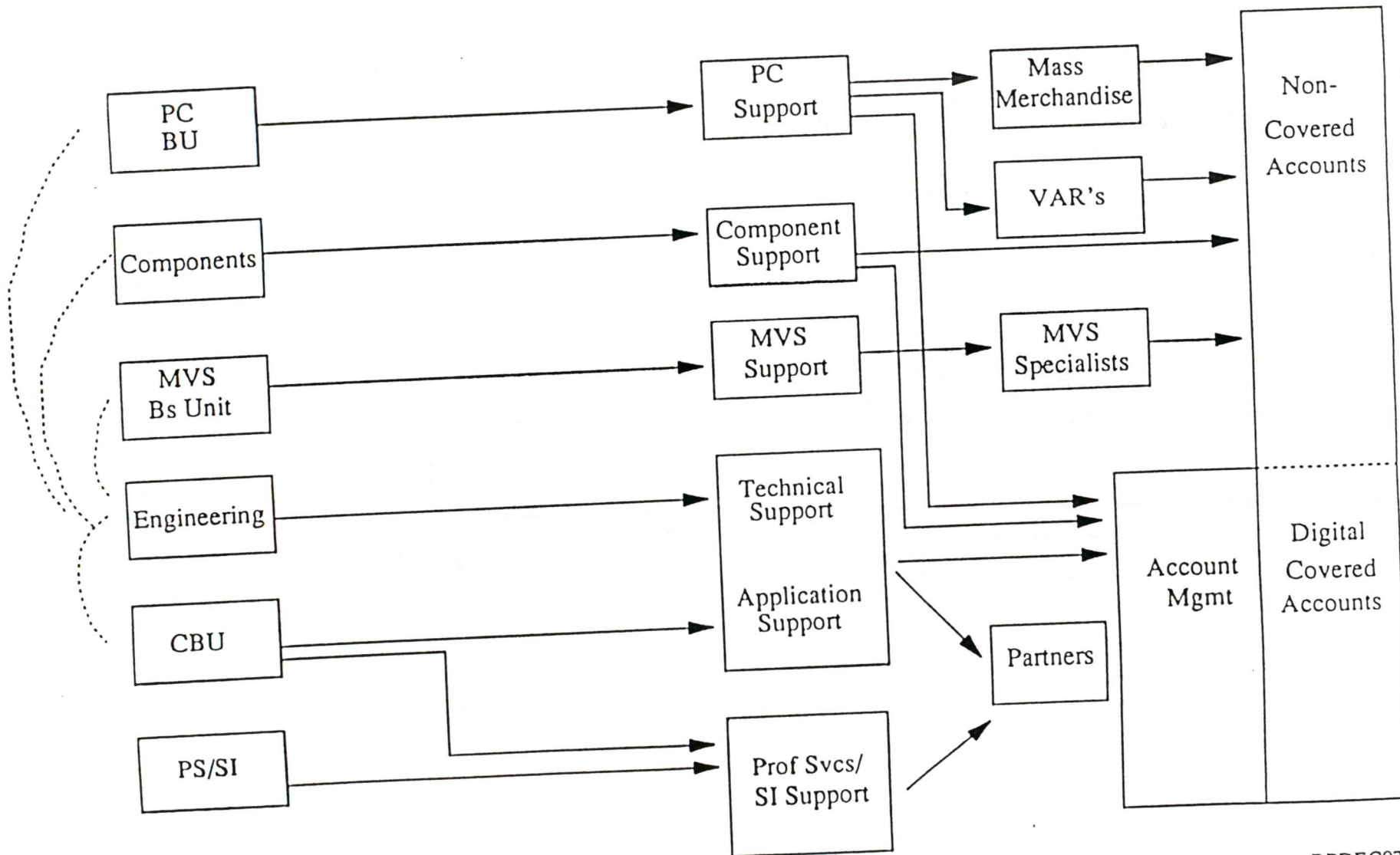
TIME	RESP	ACTIVITIES
End of April	Senior Leadership Team	Review business plans
May	Operations Mgr and Senior Leadership Team	Integrate business plans 1st pass/FY94/95 Operating plans
June 17	Bob Palmer	Present to BOD for review and approval

## WHAT IS NEEDED FROM THE SENIOR LEADERSHIP TEAM

- \* Understanding the magnitude of the change. Seeing this change as inevitable and desirable (if we want to be in a leadership position, as a Corporation).
- \* Be a deliberate advocate of this change and work all resistances within your own organizations.
- \* Act in accordance with the agreed upon rules of engagement. When and if tradeoffs exist between benefits to own business and benefits to the Corporation, choose the latter consistently!

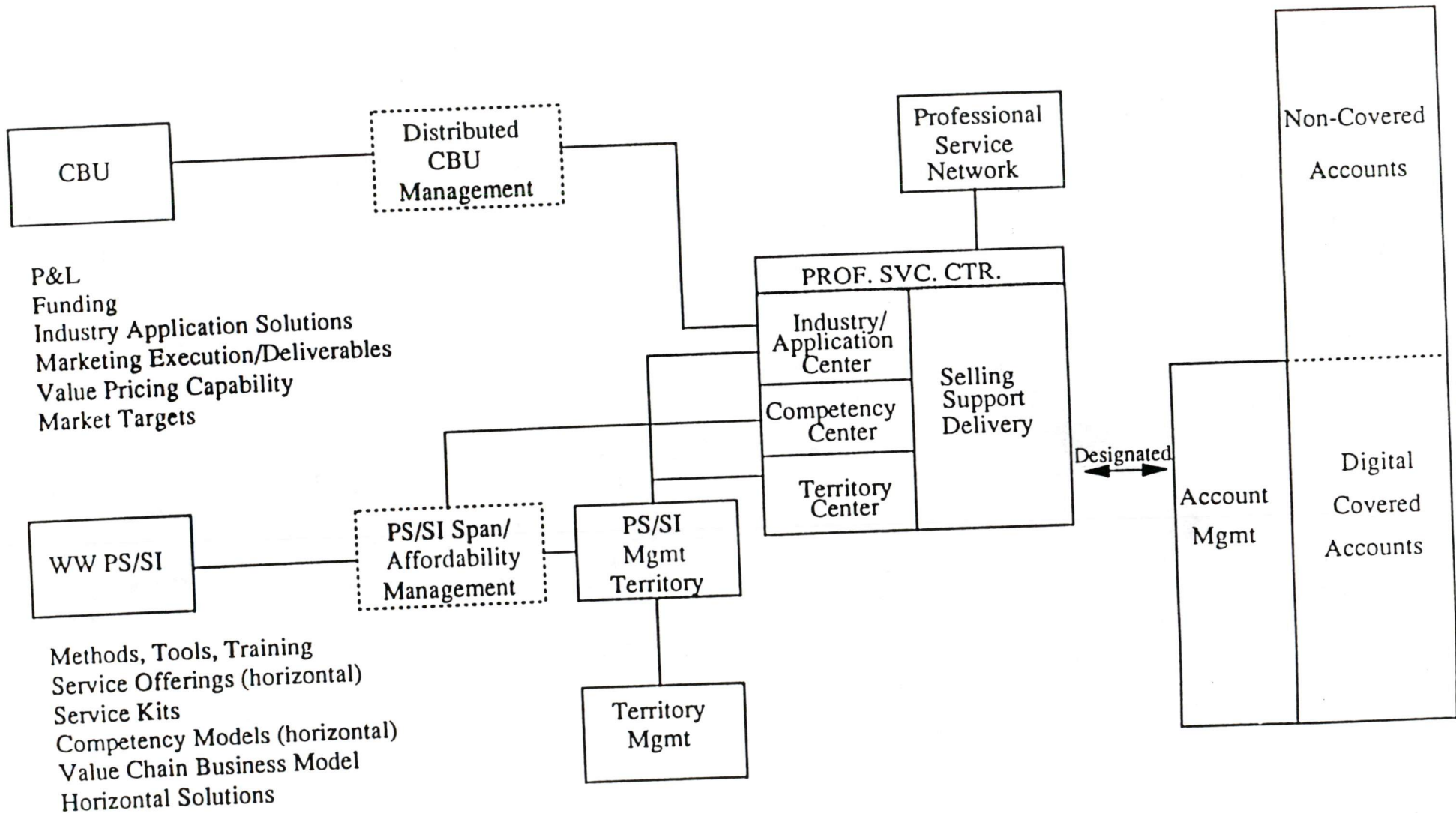
Adriana Stadecker  
04 January 1993

# MAPPING OF CUSTOMER MODEL TO DIGITAL ORGANIZATION





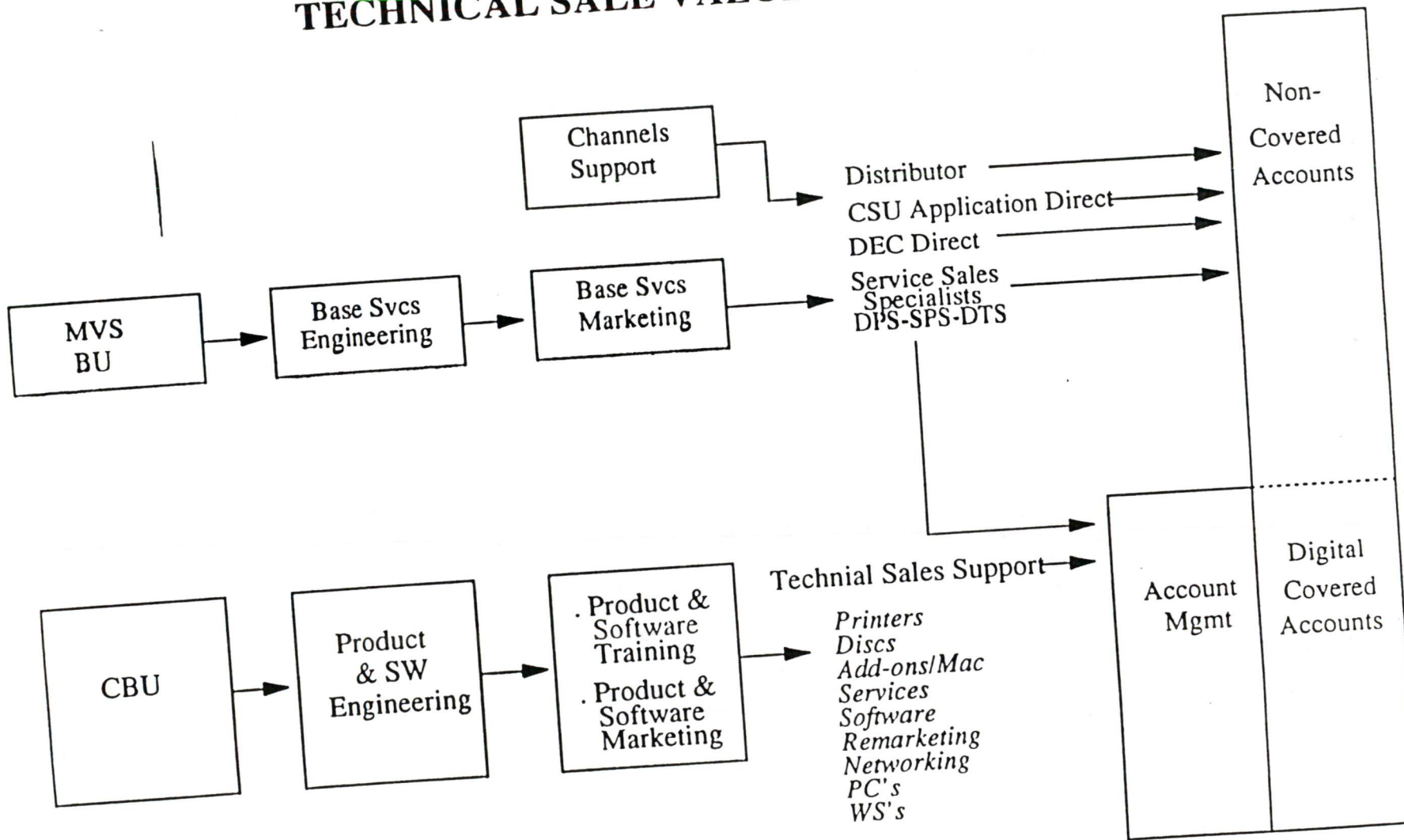
# PROFESSIONAL SERVICES/SI VALUE CHAIN



## PROFESSIONAL SERVICES VALUE CHAIN

- We will have a network of Certified Professional Service Centers which provide selling support and delivery of Professional Services for our Account Managers.
- Professional Service Centers can be focused on horizontal services, Industry/Application solutions, or specific competencies.
- Horizontal Centers will be located as close to the Customer as affordable, and will manage the Horizontal "Resource Pools" which will be utilized by the Industry/Application or Competency Centers.
- Core Industry/Application or competency skills will be in the respective centers until we can transform these into horizontal, distributed capabilities.
- Each Account group will have a designated, named Professional Service Center as a primary interface for their Professional Services requirements.
- There will be a Professional Services Manager in each Territory.
- Professional Service Centers which are Horizontal-focused will report to the Professional Services Manager in the Territory.
- Professional Service Centers which are Industry/Application-focused will report to the Professional Services Manager and CBU.
- Competency-focused Professional Service Centers will report to the appropriate Professional Services Manager.
- Professional Service Centers might have all three (horizontal, industry/application and competency-focused) services available to achieve economics of scale.
- Professional Service Centers will receive methods, tools, training, service offerings, service kits, competency models, Horizontal solutions from Worldwide PS/SI.
- Professional Service Centers will receive Industry/Application solutions, marketing, and value pricing from CBUs.

# TECHNICAL SALE VALUE CHAIN



## RECOMMENDATIONS: SUPPORT OF BUSINESS UNITS

- \* Bob defined, as part of our vision, that we will make our customers the focus of everything we do.
- \* Continuous improvement is not enough to become "best in class". We need quantum change.
- \* We have to take a systemic & integrated approach to change. Our customers are also requiring it (practice what we sell).
- \* To produce this change, we have to focus on redesigning processes (not on functionally defined organizations).

## RECOMMENDATIONS: SUPPORT OF BUSINESS UNITS

- \* For maximum customer satisfaction and productivity, we recommend focusing on redesigning those processes that add value (directly or indirectly) to the customers:
  - customer engagement processes
  - creation processes (products & services)
  - supply & delivery processes
  
- \* These process redesign efforts need to be "embraced" by the entire Corporation.
  
- \* Total implementation will take 2 years (then "continuous improvement" phase will follow).
  
- \* We will be best in class in these core processes by the end of FY95.

Adriana Stadecker  
05 Jan 1993

# INTEGRATED DESIGN AND IMPLEMENTATION TEAM

## REDESIGN OF CORE PROCESSES:

- \* Customer Engagement Processes:
  - Merchandizing
  - Resellers
  - Complex Systems/Direct Sales
  - SI/Prof. Svcs./Consultative Sales
  
- \* Creation Processes:
  - Products  $\left\langle \begin{array}{l} \text{Hardware} \\ \text{Software} \end{array} \right.$
  - Services
  
- \* Supply & Delivery Processes

## CORRESPONDING FUNCTIONS:

Sales & Mktg.

SI/Prof. Svcs.

Engineering  
MVCS & SI/Prof. Svcs.

MLM

Adriana Stadecker  
05 January 1993

# INTEGRATED DESIGN & IMPLEMENTATION TEAM

## RECOMMENDED TEAM COMPOSITION:

\* Adriana Stadecker Team Leader

\* CORE Processes/Redesign Managers (7)

### *Customer Engagement Processes:*

-- Merchandizing TBD

-- Resellers TBD

-- SI/Prof. Svcs./Consultative Sales TBD

-- Complex Systems/Direct Sales TBD

### *Creation Processes:*

-- Products  TBD

-- Services Leigh Zins

*Supply & Delivery Processes* Jim McCluney

## INTEGRATED DESIGN AND IMPLEMENTATION TEAM

- \* Operational Manager (FY94/95 Bus. Plans) Henry Ancona
- \* Expertise & Integration Center Jon Braley
- \* Account Manager
- \* Territory Manager
- \* Channel Manager
- \* Representation of eight Business Units TBD  
(as needed)

Adriana Stadecker  
05 January 1993



## CHARTER OF INTEGRATED DESIGN AND IMPLEMENTATION TEAM

- \* Drive the integration across the Corporation of the core processes redesign efforts:
  - design
  - implementation
  
- \* January through June 93 -->
  - benchmark processes & diagnosis
  - size opportunities
  - define design parameter
  - integrate into FY94/95 contracting and budgetary processes.
  
- \* Present Quarterly updates to Senior Management Committee.

Adriana Stadecker  
05 Jan 1993



SUPPLY CHAIN: *the context*  
SENIOR LEADERSHIP WOODS MEETING  
JANUARY 5th, 1993

*Chronology of events:*

- \* In the fall of FY91, Manufacturing Management Committee (MMC) embarked on a Strategic Planning Process.
- \* MMC benchmarked its *Operations* against *Competition* and established significance of gaps.
- \* \$500M in cost reductions were identified.
- \* Other metrics were not achievable within the context of existing organizational structure:
  - predictability
  - customer satisfaction
  - cycle times
  - inventory
  - further asset reductions, etc...

Adriana Stadecker  
04 January 1993

SUPPLY CHAIN: *the context*  
SENIOR LEADERSHIP WOODS MEETING  
JANUARY 5th, 1993

- \* The context had to be broadened. The Supply Chain emerged as a response to our vision of:
  - making the Customer, the focus of our supply & delivery model
  - being best in class
- \* MMC identified opportunities within new context:
  - \$2B
  - 24/48 hours delivery model
- \* MMC became MLM. Bob gained, at the International Management Committee (IMC), support to lead a change effort on behalf of the Corporation (November 1991).

SUPPLY CHAIN: *the context*  
SENIOR LEADERSHIP WOODS MEETING  
JANUARY 5th, 1993

- \* In a major cross-functional and cross-organizational meeting in Hudson, Mass., (January 92), the foundation of the Supply Chain was designed.
  - less than a year ago
  
- \* What you will see today is a brief description of what we mean by SUPPLY CHAIN and what progress we have made towards implementing this change effort, over the last twelve months.
  
- \* The start was slow. At first, we:
  - o established major change efforts
  - o named change leaders
  - o created Program Office
    - changes in the way "we do ourselves"

SUPPLY CHAIN: *the context*  
SENIOR LEADERSHIP WOODS MEETING  
JANUARY 5th, 1993

o started understanding the "magnitude of the task":

- changes in work
- changes in business practices, including metrics

o expanded the redesign to include Products & Services.

o decided to focus on PCs

\* Actually we did not know how **BROKEN** the system really was.

## WHAT WE NEED FROM YOU TODAY

- \* At a macro-level, increase your understanding of what the Supply Chain is.
- \* Understand that the Supply Chain is a reality in Digital today; a reality that we all need to embrace.
- \* Understand the rules of engagement with the Supply Chain (including how decisions need to be made).
- \* Lead your organization in *EMBRACING* the changes, and making them happen.

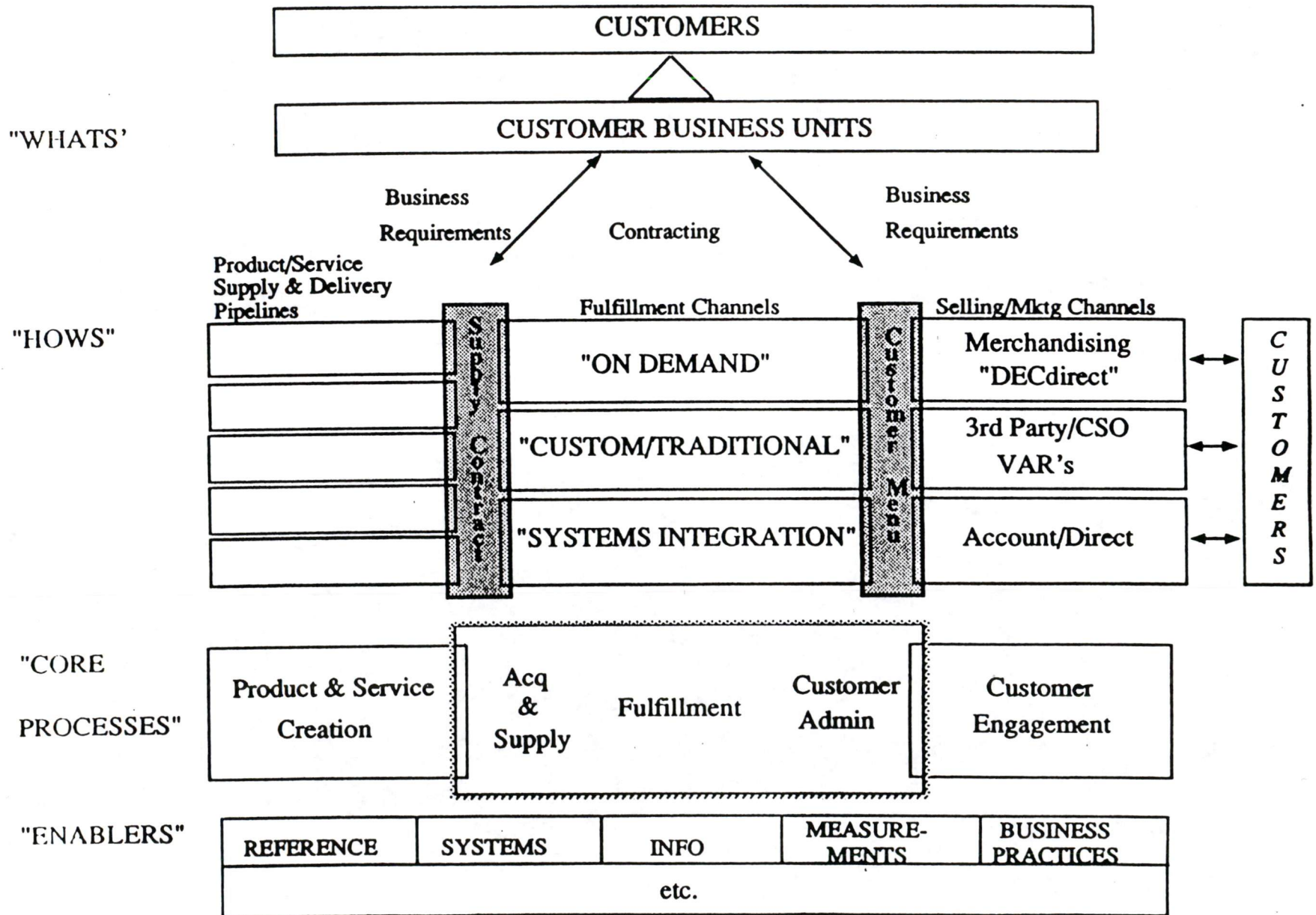






*INTEGRATED*  
*LOGISTICS & SUPPLY*  
*SERVICES*

Ed McDonough  
January 5, 1993



## CURRENT STATE

- RECENTLY INTEGRATED PRODUCTS/SERVICES  
CUSTOMER ADMINISTRATION GROUPS      Completion  
Q3 FY93
- BENCHMARKING INDICATES A 30% COMPETITIVE GAP IN COST AND A 3X  
GAP IN SERVICES LEVELS TO CUSTOMERS (LOGISTICS/ADMINISTRATION  
WORK)
- 400 IM&T SYSTEM/TOOLS TO ADMINISTER THE BUSINESS REFLECTS:
  - Fragmented approach to the work
  - Business practices difficult to administer
  - Common Requirements not defined
  - Internally focused
- SIZING...

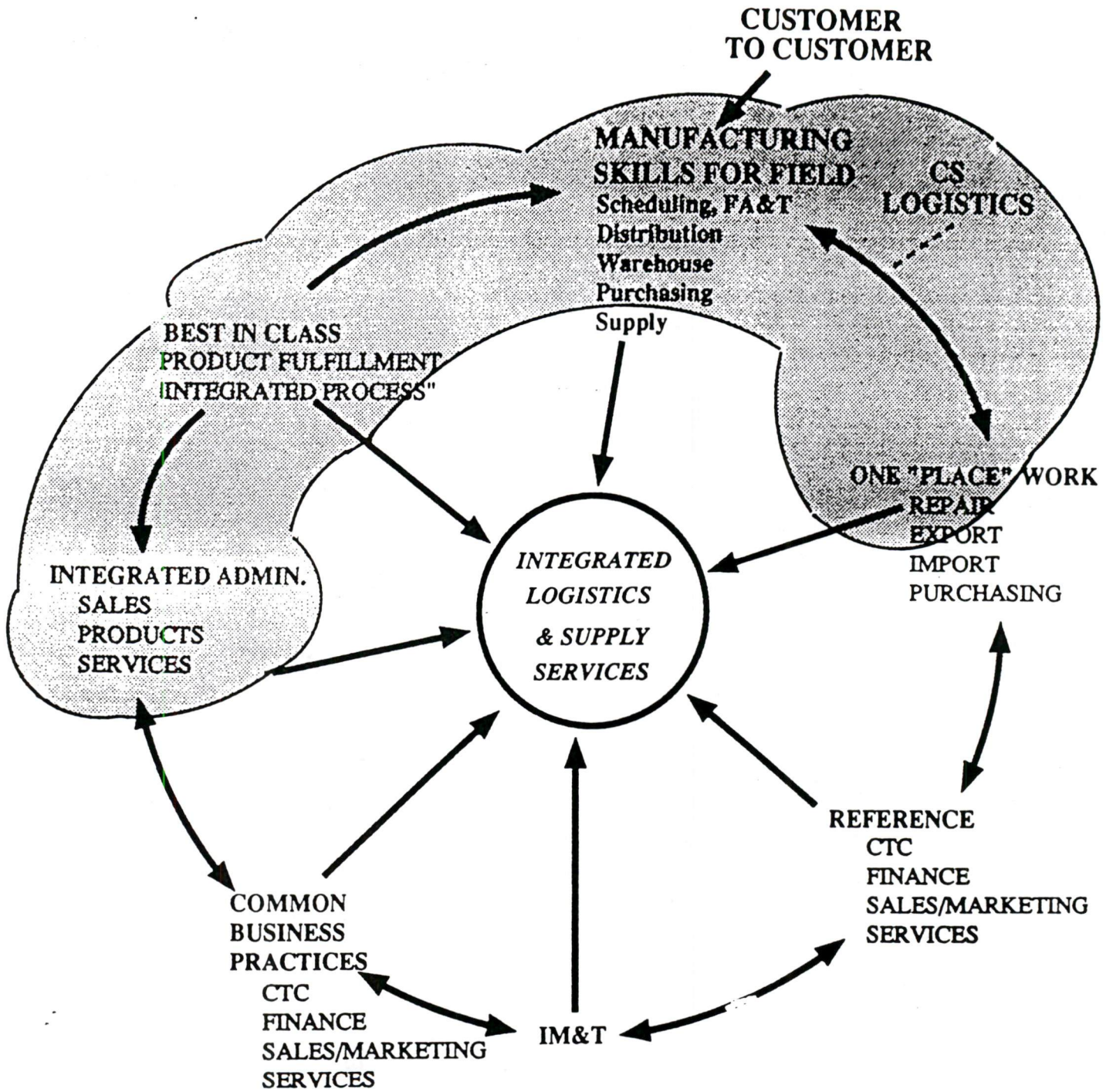
	FY92	FY93
People	10,620	9117
Cost	\$1005M	\$ 905M
- CUSTOMERS FORCED TO DEAL WITH MULTIPLE ACCESS AND  
ADMINISTRATION SUPPORT GROUPS/SYSTEMS
- ADMINISTRATIVE & FULFILLMENT SYSTEMS A GATE TO COMPETITIVENESS

## ***FUTURE STATE***

### ***ONE-STOP SHOPPING FOR THE CUSTOMER AND FIELD SALES***

- ABILITY TO COMMIT PRODUCT/SERVICE TO CUSTOMER AT POINT OF TRANSACTIONAL INTERACTION
- SEAMLESS OPERATION THAT DELIVERS GOALS THRU:
  - Focus on Customer
  - Process Optimization Based on Work
- NEEDS: COMMON REFERENCE AND BUSINESS PRACTICES

***GOALS...      FY94... Competitive Cost and Service***  
***FY95... Leadership Service with Competitive***  
***Cost***



***INTEGRATED LOGISTICS  
& SUPPLY SERVICES***

- ***ONE-STOP SHOPPING FOR CUSTOMERS FOR ALL GOODS  
AND SERVICES***

- ***THE FIELD'S WINDOW INTO THE SUPPLY CHAIN***





# **Sales and Service Metrics**

## **Task Force Report**

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**Sales and Services Metrics Task Force**

**For Restricted Use Only**

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# Agenda

- Task
- Process
- Team
- Directions/Recommendations
- Next Steps

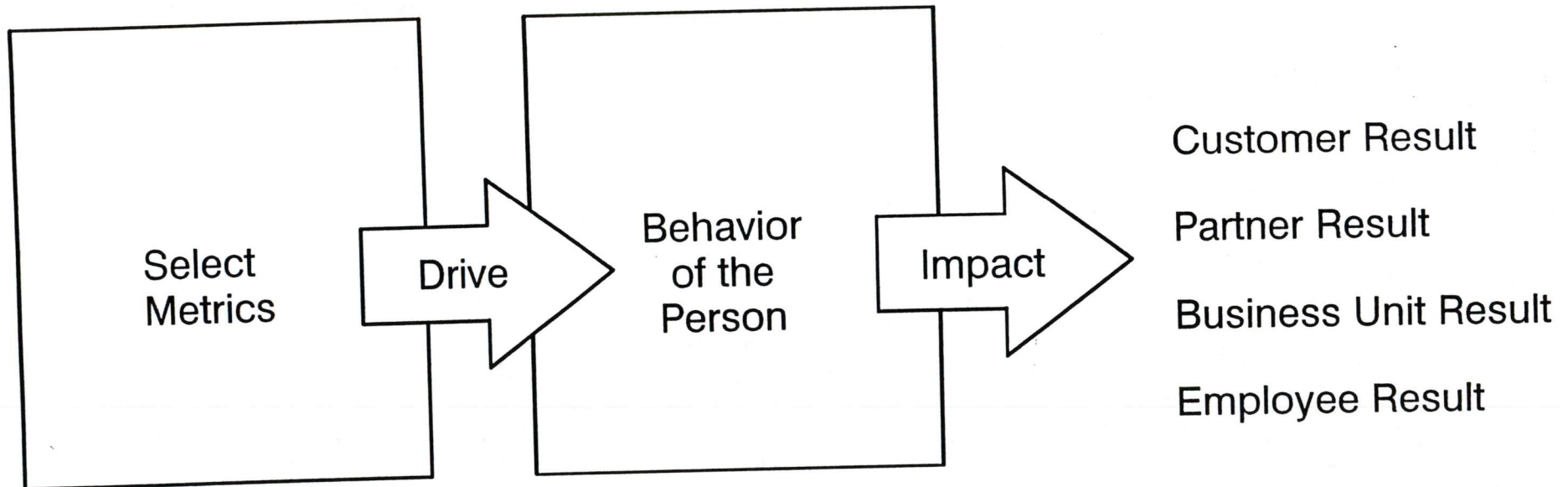
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# Task Statement

Define a measurements, reward and recognition framework for sales and services that supports our objective to:

- Meet or exceed the expectations of our...
  - Customers
  - Partners
  - Business Units
  - Employees

# Meet or Exceed Expectations



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# The Process

- Build on existing work
  - Previous woods/task forces
  - Booze Allen selling models
  - Channels task force
- Two day woods
  - Problem identification
  - Segmentation
  - Directions
- Continue work in progress
  - Review
  - Test
  - Modify

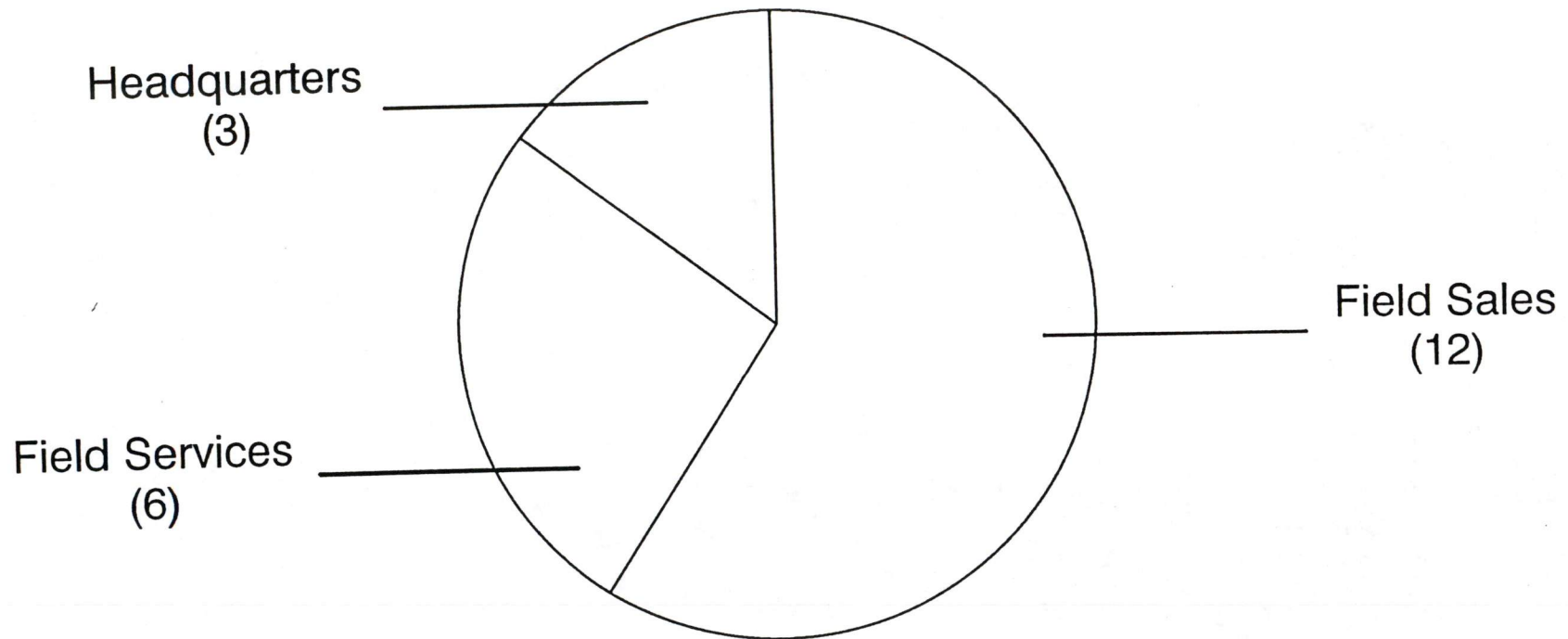
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Sales and Services Metrics Task Force

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# Task Force Make-Up



...Worldwide experience, Canada, Australia, United States,  
United Kingdom, Austria and Japan

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Sales and Services Metrics Task Force

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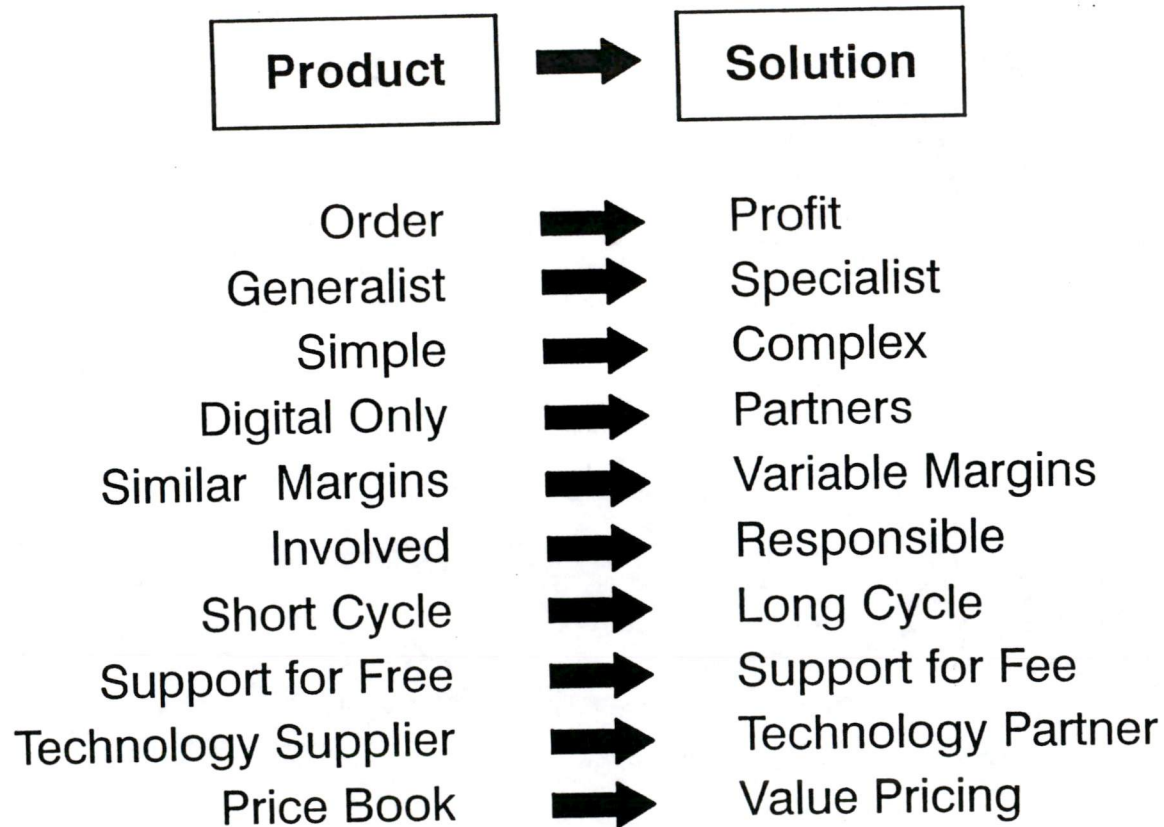
# Task Force Members

Denise Battat  
Ivan Boyd  
Ron Bunker  
Lynn Busing  
Chris Drew  
Ron Eisenhauer  
Frank Fortunato  
Joel Goldstein  
Nikki Hartnett  
Karen Howard  
John Hudson  
Hans Jarnik  
John Kiladis  
Jodie Lehman  
Peter MacNaughtan  
Steve Mahoney  
Roger Rose  
Kannankote Srikanth  
Dick Strachan  
Terry Theret  
Graeme Woodley

GIA Sales Measurements  
U.S. Channels  
GIA Sales and Marketing  
U.S. Services  
Corporate Organization Development  
International Accounts Marketing  
GIA Desktop Systems  
Corporate Organization Development  
U.S. Sales Measurements  
Corporate Services Human Resource  
Australia Sales Executive  
Austria Subsidiary Manager  
GIA Services  
GIA DPS  
BP Account Manager  
U.S. Sales Measurements  
U.S. Sales  
GIA SI Services  
U.K. DPS  
Japan Services  
Canada Sales and Marketing



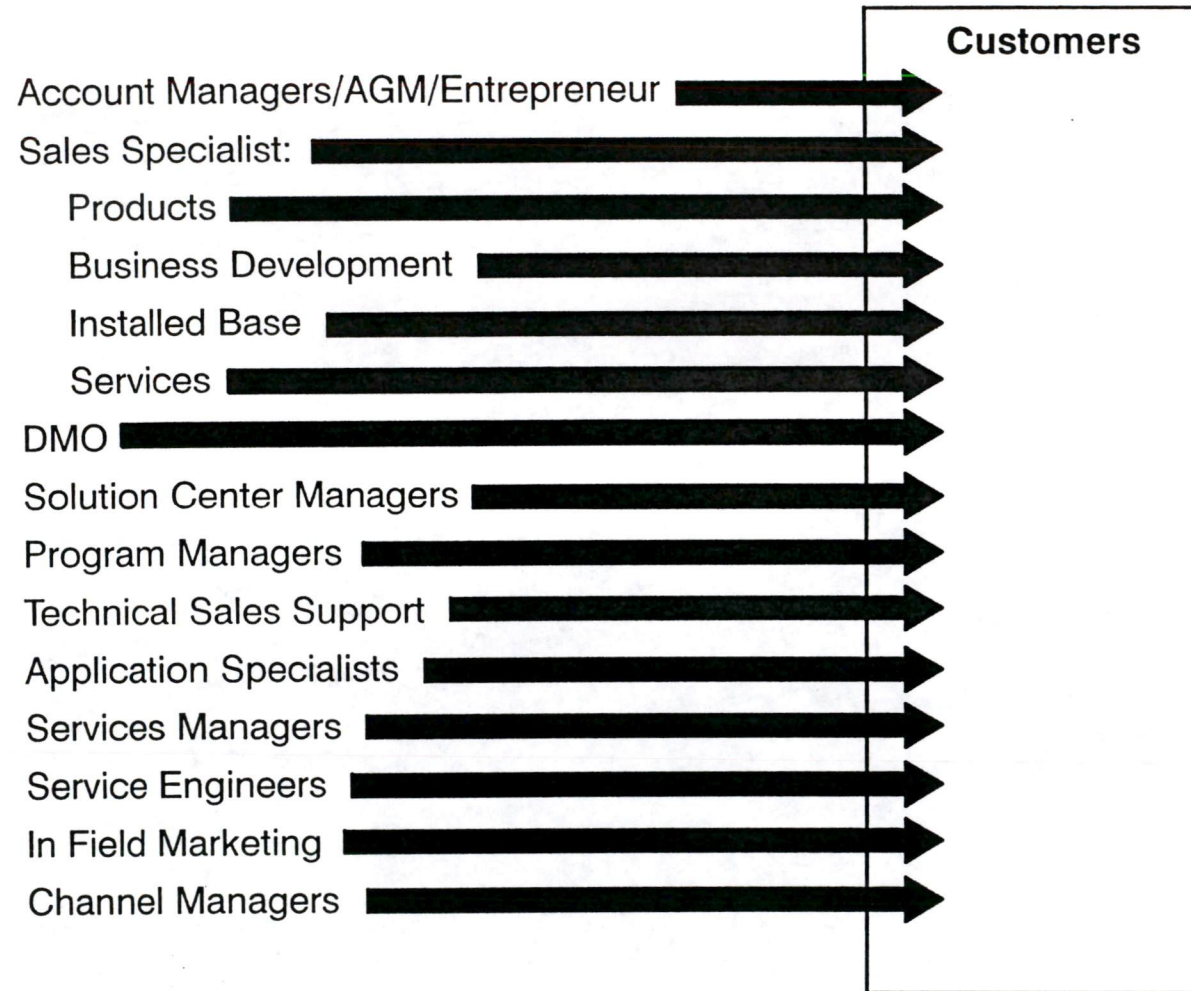
# Changing Environment



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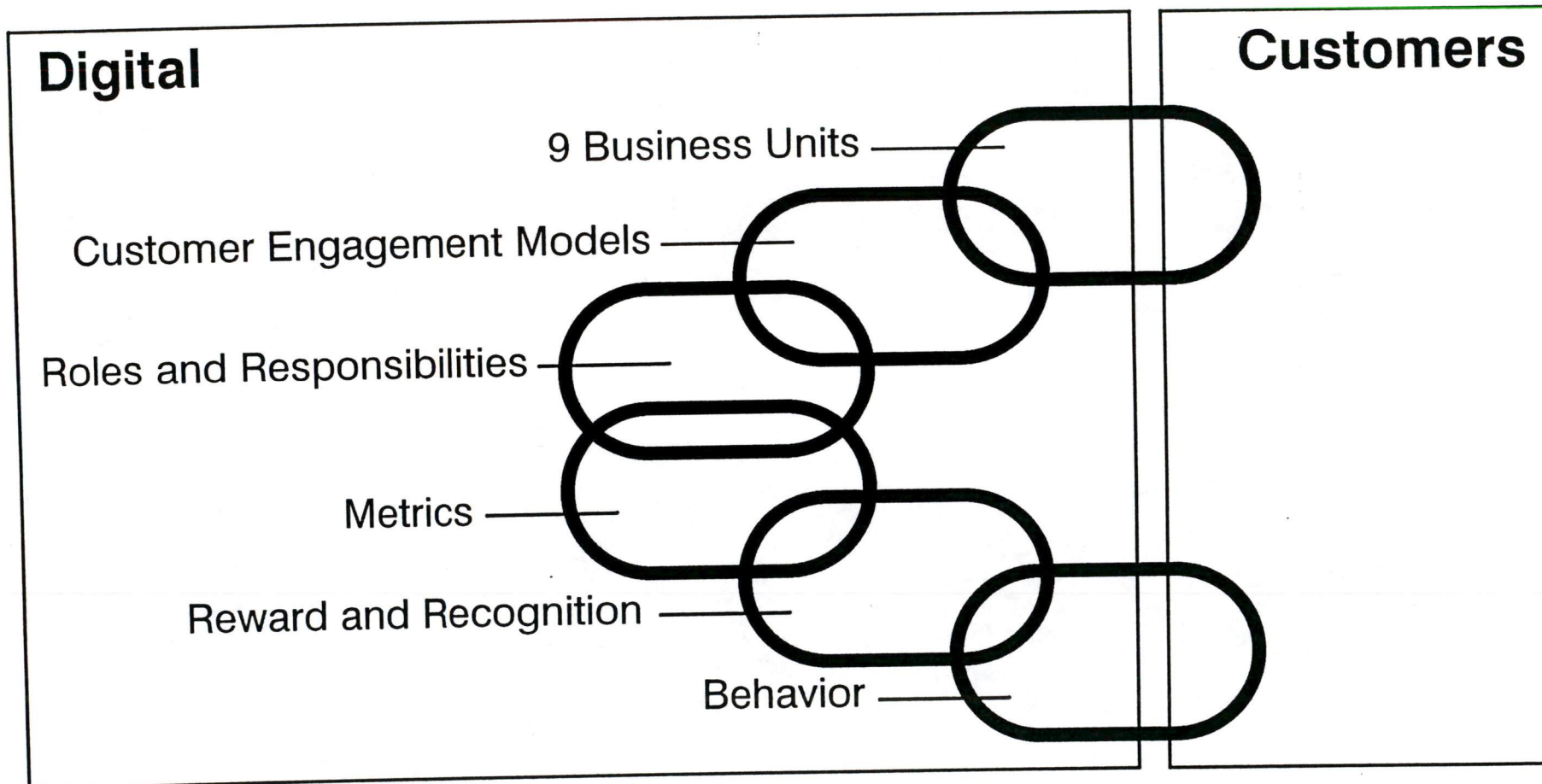
# Customer Contact



...Primary and Secondary Responsibilities



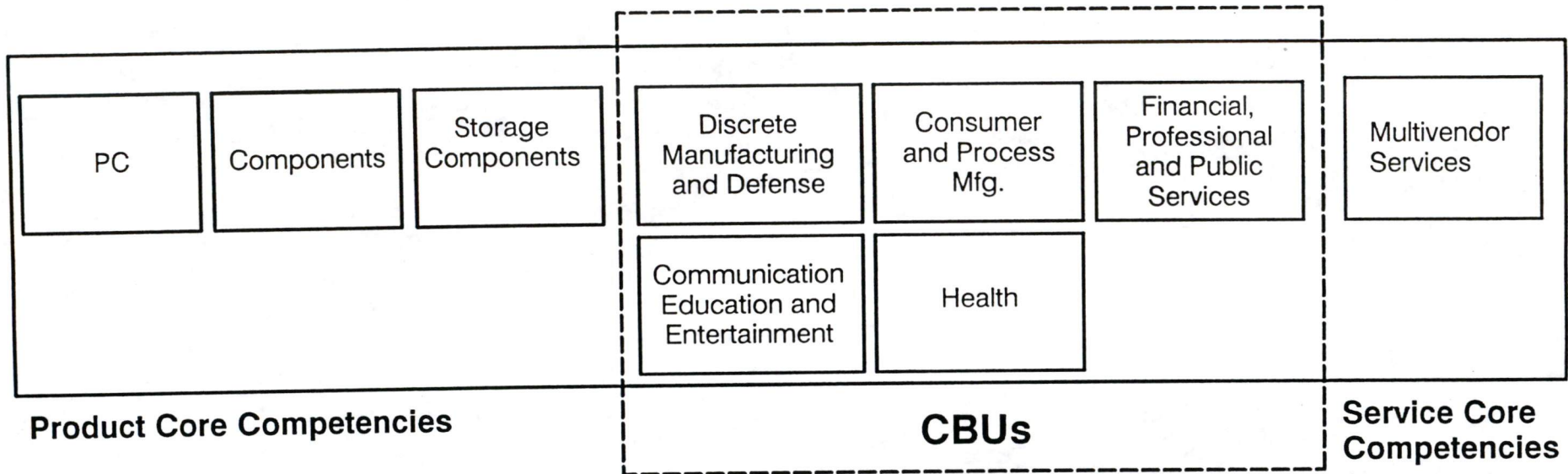
# Customer Connection



**digital**™

# Digital Equipment Corporation

Nine Business Units = 100% of Company P&L



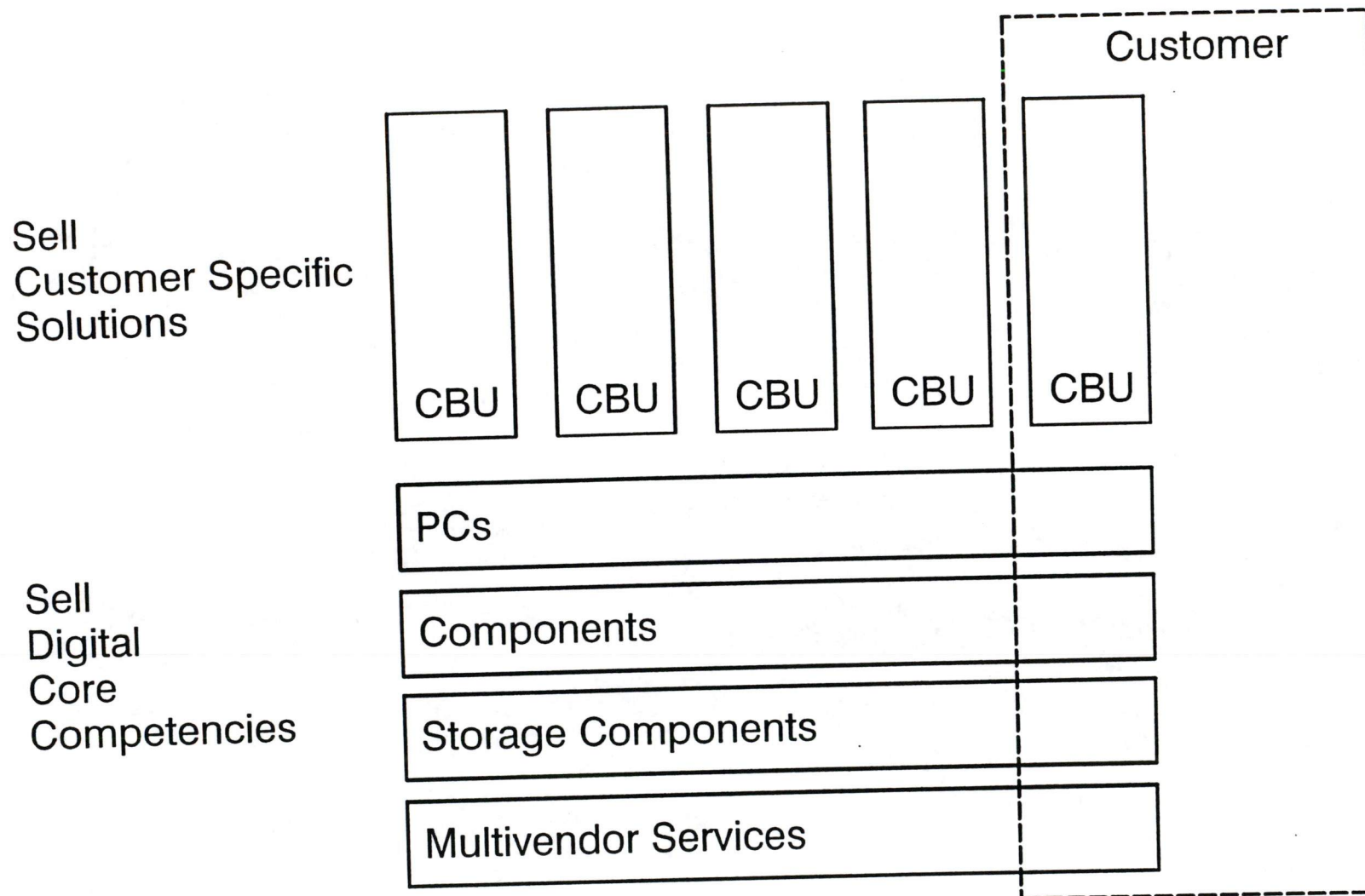
- Accounts will be aligned by customer business unit
- Sales and SI professional services are functions
- Digital is in several different businesses
- Merchandising is a function

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Sales and Services Metrics Task Force

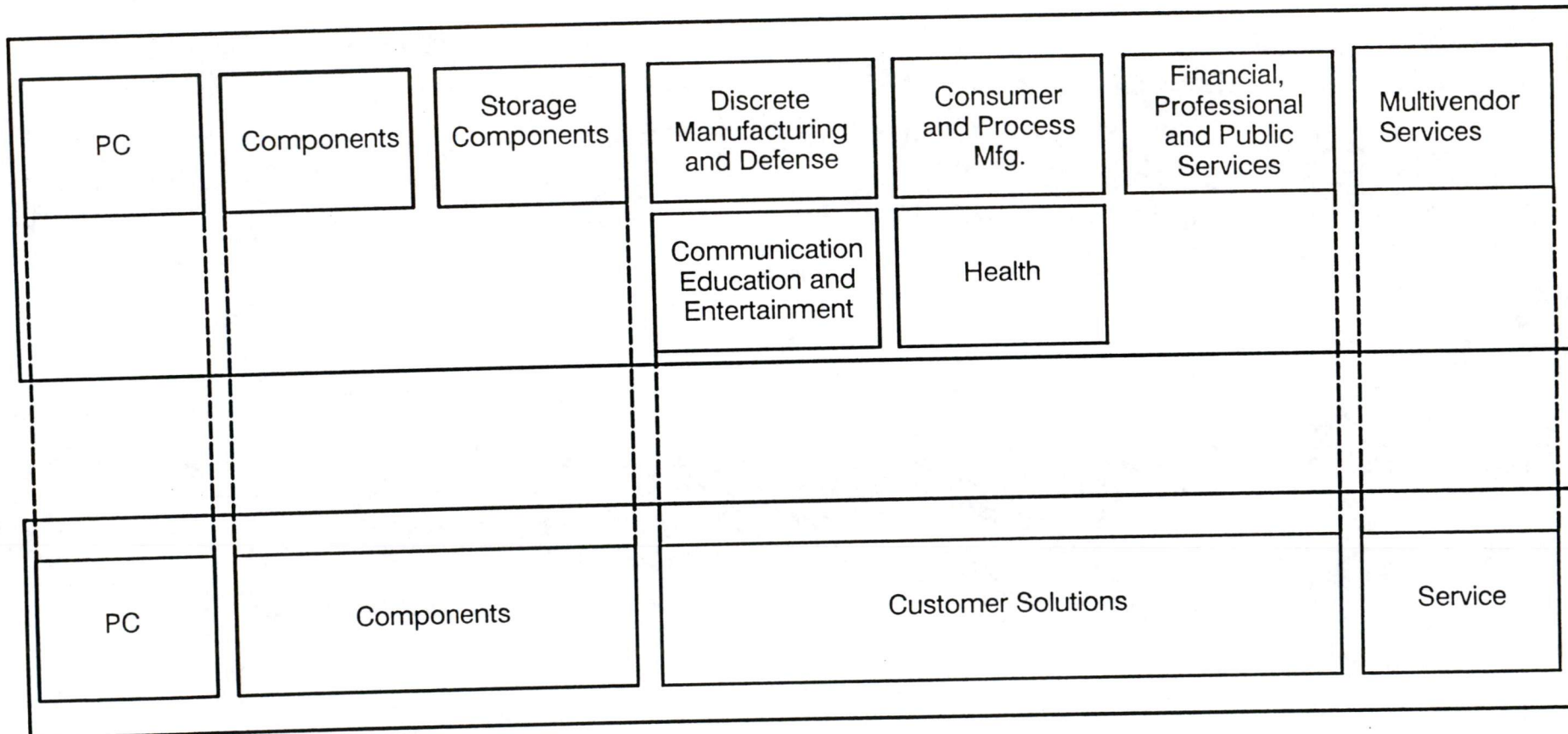
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# Digital Offerings

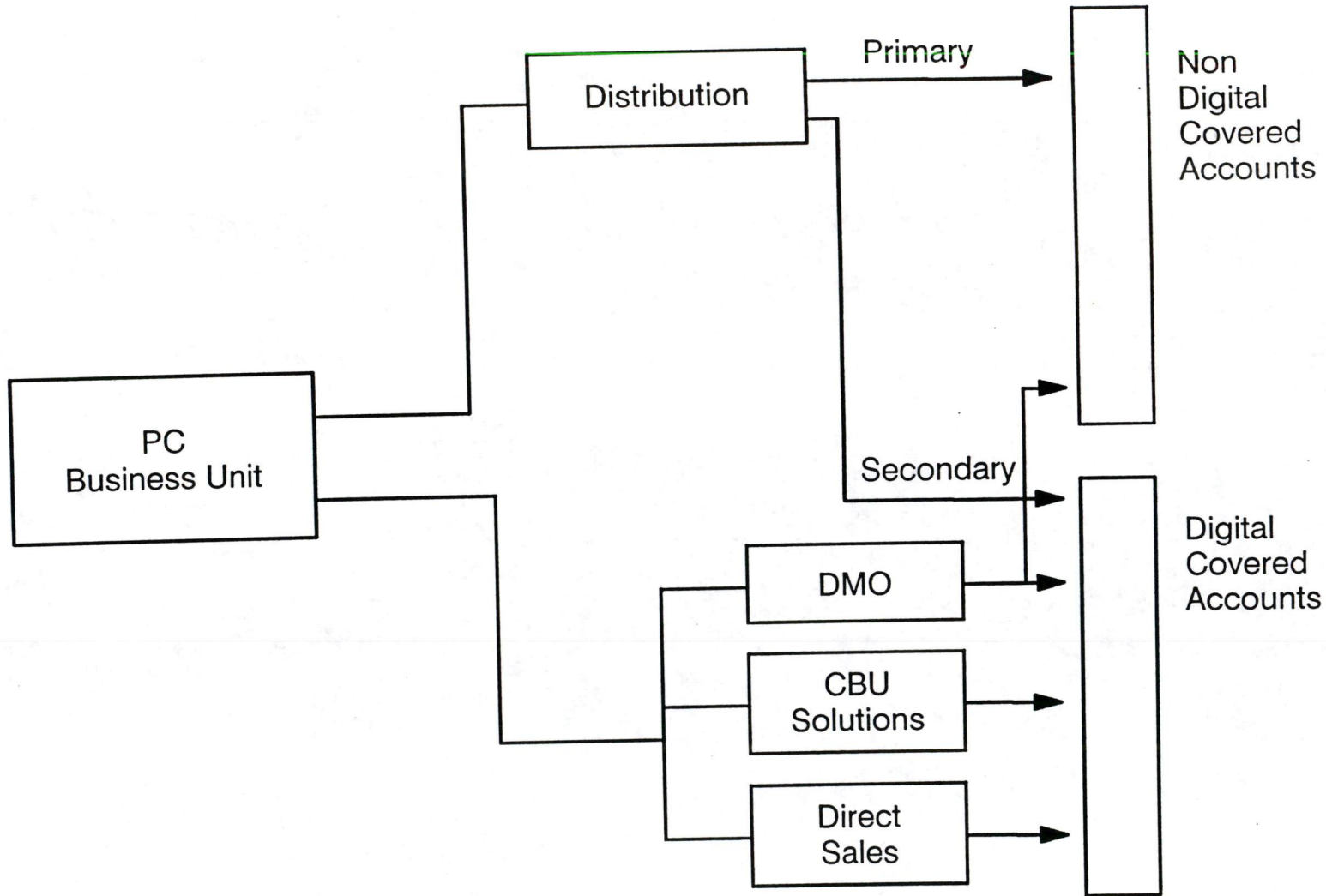


# Digital Equipment Corporation

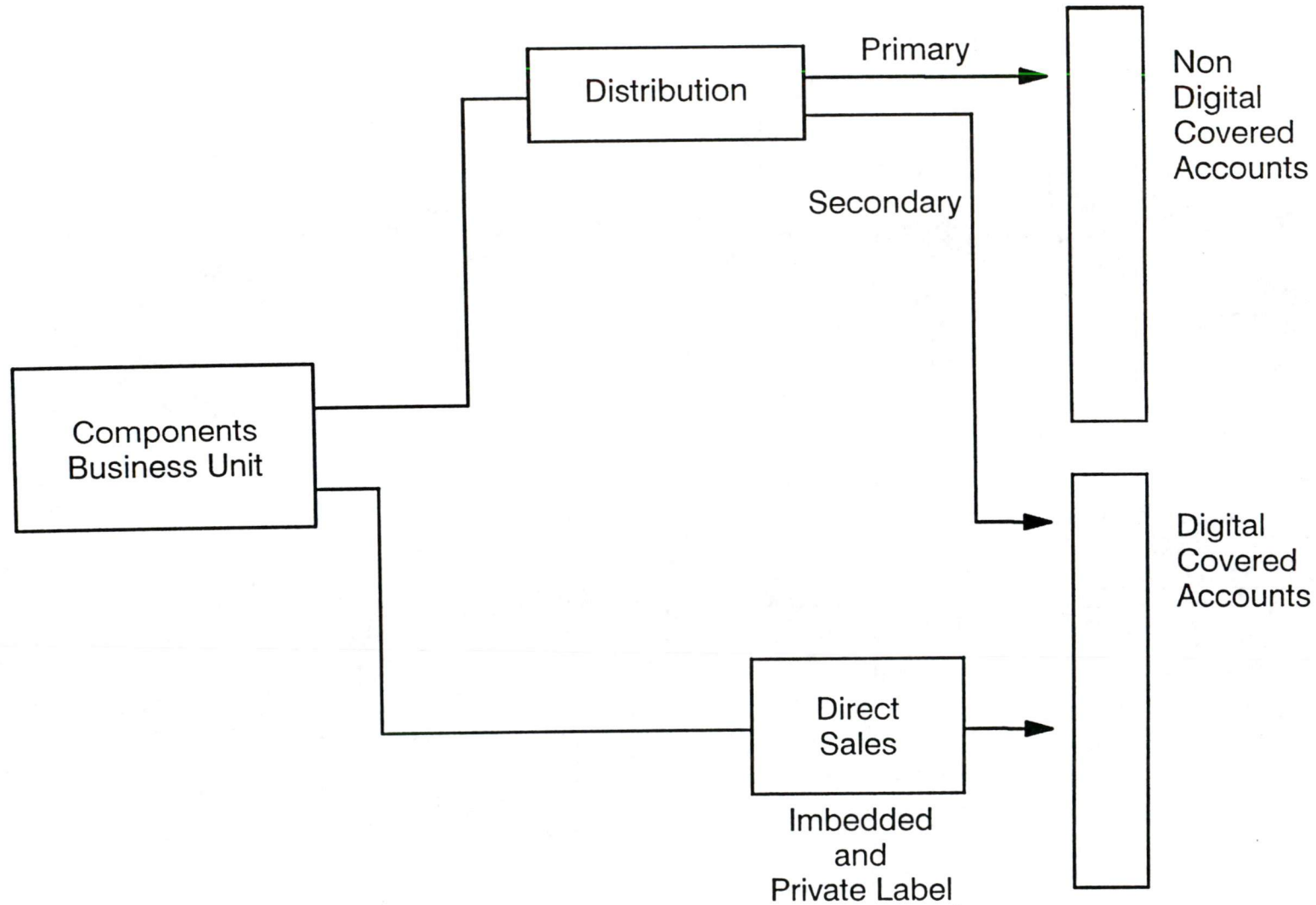
## Nine Business Units



# PC Selling Value Chain

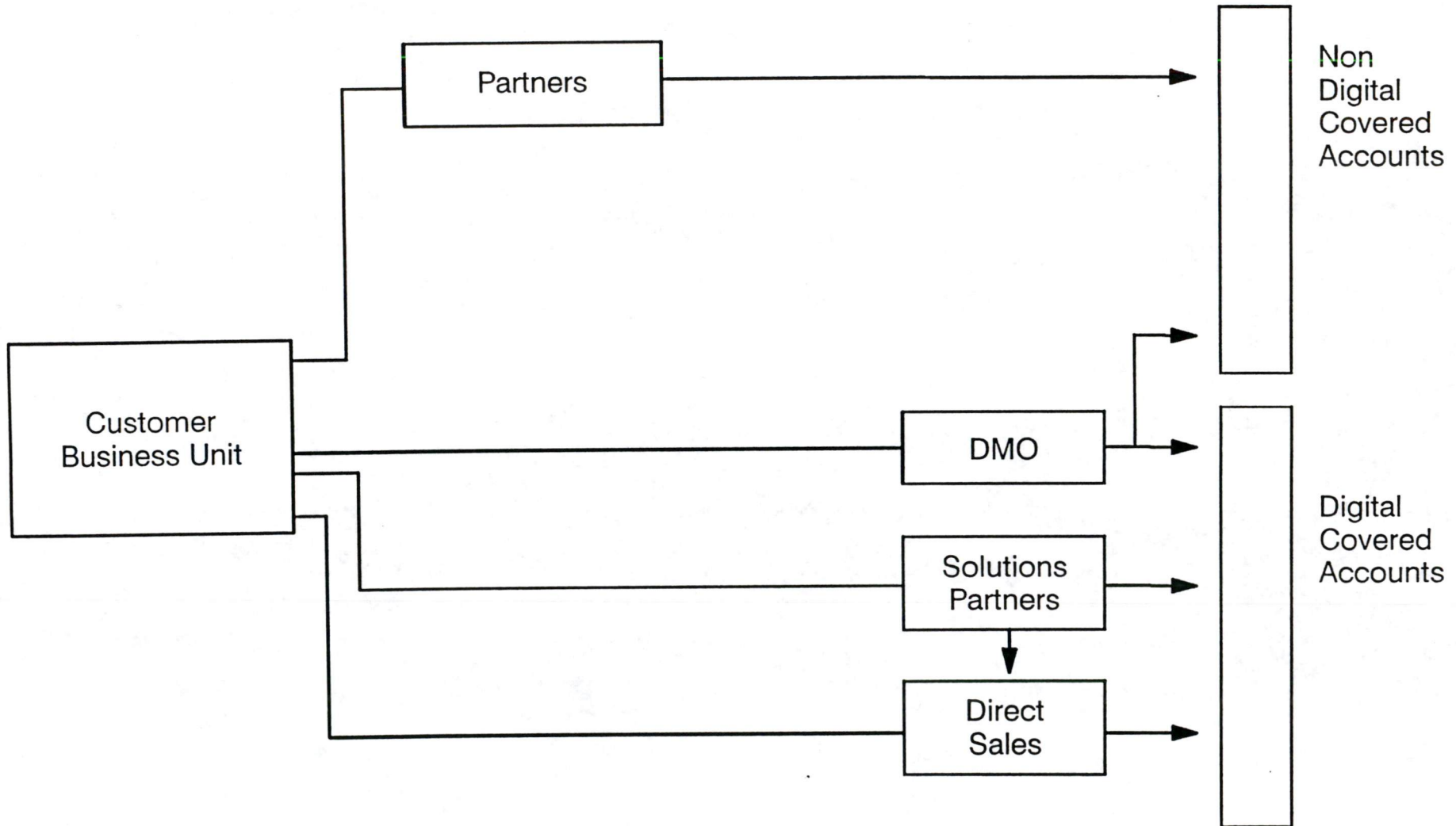


# Components Selling Value Chain



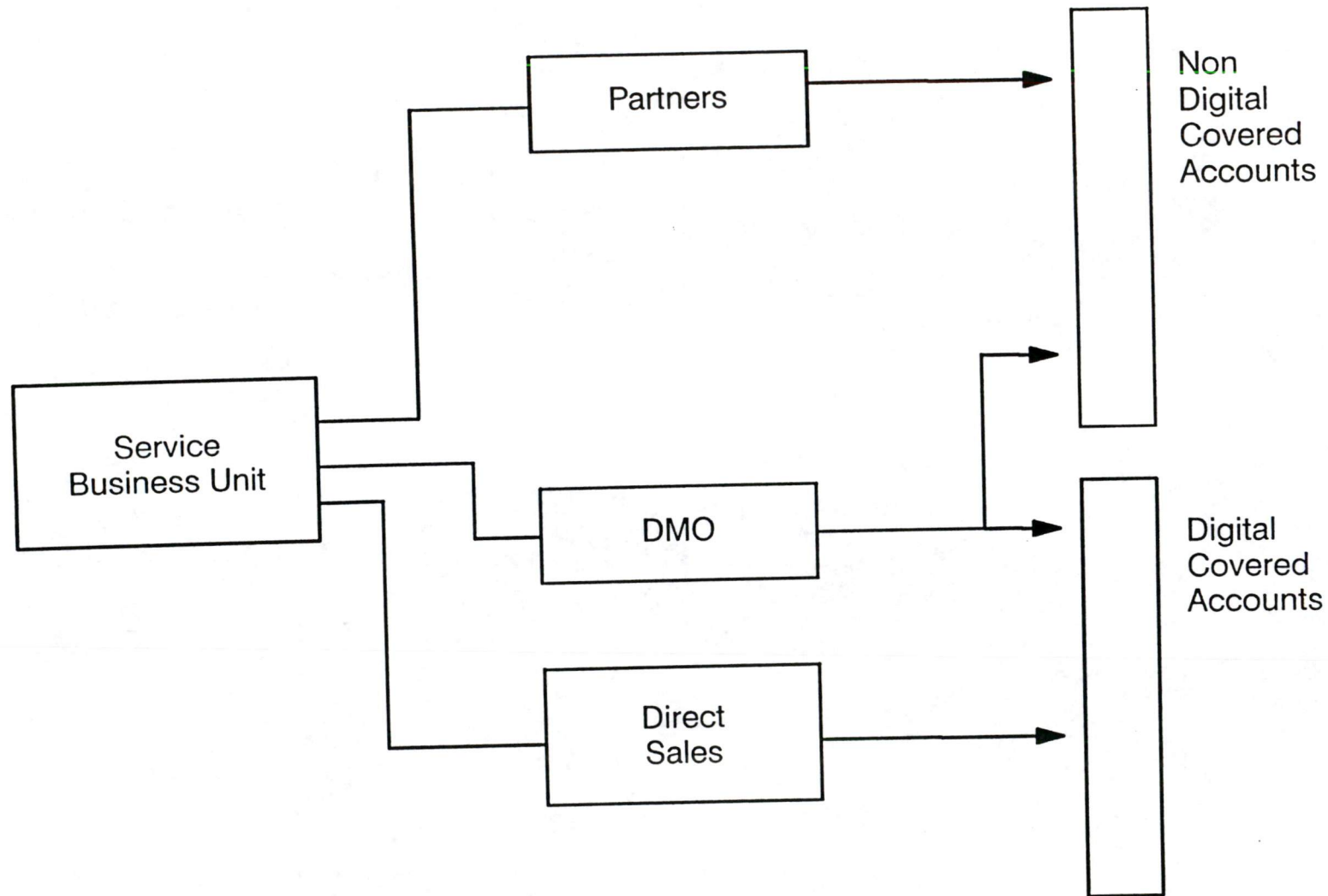
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# CBU Selling Value Chain





# Multivendor Services Selling Value Chain



# Direct Selling Work

## Profile Differences

Solutions	Products/ Services	MVS	PC	Components
<ul style="list-style-type: none"> <li>■ Consultative sell</li> <li>■ Solutions based</li> <li>■ Industry expert</li> <li>■ Project driven</li> <li>■ Single/few accounts</li> </ul>	<ul style="list-style-type: none"> <li>■ Technically competent</li> <li>■ Feature/Function sell</li> <li>■ Industry knowledge</li> <li>■ Volume driven</li> <li>■ Few/many accounts</li> </ul>	<ul style="list-style-type: none"> <li>■ Both consultative and Feature/Function sell</li> <li>■ Close ties to CBU sell</li> <li>■ MVS focus</li> <li>■ Volume driven</li> <li>■ Single/many accounts</li> </ul>	<ul style="list-style-type: none"> <li>■ Technically competent</li> <li>■ Feature/Function sell</li> <li>■ Volume driven</li> <li>■ Large orders</li> <li>■ Many accounts</li> </ul>	<ul style="list-style-type: none"> <li>■ Technical expert</li> <li>■ Feature/Function sell</li> <li>■ Volume driven</li> <li>■ Large orders</li> <li>■ Few accounts</li> </ul>

# Sales and Distribution Strategy

## Five Selling Segments

ENTERPRISE SIZE	Commodities		High Technology			Integrated Solutions		
	Unbundled	Bundled	Components	Solution Systems	Complex Systems	Systems Solutions	Information Systems	Business Consulting
LARGE (> \$100M)								
SME (< \$100M) and SINGLE UNIT								
CONSUMER								



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# Selling Model Definitions

- **Mass Merchandising** – provision of a limited, standardized set of products to a wide ranging potential customer base
  - Products between competing producers are sold on the basis of price and price-performance
  - Moderate product differentiation typifies competitive spectrum
  - Product information content is limited and standardized
  - Economics: are chiefly “low margin, high volume”
- **Technical Specialist** – sells a limited, highly differentiated product
  - A significant portion of the value provided is in the Technical Specialist’s expertise in embedding his/her component to solve a specific technical need of the technical OEM
  - Product information is significant and provided through the Technical Specialists
  - Economics: capturing payment for proprietary product; technical expertise captured in product price
- **Industry/Application Specialist** – sells customized product which can serve a range of customers with similar needs, (e.g., auto parts stores, florists, hospitals, etc.)
  - Market is buying a solution to a business need
  - Product Info is significant and provided through the Industry/Application Specialist
  - Economics: costs are kept low and within range of potential customer segment; goal is to maximize sales of each semi-custom system; and development cost is amortized across total expected sales of semi-custom system
- **Integration Specialist** – is selling a customized solution where the business problem and technology solution has already been well defined
  - Significant value of product is capability of assembling components into a system which solves the specific customer’s business need
  - Product information is substantial and provided through Integration Specialist: Custom training, applications development, etc.
  - Economics: value of expertise is embedded in the price of the system
- **Business Consultant**
  - Sells the ability to:
    - identify the source of business problems (and/or)
    - analyze business problems and suggest solutions (and/or)
    - develop IT solutions to business problems (and/or)
    - implement IT solutions to business problems

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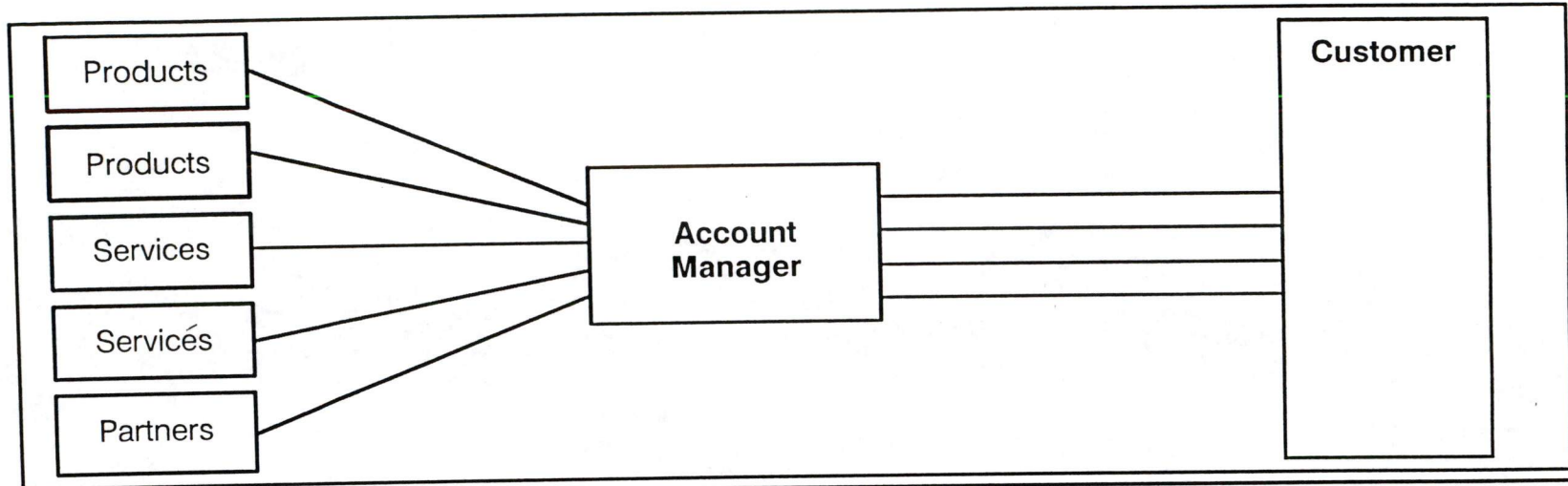
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Sales and Services Metrics Task Force

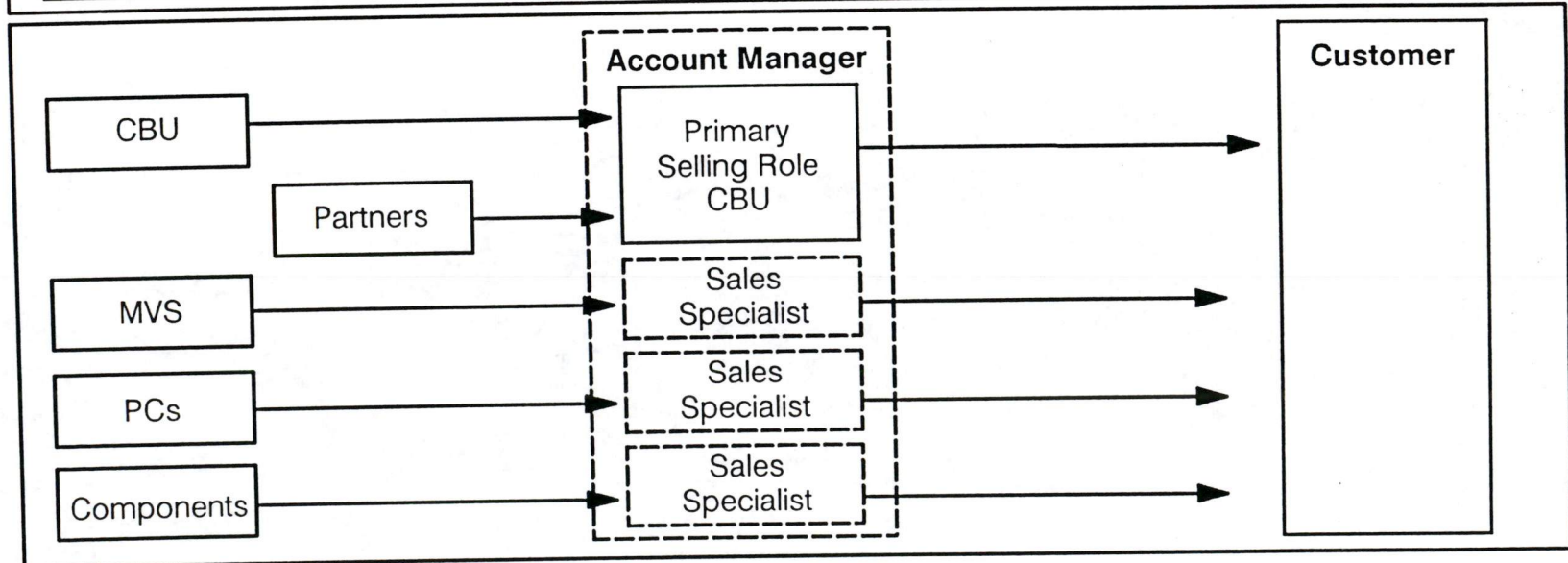
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# Evolution

From



To



# Selling Customer Specific Solutions

	Components	Storage	CBU	PC	MVS
"The Work" Cycle	Account Plan				
	Executive Presence				
	Prospecting				
	Qualifying				
	Closing				

- Specialist and Partners
- Account Manager and Partners



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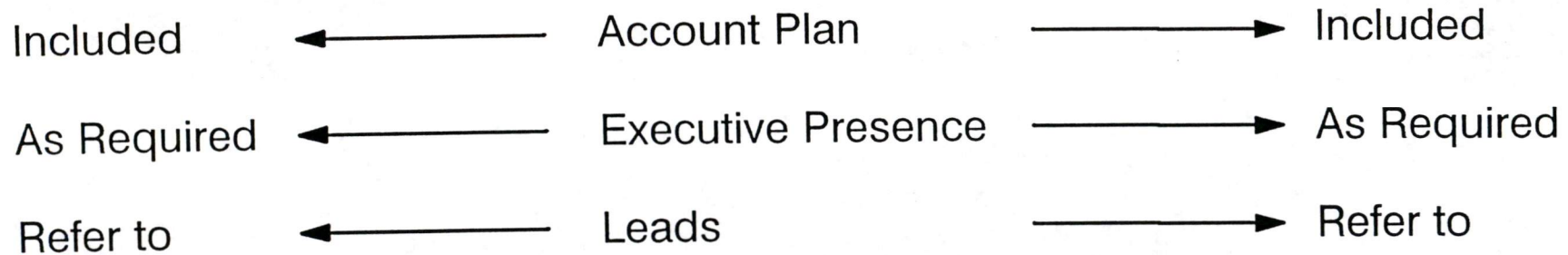
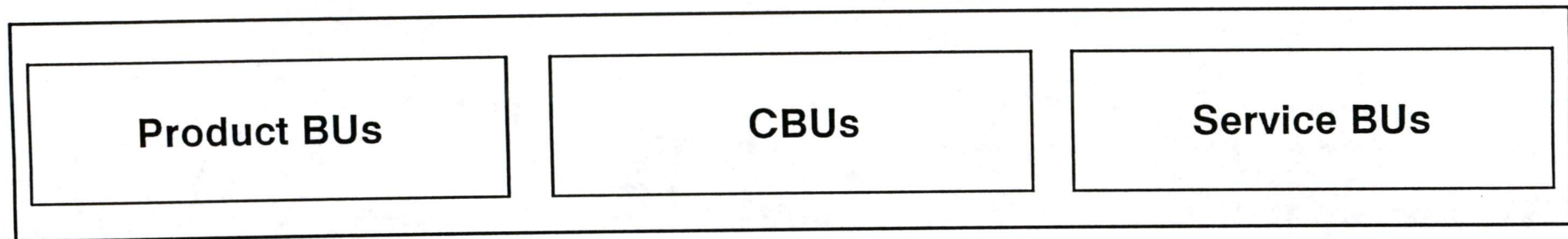
# Account Managers Role

Work Includes:

- Planning (Account Plan)
- Executive presence
- Drive CBU Plan
  - Sell CBU solutions
  - Forecasting
  - Enable delivery
  - Enable payment
- Enable other Business Units Plans



# Desired Account Manager Behaviors



- Identify and close CBU specific opportunities
- Forecast accuracy (CBU)
- Manage  $\geq$  CBU Plan



# Metric Alternatives

Metric	PROs	CONS
CERTS	<ul style="list-style-type: none"> <li>■ New business focus</li> <li>■ Existing metric</li> </ul>	<ul style="list-style-type: none"> <li>■ No connect to profit</li> <li>■ Hockey stick</li> <li>■ Backlog churn</li> </ul>
NOR	<ul style="list-style-type: none"> <li>■ Real business performance</li> </ul>	<ul style="list-style-type: none"> <li>■ Limited profit connection</li> </ul>
GM\$	<ul style="list-style-type: none"> <li>■ Focused on D&amp;A impact</li> </ul>	<ul style="list-style-type: none"> <li>■ Data capture/reporting</li> <li>■ Not efficiency related</li> </ul>
Direct CM\$	<ul style="list-style-type: none"> <li>■ Focus on selling cost</li> </ul>	<ul style="list-style-type: none"> <li>■ Data capture/reporting</li> <li>■ Over management</li> <li>■ Walk away</li> </ul>
Payment	<ul style="list-style-type: none"> <li>■ Drives asset management</li> </ul>	<ul style="list-style-type: none"> <li>■ External factors have high impact</li> </ul>



## Metric Alternatives (continued)

Metric	PROs	CONs
Account Growth	<ul style="list-style-type: none"> <li>■ Drives new business</li> </ul>	<ul style="list-style-type: none"> <li>■ Customer IT spend variances</li> </ul>
Account Share	<ul style="list-style-type: none"> <li>■ Protects against incursion from other vendors</li> <li>■ Promotes account control</li> <li>■ Drives new business</li> </ul>	<ul style="list-style-type: none"> <li>■ May not lead to growth</li> </ul>
Customer Satisfaction	<ul style="list-style-type: none"> <li>■ Promotes attention to customer results</li> </ul>	<ul style="list-style-type: none"> <li>■ Difficult to measure</li> </ul>
Business Unit Mix	<ul style="list-style-type: none"> <li>■ Maps to corporate business unit goals</li> </ul>	<ul style="list-style-type: none"> <li>■ Distracts from primary goals; demotivates</li> </ul>

# Recommended Account Manager Metrics (including Worldwide Account Managers)

## Quantitative

- Gross Margin \$ (CBU)
    - Plan GM%
    - Execute GM\$
- 

## Qualitative

- Customer Satisfaction/Result
- Account Share (CBU)
- Business Unit Mix

# Recommended Sales Specialist Metrics

## Quantitative

- NOR \$

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## Qualitative

- Accounts Share (BU)
- Customer Satisfaction/Result

# Metrics Summary

Metric	Metric Benefit	Role
CERTS	Backlog	Business Indicator
NOR	Revenue	Specialists
Gross Margin	Revenue/D&A/Mix	CBU Account Manager
Direct Contribution Margin	Cost of Sales – Plan by DCM % – Execute by DCM \$	Sales Management



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# Current Status

- USA
- Account Managers – CERTS/NOR
  - End-User Specialists – CERTS
  - Channels Specialists – NOR
- Europe
- Entrepreneurs – CERTS/NOR
  - Account Responsible People – CERTS
  - Specialists – CERTS or NOR
- GIA
- District Managers – NOR + GM\$
  - Sales Specialists/Account Managers  
(Canada and SPR) NOR  
(Others) CERTS



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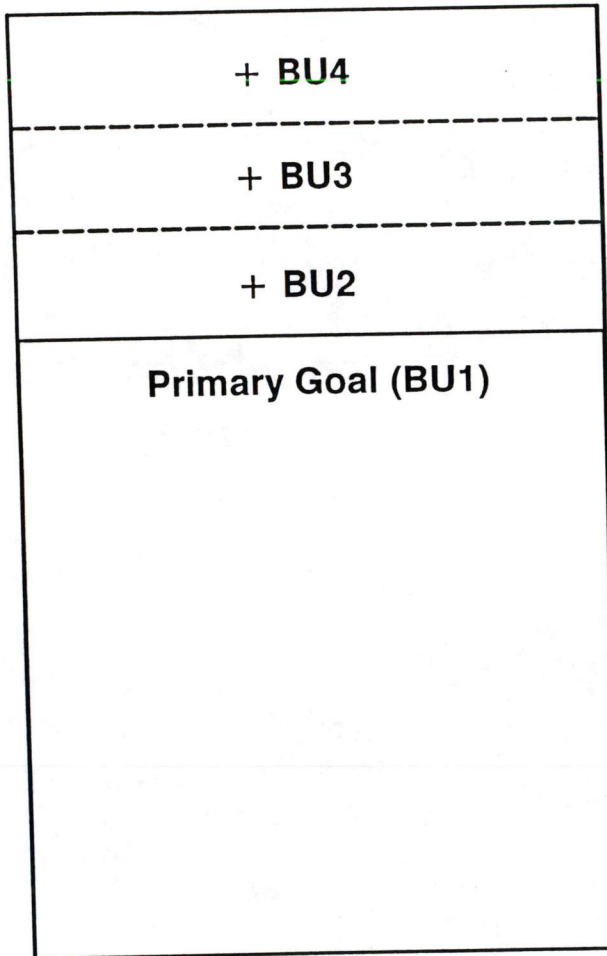
## Current Status

- CERTS still widely used
- Territories moving to NOR based sales goaling

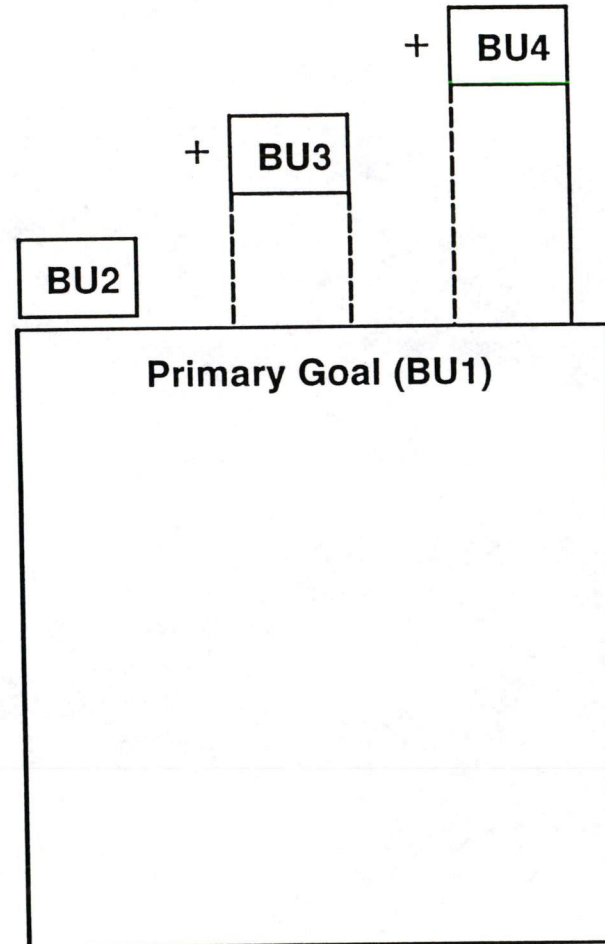


# Stick vs. Carrot Goals

Goal Sheet



Negative



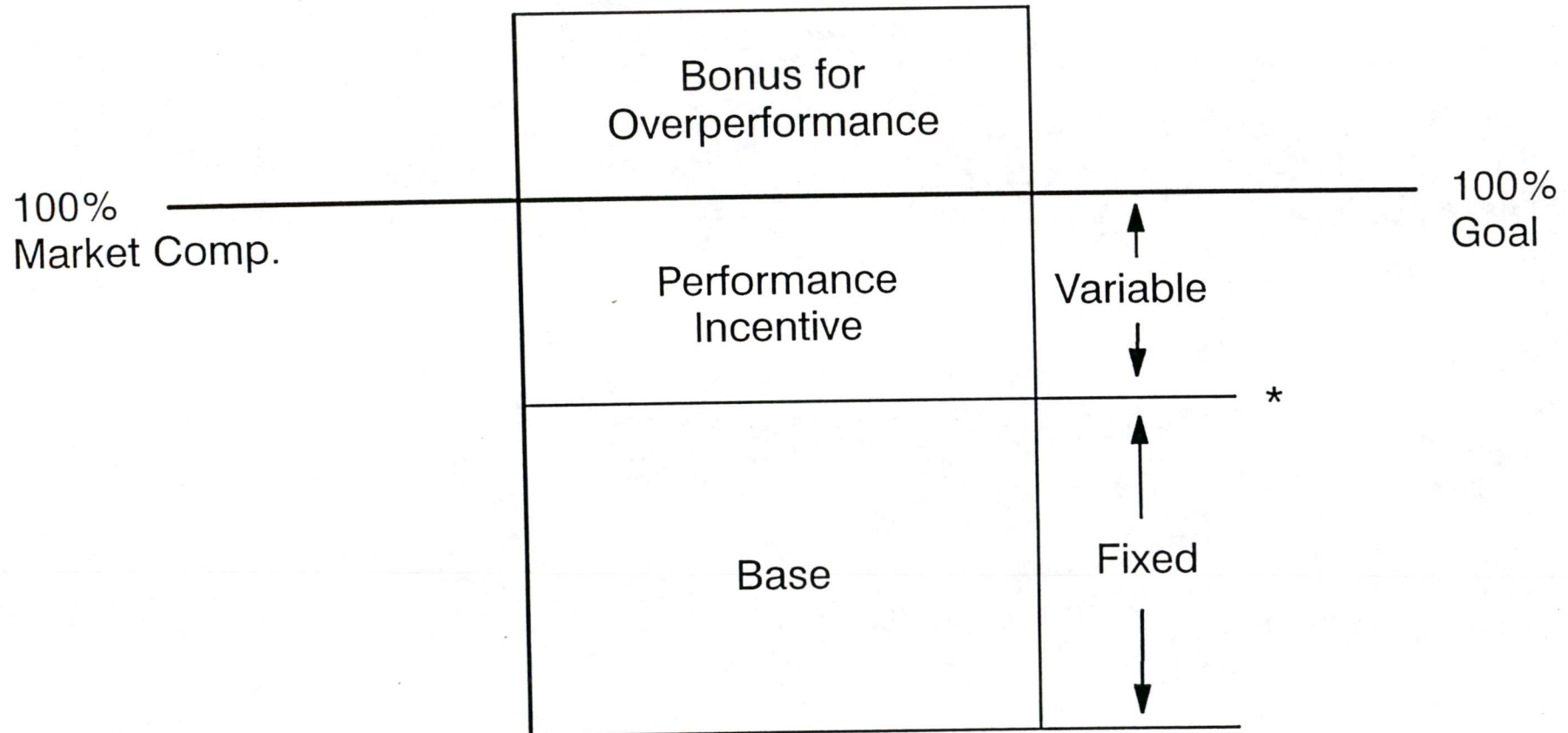
Goal Sheet



Positive



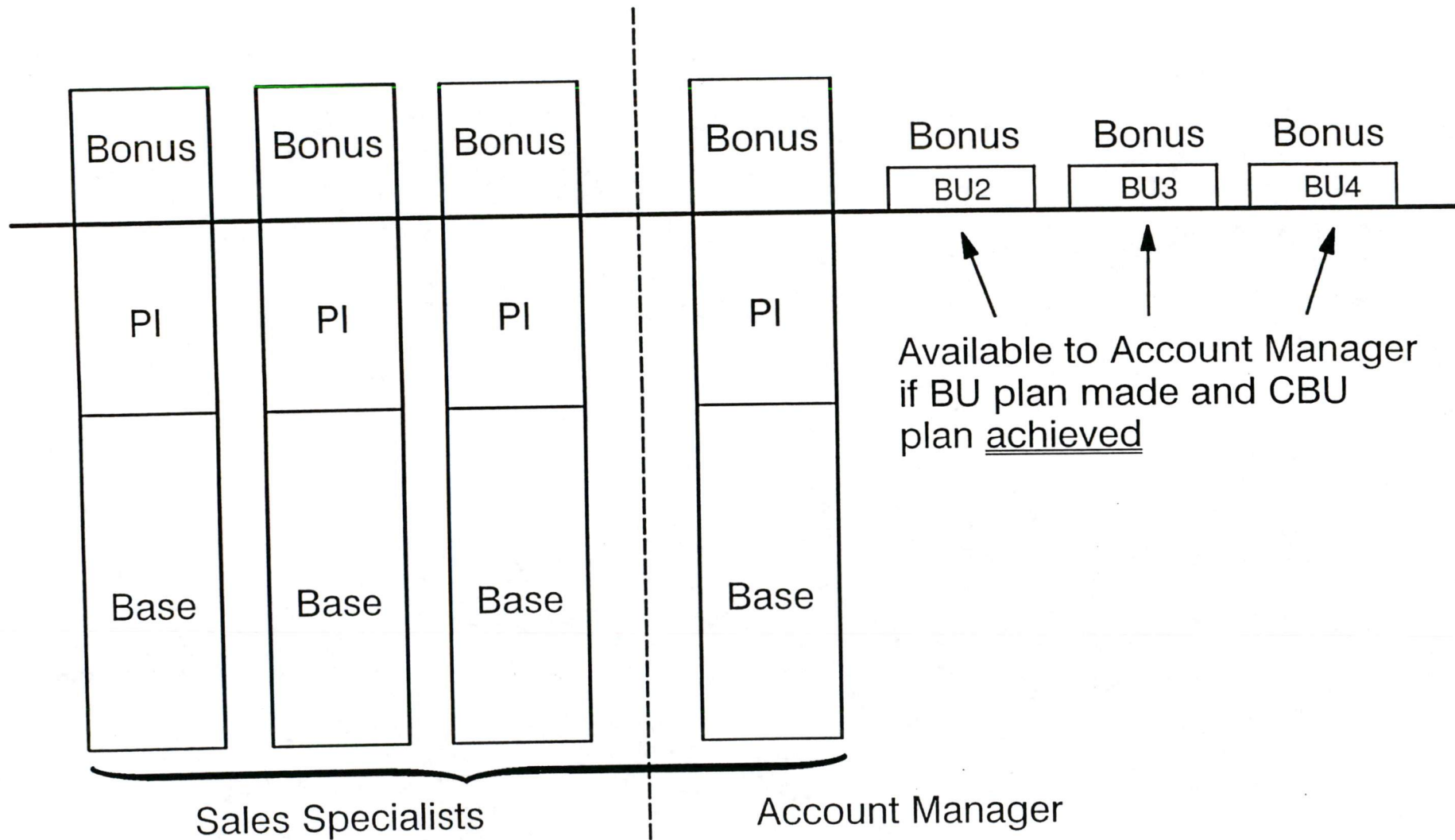
# Compensation Model (3 Parts)



\* Variable amount job dependent



# Compensation Model



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# Summary Recommendations

- Sales specialization based on BU value chain models
- NOR GM\$ and DCM\$ based goaling
- Variable compensation (Base and Performance Incentive)
- Bonus for overachievement
  - Specialty
  - Other BU (Account Manager)

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# Critical Success Factors

- Data capture and reporting systems
- Clean revenue boundaries
  - PCs
  - Components
- Sales Management training
- Establishing goals
- Supply chain

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# Issues

- Transition plan to variable compensation
  - High inflation environment
  - Low inflation environment
  
- Majority of work to be completed by end of Q3 for FY94 start

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## Next Steps

- Complete work including:
  - Services (started)
  - Channels (started)
  - Infield marketing
  
- Compensation plan for each country
  
- Transition plan for each country









TO: January Corporate Woods Attendees      DATE: January 6, 1993  
FROM: Jim Flanagan  
CC: Henry Ancona (advance copy)      DEPT: Mass Storage  
Larry Cabrinety (advance copy)      LOC: MLO1-5/B94  
Charlie Christ (advance copy)      DTN: 223-6114  
Vin Mullarkey (advance copy)      NODE: MEMIT::FLANAGAN  
Bill Strecker (advance copy)  
P&L Task Force

**SUBJECT: Business Unit Revenue and Profit Boundaries**

Digital has decided to organize and manage itself by nine business units. The goal of that decision is to create sustainable competitive advantage and customer satisfaction which will be reflected in Digital's superior financial performance over time. The intent of that decision determines business charter, roles and responsibilities as well as the business metrics and measurements used to motivate teams and individuals to behave in support of the goal.

Business units will be accountable and measured on their results (market share and profitability). Five business units are focused on aggregations of accounts (Customer Business Units). Four are focused on aggregations of products and/or services (Component Business Units).

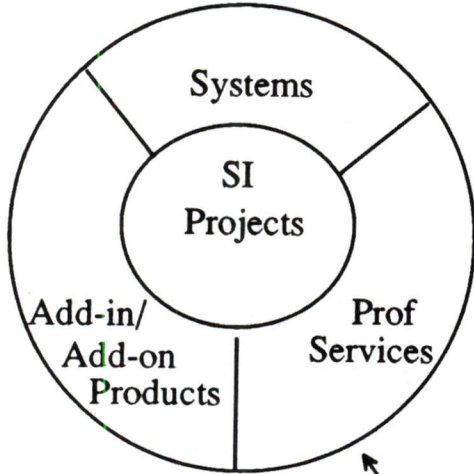
The named individuals above recommend that:

- Inter-Business Unit activity be conducted at arms length "best OEM price" for comparable business transactions.
- All Component Businesses (PC, Component, Storage and MVS) interact with the Customer Businesses using only one set of rules for simplicity and speed of implementation.
- The FY94 operating plan be prepared on the basis of full implementation.
- Implementation be as quickly as feasible (NLT Q2FY94 reporting).
- Management reports be constructed analytically, if necessary, until systems are modified.

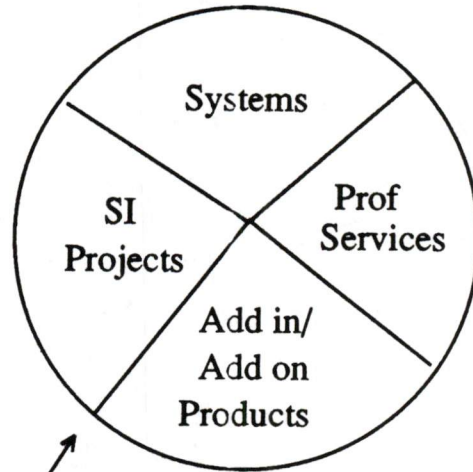
Customer Business Units to customer business activity can be depicted in one of the following ways:

CUSTOMER BUSINESS UNIT

SI FOCUSED BUSINESS ACTIVITY



UNDIFFERENTIATED BUSINESS ACTIVITY

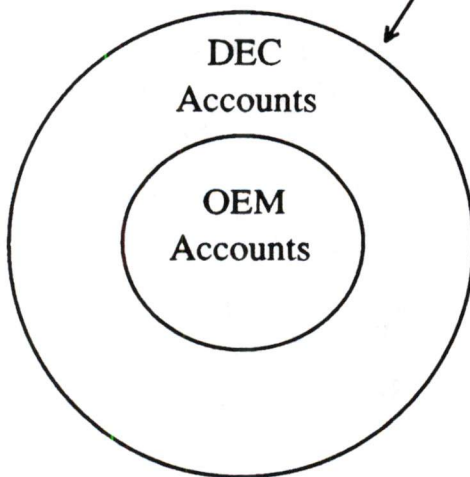


Component Business Units to ment, not conflict with, the

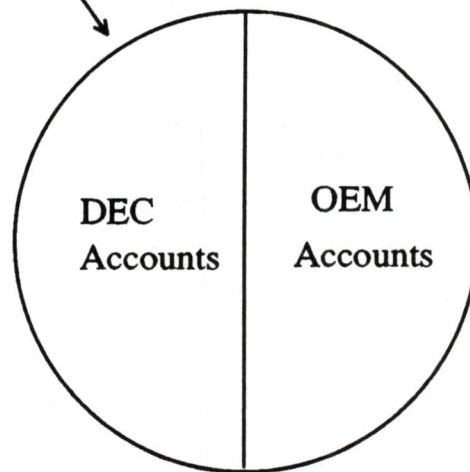
customer activity should comple- Customer Business Units.

COMPONENT BUSINESS UNIT

OEM FOCUSED BUSINESS ACTIVITY



UNDIFFERENTIATED BUSINESS ACTIVITY



Was the decision at Woods 2 Undifferentiated Customer Business Units and OEM focused Component Business Units to achieve the corporate goal? Or is the intent to focus Customer Business Unit effort primarily on SI projects? The conclusion is the latter: SI project focus of Customer Business Units takes precedence over OEM focus of Component Business Units.

**Question:** What combination of primary Customer Business Unit (and Component Business Unit) revenue and profit metrics will motivate and measure accountability to produce the desired business results for Digital?

Five alternatives on the spectrum of possible primary Customer Business Unit metrics are analyzed:

- A. Recognize 100% of revenue regardless of channel or timing and intercompany transfer at manufacturing cost.
- B. Recognize 100% revenue and intercompany transfer at full costs.
- C. Recognize 100% revenue and intercompany transfer at cost plus profit.
- D. Recognize commission revenue from Component Business Units for sales to DEC accounts.
- E. Recognize ISS revenue and intercompany transfer at cost plus profit.

The comparative illustrative financials of Component and Customer Business Units for each alternative are presented below (assume both are at benchmark business models for a \$100 street price product or service to a non-OEM account):

RECOMMENDATION

	<u>A</u>		<u>B</u>		<u>C</u>		<u>D</u>		<u>E</u>	
	<u>100%/MFG</u>		<u>100%/FULL COST</u>		<u>100%/COST PLUS PROFIT</u>		<u>COMMISSION MODEL</u>		<u>ISS REV/ COST+PROFIT</u>	
	<u>COMP</u>	<u>CUST</u>	<u>COMP</u>	<u>CUST</u>	<u>COMP</u>	<u>CUST</u>	<u>COMP</u>	<u>CUST</u>	<u>COMP</u>	<u>CUST</u>
NOR	\$0	\$100	\$0	\$100	\$80	\$100	90	10	50	50
MFG COST	0	70	0	70	70	80	70	0	30	40
GM	0	30	0	30	10	20	20	10	20	10
R+D	5	0	0	5	5	0	10	0	7	3
SG+A	0	15	0	15	0	15	5	5	3	7
OP	(5)	15	0	10	5	5	5	5	10	0
<b>Intercompany Transfer price</b>		\$70		\$75	\$80			(\$10)		\$40

Note that Corporate Revenue is \$100 without eliminations except in case "C" and corporate profits are \$10 in all cases. Which of the five alternatives most fairly presents the business performance of the respective business units? And, if it is alternative "C", is it worth the expense of having a revenue elimination step? We can't avoid some level of intercompany cost transfer, so that expense is common to all alternatives. However, it is less expensive to use one transfer amount (an "intercompany transfer price") compared to individual transfers for manufacturing, engineering and profit.

The advantages and disadvantages of those five metric combinations to produce the desired corporate results are presented below. A "+" indicates a clear advantage for that metric compared to the other alternatives. A "—" is a distinct disadvantage.

	<u>100%/MFG COST</u>	<u>100%/FULL COST</u>	<u>100%/COST + PROFIT</u>	<u>COMMISSION MODEL</u>	<u>PARTIAL/ COST+PROFIT</u>
CUSTOMER FOCUS/SATISFACTION	+				—
STRATEGIC ADVANTAGE					+
TACTICAL COMPETITION					+
OPERATIONAL RESPONSIVENESS					+
MANAGEMENT FOCUS/ATTENTION					+
ACCOUNTABILITY/MEASUREMENT EFFECTIVENESS					+
PROCESS SIMPLICITY/CLARITY	+				
ORGANIZATIONAL INTEGRITY	+				—
QUANTIFIABLE RESULTS:					
MARKET SHARE					+
REVENUE					
COST					
PROFIT					
ROA					

COMPARISON OF ALTERNATIVES ON SELECTED CRITERIA

	<u>BUSINESS INTENT</u>	<u>BEHAVIOR MOTIVATION/ MEASUREMENT</u>	<u>FEASIBILITY FOR FY94</u>	<u>COST</u>	<u>ADMINISTRATIVE COMPLEXITY</u>
A. Customer Business Unit receives credit for 100% of revenue to Digital accounts; pays manufacturing costs to Component Business Unit.	Component Business is a business only when doing business off DEC base; Customer Business Unit should not bear fair share of product functional costs.	negative and inaccurate	Yes	Lowest	One cost transfer price transaction if revenue recognized at time of shipment to DEC  Simple
B. Receives 100%; pays full cost.	Component Business is a function when dealing with DEC base (Woods 2 decision?)	Defocuses Customer Business Units. Divides Components into business and function.	Yes	Lower	One cost transaction.
C. Receives 100%; pays full cost plus profit.	Component Business treats Customer Business as most valued customer.	Not perfect. Balances nine separate business needs under one legal roof.	NLT Mid-year	Medium	One revenue transaction with elimination
D. Receives commission; pays direct costs.	Customer Business is agent for component sold to DEC account.	Customer Business Units will buy components externally to get full revenue.	Yes	Lowest	One revenue transaction.  Simple.
E. Receives ISS Revenue only; pays full cost plus profit.	Customer Business should concentrate on initial systems and SI contracts with DEC accounts.	Single account focus is completely fragmented.	Yes	Lower	One cost transaction.

Recommendation: 100% revenue with intercompany transfer at full cost plus profit (alternative "C") if Components are businesses with respect to non-OEM account activity.

## Analysis:

- The industry, for the foreseeable future, has fragmented into smaller, highly mobile, focused suppliers. (See quotes from Akers' 12/18/92 memo to IBM stockholders, attached.) Size and diversity do not leverage competitive advantage. Rapid, focused, timely and effective efforts are more important to customer satisfaction than one stop shopping. Intelligent, knowledgeable customers are capable and willing to deal with multiple sources to satisfy their computing needs.
- From Digital's standpoint, attempts to optimize product and service sales at one Business Unit point will not work in practice. Sales can be coordinated best at the account rep level while Business Units should concentrate on those areas for which they have resource expertise and center of effort focus.
- We have a strong bias to sell Digital's products rather than the competitors'.
- We need to stay externally focused on the customer and not make the customer a victim of our internal organization, channel or transaction timing divisions of responsibility. But we do not want to burden the Customer Business Units with responsibilities which incrementally do not add value to the Business Unit or the Corporation. We want inter-Business Unit negotiations to be minimal.
- The two extreme alternatives ("A" and "E") negate each other. The strengths of one are the weaknesses of the other. The middle alternatives ("B" or "C" or "D") are more balanced and closer to reality.
- The commission model ("D") achieves the same objectives as the full cost ("B") and full cost plus profit ("C") alternatives with more simplicity and less cost but the Customer Business Unit revenue is only the commission (10%) compared to the full revenue (100%) it would receive if it purchased from an external source and resold to its customer. Shifting to a unit based market share metric could mitigate this weakness.
- We need to match revenues and costs/expenses in the same Business Unit for equitable measurement of accountability. There is no value added by negotiating individual P&L lines among businesses. Therefore, the only POLICY DECISION is whether the inter-company transfer will be with or without profit.
- The only difference between a worldclass business and a worldclass function is profit. But 5% profit has a 95% impact on roles and responsibilities.
- The company has always recognized two separate intercompany profit sources-one for design and manufacturing and one for sales, marketing and distribution. The risk/reward differences are reflected in the respective business models.
- Our competitors (IBM, HP) generally employ an intercompany pricing mechanism with profit, if possible, by charging "best OEM price".
- In summary, alternative "C" - full cost plus profit - best meets our business intent, is implementable at acceptable cost and provides future flexibility.

Conclusion: We need to be competitively focused and capable of swift movement to create and take competitive advantage. Focused Product and Service Component Business Units selling to Customer Business Units at "best OEM price" provides the most effective mechanism to meet and measure this goal.

Implementation:

- All alternatives create the need for intercompany transactions. In the recommended alternative, the Component Business Unit reports a profit and the Customer Business Unit, like its external OEM counterpart, buys at best available OEM price and marks up the product for resale. The profits are additive. The revenue is not and the double count must be eliminated. (International fiscal intercompany pricing must still be resolved. A group is looking at that now.)
- Digital has previously run on a function/geography foundation and its financial systems are structured accordingly. Business reporting was achieved analytically. To complete the transition to a business driven company we should align the transactional systems to that new dimension. While not on the critical path to implement this revenue and cost boundary recommendation, the alignment of fiscal reporting to business boundaries should be completed expeditiously to demonstrate and reinforce the conversion to the Business Unit management dimension.



Attachment:

John Akers' quotes, 12/18/92 memo to IBM stockholders.

"Building on our successful experience of the past year with the most autonomous product businesses in our family of companies - ADSTAR storage products, the Personal Computer Company, and Pennant Systems printers - we are moving ahead to make them essentially self-sufficient companies, with the expectation that they will accelerate their speed to market, and improve their efficiency and financial returns.

"Each will independently optimize manufacturing assets, locations, and sourcing worldwide. Each will be free from technology dependencies and trade-offs within IBM. And, each will broaden worldwide distribution through IBM, alternate channels, and continue aggressive pursuit of OEM (Original Equipment Manufacturer) opportunities.

"ADSTAR, which expects to double its OEM revenues next year, will continue to distribute to IBM customers through our marketing and services companies, and will also establish its own worldwide OEM distribution network and sales force.

"These businesses will operate as increasingly self-sufficient companies, with separately reported financial results and relationships with other IBM companies based on market economics and business-to-business contracts. Over time, we expect to consider alternative forms of ownership. These decisions will be based on the potential for enhanced shareholder value."