

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

Date: 07-Jun-1994 08:29am EDT
From: ROBERT CARTWRIGHT @COP
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TO: Shane Patterson @MKO

CC: Al Hall @COP

CC: Bruce Davidson @COP

Subject: Circuit City Meeting

We are requesting that Russ Gullotti meet with key executives from Circuit City during June. Russ' participation will position us well for two strategic opportunities currently being pursued. A briefing for the proposed meeting is provided below.

Logistics: Richmond, Virginia

Account: Circuit City

Attendees: Richard (Rick) Sharp - President and CEO
Ray Albers - Vice President and CIO

Objective: Solidify Circuit City's confidence in Digital as a viable, long-term business partner.

Background: Headquartered in Richmond, Virginia, Circuit City is a \$4B electronic specialty retailer, with 300 retail stores and 7% share of the consumer electronics market. Plans include adding 180 superstores over 3 years and growing to \$10B through diversification outside of the electronics business.

Circuit City is an IBM AS400 and HP/UX shop with new projects planned under a UNIX environment.

Circuit City is currently a reseller of AST, IBM, Packard Bell and Compaq PCs.

Opportunities: CARMAX - Circuit City's used car dealership using computer technology to enable customers to select, finance and drive out with a car in 20 minutes or less. Each store will have 55-80 PCs, 10 laser printers, a network hub and a server - total Digital revenue per store of \$125K-\$200K. CARMAX is looking for a company that can handle a large rollout of computer technology over a wide geographic area, and be able to fully support the environment if problems occur. Digital has verbally won the business for the pilot site in Richmond and all future sites.

COMPUTER BASED TRAINING - \$7.4M opportunity to use multimedia courseware and PCs in each store to train sales counselors. Digital's proposal is the XL PC running SCO as the server and LPv+ systems as the clients. MCS was proposed for integration, rollout and support of the Digital and 3rd party components including software and hardware. Digital has been short listed for both the server and clients. Server competition is HP/UX and their E25 model server. Client competition is AST and HP.

Issues:

Digital will be a new business partner for Circuit City at a time when Circuit City is questioning our future. The major reason Circuit City is strongly considering Digital is they feel we have a leadership position in MCS services and PC technology. The rumor of Digital selling either of these businesses would be a major stumbling block to the business partnership.

Circuit City is apprehensive about using Digital PCs when they do not sell our line today.

SCO vs. UX - SCO is new to Circuit City and they already have an excellent understanding of UX and manage their corporate network with HP's OpenView software.

Regards.

Printed by RUSS GULLOTTI @MKO

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

Doc. No: 073140
Date: 16-Jun-1994 11:52am EDT
From: PAUL NIMITZ @RDO
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Tel No: 804-756-5224

TO: russ gullotti @mko

CC: CRAIG REICHENBACH @BJO
CC: ELLYN FOLTZ @RDO

(REICHENBACH.CRAIG AT A1 at GRANMA at
(FOLTZ.ELLYN AT A1 at GRANMA at DCO)

Subject: Circuit City Opportunity Recap

This is the background on the Circuit City opportunities that Digital is currently involved in. Senior Management including the President met yesterday to review the Computer Based Training project and the vendors participating in the evaluation. I have not been updated on the results of that meeting at this time.

Craig and I will be calling at about 11am Monday June 20th to update you on the opportunity and ask for your assistance with a phone call to Circuit City's senior management, assuming that it is still required.

Company Background

Circuit City (CC) is a \$4 Billion Electronic Specialty Retailer headquarters in Richmond, Virginia. CC has approximately 300 retail stores with plans to expand to all major metropolitan markets within the next three years by adding approximately 180 additional superstores. CC has a 7% share of the consumer electronics market.

CC prides itself on customer service. Although boasting low prices, CC is not a low price leader. CC educates their customers about the products, offers a large selection of service options, and then finances the purchase through their own bank.

CC has announced the desire to be a \$10 Billion company and sees diversification outside the electronics business as a means of accomplishing that goal. Pilot ventures such as a Used Car SuperStore named CARMAX is one such diversification (more detail later).

Information Systems

CC is an IBM AS400 and HP/UX Information Services shop. There is a strong move to migrate newer projects to the UNIX environment. Digital has not been a player before at CC outside of one MicroVAX 3400 and a new VAXstation 4090 for their Hughes VSAT WAN. HP is in the best position currently for any major projects involving UNIX servers.

Circuit City is a reseller of AST, IBM, Packard Bell, and Compaq PCs. Because of their buying volumes the PC installed base includes most of these name brands.

CC has about 300 people on staff within their I.S. organization. Their preference is to develop custom applications, and they have a very talented pool of resources pushing state of the art methods and technology.

The Retail stores use a custom designed Store POS system that works well, but is rapidly turning into a maintenance problem. As CC has expanded during the past ten years, it has highlighted the problems of maintaining a custom hardware platform over a wide geographic area. Expansion has also strained the ability of the I.S. staff to install, integrate, and support the remote store environment. These factors provide the opportunity for Digital Equipment.

Opportunity

There are two project opportunities are currently being pursued. They are CARMAX and Circuit City's Computer Based Training project.

CARMAX - CC opened up a used car dealership in Richmond last October as a pilot to sell used cars a new way. The approach was to have 500-600 late model cars available at any given time on the lot with a no-haggling pricing strategy. This was combined with extensive computer technology to help the customer select a car that fit into their buying criteria prior to moving to the car lot. The customer is able to select a car, finance it through CC's own bank, pick up DMV plates, and drive off the lot within 20

minutes, even on a weekend. This pilot store has been wildly successful and has led to designs of future dealerships with between 800-1500 cars using much more computer technology than the Richmond store.

CARMAX went to pilot with an IBM RS6000 and Packard Bell PCs and made the decision to retrofit the Richmond store using the same technology that they will use during future store rollouts. CARMAX was looking for a company that could handle a large rollout of computer technology over a wide geographic area, and be able to take full support of the environment if problems occurred. Digital has verbally won this business for Richmond and future sites and expect to have the purchase order for the equipment and services by June 17, 1994. CARMAX is very secretive about their plans, but Digital knows that Raleigh, NC and Atlanta, GA are in their near term plans. Each store has between 55-80 PCs, 10 laser printers, network hub, and a server. Today CARMAX will be installing an HP 2500/UX server in place of the RS6000. Digital is working towards an Alpha OSF/1 solution, but it will take some time.

The Richmond store retrofit will be Digital's opportunity to show CC and CARMAX our integration and support capabilities, which will help leverage the Computer Based Training project discussed next. Total Digital revenue per store is \$125K-\$200K. The vision is to have a store in every major metropolitan market in the U.S.

COMPUTER BASED TRAINING - CC currently spends an exorbitant amount in training and travel to make sure all sales counselors are properly trained in the products and services they are selling. CC has decided to augment and replace much of this travel through the use of Computer-Based-Training using multimedia courseware and PCs.

CC requested proposals from multiple vendors for a Store Server and Client PCs. The responses were to be evaluated based on price, technology, comfort with the vendor, ability to integrate and rollout, and ongoing support. Rollout and installation is scheduled for August and September 1994 at about 8-10 stores per day.

Digital proposed the XL PC running the SCO operating system as the server and LPv+ systems as the clients. MCS was proposed for integration, rollout, and support of the Digital and 3rd party components including software and hardware. (Alpha AXP and OSF/1 were not proposed for the server based on feedback during the CARMAX bid).

Digital has been shortlisted for both the server and the clients. The server competition is HP/UX and their E25 model server. The client competition is AST and HP.

Digital Revenue Opportunity for Q1 FY95

Server	\$1,750,000.00
Client	
Multimedia	\$1,200,000.00
Sales Floor	\$2,925,000.00
MCS	<u>\$1,500,000.00</u>

Total

\$7,375,000.00

Digital has supplied CC with with evaluation units for testing and pilot. At the present time CC has installed Digital's 433XL PC with SCO Unix at one of their Richmond retail stores as a pilot (CC has not installed HP in the store at this time). This system is giving CC personnel the opportunity to evaluate SCO and test their communication system over the Hughes Satellite network. CC is also benchmarking AST, HP, and Digital PCs in their headquarters lab for their client systems.

The total initial opportunity is for \$7.4 million. Of that number there are different levels of probability. The Multimedia PCs are going to happen and will be the first to roll out. The Server configurations will most likely happen in the same timeframe, but could be delayed to a later date if the software development runs behind schedule. The largest single portion of the PC solution, the Sales PCs are currently in jeopardy due to concern about their effectiveness and use on the sales floor. The sales PCs are designed to let the sales representatives use their spare time to access product data during idle time, and to be used as a sales entry point. CC is not wondering if it is realistic to think the sales representatives will actually take advantage of spare time for training. CC might just utilize the existing terminals connected to the new server.

Issues:

1) Digital is new to Circuit City. We were involved in a large database bid about three years ago valued at over \$6 million. We won the business verbally, but the project was canceled at the last minute by Rick Sharp, President due to market conditions and fuzzy justification. Digital does not have senior level contacts outside of the I.S. department. The Senior Vice President of I.S. has voiced strong concern that Digital needs to show profits to be a viable contender.

Digital is asking CC to form a new business relationship during a time they are questioning our future. We are promoting commodity PC products and a new operating system to CC with SCO. The strongest selling point we have is our ability to integrate, rollout, and support their stores better than our competition. We are working on references that have SCO, Hughes VSAT, and Digital integration experience such as Goodyear and Payless Drug.

2) Digital is asking CC to install on their sales floor Digital PCs where CC does not sell our products. CC has a concern that the customer will be confused to why CC does not use the products they sell for their own business use.

(I understand through our local Video/Printer representative that the CC merchandising department has a proposal from an independent manufacturing representative to sell Digital printers in the stores. This would greatly help our cause, but it has not happened yet).

3) SCO vs. UX - SCO is new to CC, while HP has a large installed base of UX

servers. The Digital team has done a good job making sure that CC is aware of the market presence SCO has in the retail market and the commodity approach with Intel and SCO vs. the proprietary approach of HP 9000 system and UX.

CC has an excellent understanding of UX and manages it's corporate network with HP's OpenView software.

Key Players:

(Current Contacts)

Ray Albers - VP and CIO

Joe Oren - Director Systems Technology

Rob Schumann - Manager Open Systems Technology

(Should try to get a Meeting with:)

Richard (Rick) Sharp - President and CEO

and

Ray Albers - VP and CIO