

F.C.

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DIGITAL CONFIDENTIAL Document

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

Doc. No: 016094
Date: 18-Oct-1990 04:12pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: ALLIANCES

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I am afraid we are making alliances just because it is the fad today. History tells us that usually fads are failures. Let's keep our alliances to a minimum and only accept those in which we have someone in the Company who will take responsibility for it with enthusiasm and commitment, and who will be responsible for turning it off when it is not worthwhile. In any case, let's not do it just because everyone else is doing it.

KHO:eh
KO:4609
(DICTATED ON 10/17/90, BUT NOT READ)

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TO: Henry Crouse (CROUSE.HENRY)
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(STRECKER.BILL)

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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

Doc. No: 013828
Date: 23-May-1990 12:02pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: EXEC. COMM.
TO: See Below

Subject: BUSINESS PLANNING

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For the last number of years, all the Corporate business planning has been done by the Engineering staff and STF. There are many ways of looking at the results, what we have concentrated on, what markets we have lost, and how we have gone about losing them, and they are all partly true.

One way of looking at it is that we were very successful on the VAX/VMS model. For these products, we offered the fastest, most competent, and the most elegant computer networking system. With this success, we have concentrated almost all our effort on trying to win the world by more and more generations of great, elegant technology. But, the market has changed. We are twenty times bigger than we were at that time. The customers who want elegant technology probably have not increased and the overwhelming application of computers is simple, mundane things by simple, mundane people.

TIME-SHARING

During the last twenty years, we have never concentrated on the marketing of time-sharing. We have never had a WOODS meeting or a presentation on the subject. Even today, it could probably make some money, which could be used to support our esoteric projects and which are too complicated to make money. Today, we sell three-quarters of a million terminals which means we probably sell a lot more time-sharing ports.

If we concentrated on time-sharing, as an example, and marketed it hard and offered all its wonderful features and simplicity, it is not inconceivable that we could sell ten times as much.

LOCAL AREA NETWORKS

We concentrated on the technology of Local Area Networks ten years ago and won the market. We have not concentrated on improving, cutting the cost, and marketing it. Instead, we went on to very-expensive, high-speed technology that is better than anyone else's, but for which there is a very limited market. Meanwhile, the technology which we introduced and developed has gone on to become a many million-dollar LAN business. We have had almost no part of it; we gave it up because it was technology of the early eighties, and we did not want to invest in our products to make them cheap, easy-to-use, easy-to-install, easy-to-understand. We made a lot of money on the products because they were expensive and old, but we have lost almost all of the market share. Today, we can hold our head high in the world of high technology, but hold our head in shame in the world of market share, potential growth, and profits.

The landmark is still there for us, because the people who did it didn't know enough or were not big enough to make LANs that could be tied together to make large networks. Most companies who bought these billions of dollars worth of LANs are very unhappy because they can't be networked together. If we, one or two years ago, and maybe even now, concentrated on solving the LAN problem, we probably could grow, in a very short period of time, a several billion dollar business. The technology we need is largely mechanical design, cabling, connectors, value engineering of products, and making compromises that make an easy-to-install, easy-to-use, easy-to-understand, and an easy-to-sell LAN that can be grown to cover the world.

We probably have one-hundredth of one percent of the personal computer business. We have the products. Like most other people, we don't make them ourselves, but we don't really invest with our hearts in selling them. In line with the LAN business, we should do a LAN/Office business. We have a choice: We can invest in packaging, marketing, and selling these things which can be very profitable; or, are we interested in technology for its own sake, which we don't plan to really package so that it can be sold?

COMPLEX SYSTEMS

It is clear that people make money on reproducing the same, simple thing over and over again. We, of course, will not have anything to do with that. We have to do the thing no one else can do which is tie together anyone's product, network, and application in any configuration, at any time and anywhere. This makes great propaganda and a great sales pitch, but it is undoubtedly a loser from a profit point-of-view. It takes an enormous staff, enormous documentation, and enormous marketing to get it so it can be ordered and then it probably won't ever work right anyway. We definitely should not sell it until we demonstrate it. We probably cannot afford to demonstrate it because there are too many configurations. We will probably make

money on simple networks with simple arrangements of our own products that work well and lose everything we make in putting third-party equipment together.

A large company should make many of the same thing with very efficient manufacturing cost and very efficient distribution. I believe we have all of these efficiencies, but we add on to it the infinite amount of service and support necessary to do the complicated projects we insist on doing.

ENTERPRISE INTEGRATION

We do have the support to train people in complex technologies to do large-scale integration. Right now, we do this for pride's sake and the fun of doing it, but when you invest heavily, have enormous support, and no one else can do it, you should make a very high profit. We should not insist on a huge number of projects, but very profitable projects. We should not take a project unless there is potential for significant profit.

SUMMARY

We should continue to invest in the best and most complex technology. But, we should have a strategy for each one of the technologies we go into that will demonstrate that it is an important part of the Company's overall strategy and that it will make money. We can only afford to have the best and the most modern products. However, the technology should be put into perspective with the Company. In general, people don't buy technology today, they buy solutions. We have the solutions. We should invest boldly in selling them and getting a major market share. We have the money, the people, the service. We insist we are not interested in selling mundane solutions. We should accomplish what we have to accomplish by demanding that each Business Unit do all the things necessary to sell their products at a profit. We have a tradition of not supporting Sales with simple messages and simple products that are easy-to-install, sell and service.

I think we should, with all haste, have a Desktop group that will put together all the devices for the desktop, all the LAN business, the desk peripherals, and set about to make it a multi-billion dollar business. We have all the sales, support, money, and products. We just need the organization and the will to do simple things and to market them boldly. Hewlett-Packard, one of our most difficult competitors, is making their money not on high-technology, esoteric networking, but on printers, PCs, and instruments.

For this Desktop group, we should have a special sales force, which is cut out of the main sales force and who are experts on everything on the desktop, all the peripherals and products, and a special support group who are even more expert and one marketing group that does all the marketing.

I would suggest that Workstations and UNIX not be part of this group, but that the Workstations for the Office be sold through this group. Workstations for engineering projects should be sold by the Workstation UNIX group. Part of this group should be another group entitled "Exciting Products". This should be a whole realm of easy-to-do, fun imaging devices. We could buy a couple of them from Polaroid today and get them ready for DECworld and show them off with great excitement and fun. For example, we could photograph people with a Polaroid camera and scan them with a Polaroid scanner, put them in a window, and make a slide of the whole thing, all within a few minutes (I think).

PRESENTATION

We should work hard to present the data in a form that can be understood by everyone and that would put pressure on each group to be profitable in a sensible way. I suggest the presentation for each group be in the same format, whether it be an engineering group, an application group, a marketing group, or any Business Unit. Not all groups will use all three P&L statements, but they all would use the same numbered accounts. In fact, for most Business Units, one or two of the P&L statements will be blank.

The three P&L statements should be in three columns. The first column would be the P&L statement for the actual Business Unit. The profit at NOR and the profit of these Business Units add up to be the NOR and the profit of the Corporation.

The second column would be the P&L statement for the services that are sold as a result of this Business Unit. These add up NOR and a profit which are not added up, because they would be double counted, but they would be alongside the Business Units, and if one argument for their success is the profit and the service, it would be presented with the Business Unit and could be considered as a result of the Business Unit, even though it is counted elsewhere.

The third column would be an Engineering P&L. Some Business Units do their own product engineering for projects sold in their product line and the rest of the Company, or they are engineering groups and all they do is sell products for the rest of the Company to sell. This P&L would be for all those products developed in the PBU and sold by other parts of the Company. Engineering done just for the Business Unit itself would be in the Business Unit's expense and results. The NOR and profit of this group is not added for the Corporation because that would be double counting, but it would be a way of showing the profitability and usefulness of the engineering done for the whole Corporation. We could see how much was sold and how profitable it was.

If every Business Unit and every Engineering Unit had these three

columns, we could easily see the three parts of their business and easily understand how well they have done. I would like to see us get the whole Company in this format for the Board of Directors' meeting in two weeks.

KHO:eh
KO:4138
DICTATED ON 5/22/90, BUT NOT READ

Distribution:

TO: Ken Olsen	(OLSEN.KEN)
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*E.C. file - M.H.
join with my other
copy of the memo -*

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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

Doc. No: 013887
Date: 29-May-1990 08:19am EDT
From: Martin Hoffmann @CORE
HOFFMANN.MARTIN
Dept: LAW
Tel No: 223-6442(MLO)223-5500(MS)

TO: KEN OLSEN
TO: See Below
CC: EXEC. COMM.
Subject: RE: BUSINESS PLANNING *attached*

I agree with Ken's May 23 memo, particularly the summary which calls for the Desktop group. I am assuming that, in the course of the reviews of the business units, we will get a shot at the cost of a Desktop group funded as Ken has suggested. I would hope we could put this on the agenda for discussion at our June 1 meeting and be sure that we have it as an option to evaluate along with the other business units.

Marty

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TO: Ken Olsen	(OLSEN.KEN)
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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

Doc. No: 014111
Date: 13-Jun-1990 10:10am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: EXEC. COMM.
TO: See Below

Subject: PRODUCT RESPONSIBILITY

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The Executive Committee is probably making a very drastic mistake in assuming that they will straighten out all profit problems for the Corporation. We only get together once in a while. When we do, we can never take the necessary time to find everything hidden in every P&L statement, but we still keep trying, and we still blame ourselves when it doesn't get done.

In general, we have a Vice President in charge of each grouping of Business Units. Obviously, management theory says we hold them responsible for profit. Right now, if we don't show interest in expenses and profit, they immediately think we have forgotten and go off looking at growth, quality of service, good customer relationships, and all the other good things, instead of profit and investment.

Let's change our whole approach and hold them responsible for solving the profit problems.

When allocations are wrong and, therefore, we come to the wrong conclusions, let's not make that an excuse for these Vice Presidents for not making sense, but hold them responsible for working out the allocations so that they do make sense that we make the right decisions, and we do make a profit.

If we lose money on a large project that takes a long time to sell, design, bid, install, set up, and make work, and are a lot of trouble afterward, and then we give a 40 percent discount on just the hardware price, let's leave it with them to solve the problem and not let them have an excuse for letting it go on forever.

If today's data says we should get out of the easy business because we can't compete because they are paying for the complex

business, and the data says we should, therefore, go more into the complex business, let's hold them responsible for coming to the right conclusion.

They, in turn, should be sure that the Finance department gives them the data in a form which is useful to them.

For the presentation to the Board of Directors in July, I suggest that we have four or five Vice Presidents in charge of Business Units come to the Board and let them explain the profit problems that will be obvious when we present a total chart for the Corporation.

KHO:eh
KO:4198
DICTATED ON 6/11/90, BUT NOT READ

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TO: Abbott Weiss	(WEISS.ABBOTT)
CC: PETER SMITH	(SMITH.PETER)
CC: BILL STRECKER	(STRECKER.BILL)
CC: DONALD ZERESKI	(ZERESKI.DONALD)
CC: Bob Glorioso	(GLORIOSO.BOB)
CC: Russ Gullotti @ CORE	(GULLOTTI.RUSS)

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addendum to this memo is attached.

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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

Doc. No: 014124
Date: 13-Jun-1990 04:24pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

cc *Wen Harold*
Subject: WHERE IS THE PROFIT

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PLEASE NOTE: THE MEETING KEN REFERS TO IN THIS MEMO WILL TAKE PLACE FRIDAY, 15 JUNE 1990, AT 9:30 A.M. IN THE LARGE CONFERENCE ROOM, MLO 10-1.

> I presume you are not expected to go to this meeting. I would ask if you would like.

The Executive Committee and the Board of Directors have one simple question: If everything is doing great, where is the profit? Every presentation we get tells how wonderful everything is going, and we are told how great the improvements are and how big the efficiency improvements are. Where is the profit?

I am sure people will argue that if everyone listened carefully, in and among the superlatives, the messages are hidden and one has to be alert to catch them. I am sure people will argue that with all the data that has been sent out, if one studied it very carefully and analyzed it carefully, one would discover that hidden among the numbers there was enough information to discover where the profit has gone. I am sure they will argue that if the Board and the Executive Committee did their job, they would have discovered these factors and would have taken care of the problem. I believe it is a mistake for the Board and the Executive Committee to accept that guilt. Instead, I believe the people taking the responsibility for the Business Units, which add up to the total NOR and profit of the Company, have the responsibility for clearly identifying where the profit is and what we do to improve it.

The organization of the Business Units is as follows:

BUSINESS UNITS

MANUFACTURING	Pete Smith
Engineering	
Laboratory	
Sales/Distribution Systems	
PUBLIC SECTOR	Pete Smith
State & Local Government	
Education	
Healthcare	
Science	
FINANCIAL/OTHER SERVICES	Bill Steul
Banking	
Insurance	
Media	
Travel/Utilities/Retail	
SMALL BUSINESS	Gary Eichhorn
FEDERAL GOVERNMENT	Harvey Weiss
TELECOMMUNICATIONS	Bill Johnson
UNIX	Dom LaCava
VAX 9000	Bob Glorioso
NAS/PRODUCTION SYSTEMS	David Stone
CUSTOMER SERVICES	Don Zereski
ENTERPRISE INTEGRATION SYSTEMS	Russ Gullotti

I think it is obvious that the Board and the Executive Committee should hold this group responsible for identifying where the profit is.

On Friday morning, I'd like to get as much of this group together to discuss what their approach will be. Then next week, I'd like a meeting of the Executive Committee with the group to lay out, in a form so we can understand, what has happened to the profit.

The Business Units probably fall into several categories. There are new businesses which we are investing in and gambling on which have significant costs until they pay off. This category should be clearly identified and should always be balanced by the profit of the other sections.

There is a category of businesses that does well, but which should grow very significantly if the leaders were entrepreneurial and if we would invest in them.

There is a large number of groups which are just making marginal profit, and they have been going a long time and should make very significant profit.

Both I and the Board, and I think some of the Executive Committee, believes that the biggest problem we have is in pricing. We laid out Application Business Units to have them be responsible for pricing. Our policies today have been laid out years ago by MSSC, which is a group of people with no business responsibility, just votes. Over the last eight years, we have developed a very expensive sales force which invests a very long period of time, for very large amounts of money, to be able to bid on jobs which are very expensive to bid on and very complex to design, difficult to install, and expensive to support until the customer is happy with them. By MSSC rules which, so far as I can tell, no Business Unit has challenged yet, we bid the hardware costs and give away all the selling, design, installation, service, and all the other expenses, free, and lose our shirt.

We claim that we are the only Company who can supply all the services people need for large, complex, enterprise-wide systems, and we claim to be the only ones who have the enormous staff necessary to do this. But, when it comes to pricing, we claim it is so competitive that we cannot make money on it, and we cannot charge for it. The Executive Committee and the Board of Directors would like to know: Is our strategy of supplying service a failure? Should we go back to supplying hardware and get rid of all our Service organizations and our Systems Integration business and cut the size of the Company? Or, can we immediately set about to charge for the services we give?

The consulting firms think we are killing the market by under-pricing, and, we say, we are following the consulting firms in the way we do pricing. Through this, it would appear that we could charge a lot more, particularly if we have something special.

When we try to cover all our Service costs with the hardware, we end up being non competitive, and we sell just hardware. This policy of covering everything with a hardware price and trying to be competitive and never quite doing it, is probably the biggest reason we are in trouble today, and we should figure out exactly how important this is.

Why in the world do we give a forty percent discount to a customer because they are big when we invest so much in Services and don't charge for them? I can never figure this out.

Let's get together with whomever is available on Friday and plan how we will lay out the organization so we can understand this. Then, next week, we will get together with the Executive Committee and lay out what we will do about it. It may take drastic changes in the way we do accounting because allocating Service and Sales costs by NOR burdens those will little Selling and Service cost and covers up those that use an enormous Selling and Service cost.

KHO:eh
KO:4201
DICTATED ON 6/12/90, BUT NOT READ

Attachment (hard copy to be FAX'd)

Distribution:

TO: Russ Gullotti @ CORE	(GULLOTTI.RUSS)
TO: Dick Fishburn	(FISHBURN.DICK)
TO: Bob Glorioso	(GLORIOSO.BOB)
TO: Bill Johnson	(JOHNSON.BILL)
TO: Dom LaCava	(LACAVA.DOM)
TO: WILLIAM M. STEUL	(STEUL.BILL)
TO: PETER SMITH	(SMITH.PETER)
TO: Jack Smith	(SMITH.JACK)
TO: HARVEY WEISS	(WEISS.HARVEY)
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CC: Abbott Weiss	(WEISS.ABBOTT)

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I N T E R O F F I C E M E M O

TO: See Below

Copy: Win Hindle

Date: 14-Jun-1990 Thu 08:33

From: Ken Olsen

Dept: Administration

MS: MLO12-1/A50 Ext: 223-2301

SUBJ: ADDENDUM TO PREVIOUS MEMO - WHERE IS THE PROFIT?

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Let's also slice the company into three pieces, hardware, software and services. Hardware will probably never be a high profit business, but there is security because it is stable. Software and Services are traditionally very high price, high profit businesses. We should be able to tell the Executive Committee and the Board of Directors what we think the competition makes in these categories, and what we plan to make and how we plan to do it.

KO:4201

(DICTATED 6/13/90 BUT NOT READ)

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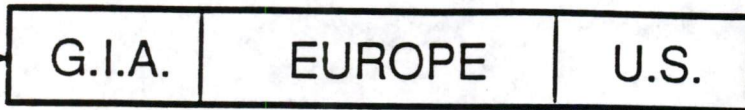
14-Jun-1990

Attachment to memo from Ken Olsen dated 13 June 1990, entitled
"Where is the Profit".

Digital Equipment Corporation

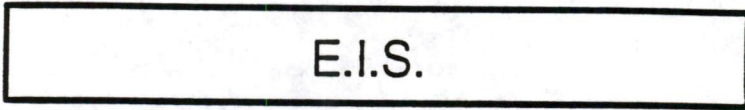
How the Pieces Fit Together

CUSTOMERS



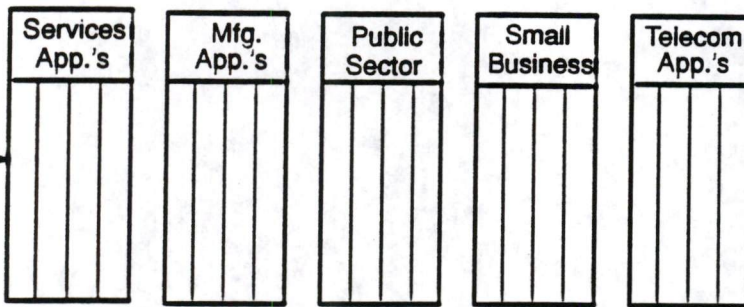
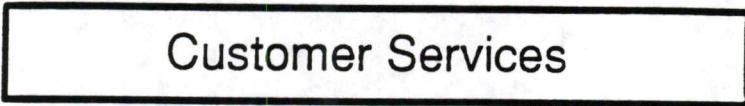
Geographies

- o Manage Accounts
- o Deliver Services



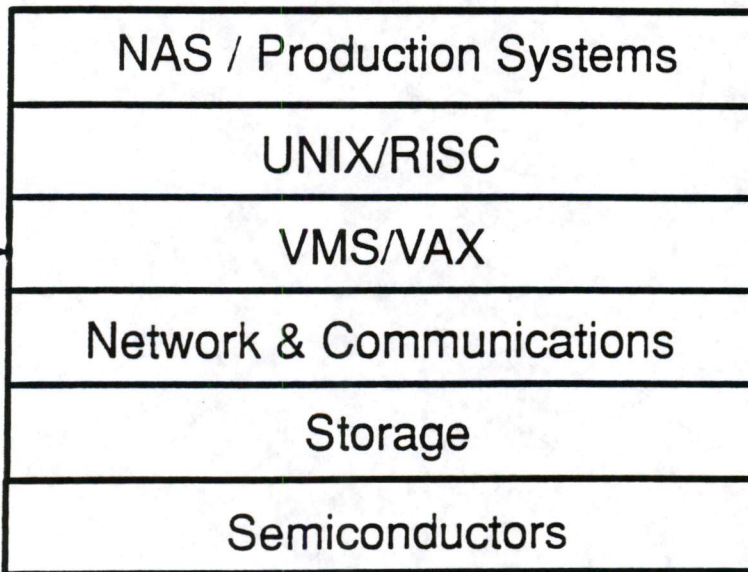
Service Business Units

- o Plan & Run a Service Business
- o Integrate Service Offerings with Applications



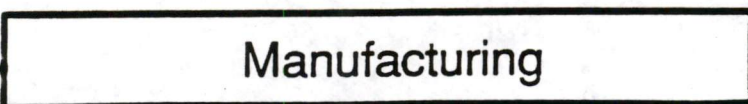
Application Business Units

- o Plan & Run a Business
- o Develop Markets
- o Deliver Applications
- o Increase Selling Effectiveness
- o Create Value for Customers and Price for it



Product Business Units

- o Create Product Strategy
- o Develop/Acquire Leadership Product
- o Support Account Managers



- o Deliver Product
- o Competitive Leadership in Quality, Cost, Assets

MANAGEMENT

PROTOCOL

Ed Bill Stricker

x.0,

5:00 MEETING MON.
JUNE 18

F.C.

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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

Doc. No: 014171
Date: 15-Jun-1990 04:15pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: JACK SMITH
TO: See Below
CC: EXEC. COMM. + BILL STRICKER

Subject: BUSINESS PLANNING TEAM

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We had a meeting today, 15 June 1990, of the Business Unit Group Leaders. The Executive Committee has not yet been effective in directing, educating, and making profitable all the Business Units, and I felt it was clear that we had to turn that responsibility over to the obvious people, the Business Unit Group Leaders.

The people we have chosen for the Team/Committee are:

<u>Applications</u>	<u>Product</u>	<u>Services</u>
<u>Business Units</u>	<u>Business Units</u>	<u>Business Units</u>
Pete Smith	Bill Demmer	Russ Gullotti
Bill Steul	Dom LaCava	Don Zereski
Bill Johnson	Bob Glorioso	
Harvey Weiss	Grant Saviers	
	David Stone	

We probably should also have chosen those people responsible for each of the selling organizations who are:

- Dick Poulsen
- Dave Grainger
- Pier Carlo Falotti

We would like to lay out every Unit and identify what they spend and what they return. We are also looking for a clear set of actions which their Units will take to restore adequate profitability soon.

I asked this Committee to get together and figure out how we are going to organize the Company and make a list of all the Business

Units, identifying how much they put in and get out, and also identifying how much they make in services, software, and hardware. I'd like the people responsible for the Business Units to come to the Board of Directors on July 24, 1990, and present these data and answer questions. Those discussions should contain no prose, but simply a chart of what we put in and get out.

I have asked Bill Strecker to be chairman of this Committee, because for now the job is a typical architectural problem and Bill's discipline, expertise, and ability to concentrate on a complex problem are important to getting this organized. He will call the meetings, arrange for a secretary, and publish or announce the results.

=====
We have lost out this year in the Accounts because we asked them what they wanted to sell without asking what the costs were going to be, and people, of course, learned to pick very small numbers which are not big enough for next year. This changes the account management system from what we said it would be to a top-down, by-force type budgeting system. If we had asked them to budget cost and return, and then compared them with each other, the pressure would be very strong to promise large numbers.

We have asked that each Business Unit break their businesses into hardware, software, and services. Some hardware will not have great profit; but, software and services should. Under service we should count those services given to a piece of business by the Sales department, and by the managers and experts at home who visit that project and give service that has not been charged for.

One of the goals is to be able to sell hardware at minimum prices to those people who want no service and where the competition does not give away software. We then have to learn to charge for all the services and software so that we can make a significant profit when we offer a complete system.

Traditionally, hardware is a low-profit item because there is a certain long-term stability in our line of products. Software should have high profits because it is like the pharmaceutical business -- you try many times and, if you have something good, you should make a very good profit. Service is a major investment in training people and there is no stability because they can all leave at any time, and, therefore, the profit on service, particularly when you have good experts, should be very high.

DECdirect and Jay Atlas' group should probably be Business Units. In general, they resell products like Business Units and they should be measured as if they were businesses. They just confuse things when they are lumped as part of the Field operation.

KHO:eh
KO:4214
DICTATED ON 6/15/90, BUT NOT READ

Distribution:

TO: Jack Smith (SMITH.JACK)
CC: BILL STRECKER (STRECKER.BILL)
CC: Jim Osterhoff (OSTERHOFF.JIM)
CC: Win Hindle (HINDLE.WIN)
CC: John Sims (SIMS.JOHN)
CC: Martin Hoffmann (HOFFMANN.MARTIN)
CC: Abbott Weiss (WEISS.ABBOTT)

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~~Handwritten mark~~ F.C.

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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

Doc. No: 014110
Date: 13-Jun-1990 10:10am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: EXRC.COMM. ETAL
TO: See Below

Subject: REASON FOR BUSINESS UNITS

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We formed Business Units to solve problems. Today, people have goals which are not related to profit and, if they are, they don't know what their profit is.

We lose money on our pricing today because for many products, we incur a large number of costs, and we don't charge for them.

Today, we do not put investments into those areas which are critical to our success, and we do not know where we make money and where we lose money.

The reason we organized the Company into Business Units is to identify problems and solve them. We are not doing well in that direction. First of all, we try to hide the problems which is opposite from the reasons we formed Business Units.

Secondly, each manager and each committee wants to pass judgment on Business Units and decide which ones to get out of. That is the ultimate result, but the reason we formed the Business Units was to solve the problem. We should be sure to put an intensive emphasis on solving the problems, not just getting out of the businesses.

If irrational pricing, charging, and discounts are killing the Company, it will probably get worse if we don't solve it and even worse if we get out of those businesses which are hurt more by that policy. We will end up going into more of those businesses which incur those costs and get out of those businesses which get charged for those costs and, therefore, are not competitive.

KHO:eh
KO:4200
DICTATED ON 6/11/90, BUT NOT READ

Distribution:

TO: BILL STRECKER	(STRECKER.BILL)
TO: Ken Olsen	(OLSEN.KEN)
TO: Jim Osterhoff	(OSTERHOFF.JIM)
TO: Win Hindle	(HINDLE.WIN)
TO: John Sims	(SIMS.JOHN)
TO: Martin Hoffmann	(HOFFMANN.MARTIN)
TO: Jack Smith	(SMITH.JACK)
TO: Abbott Weiss	(WEISS.ABBOTT)
TO: Jack Smith	(SMITH.JACK)
TO: Bill Demmer	(DEMMER.BILL)
TO: Bob Glorioso	(GLORIOSO.BOB)
TO: Dom LaCava	(LACAVA.DOM)
TO: Remote Addressee	(PIER CARLO FALOTTI @GEO)
TO: Dave Grainger	(GRAINGER.DAVE)
TO: DICK POULSEN	(POULSEN.DICK)
TO: Russ Gullotti @ CORE	(GULLOTTI.RUSS)
TO: DONALD ZERESKI	(ZERESKI.DONALD)
TO: BILL HANSON	(HANSON.BILL)
TO: BILL STRECKER	(STRECKER.BILL)
TO: PETER SMITH	(SMITH.PETER)
TO: Bill Johnson	(JOHNSON.BILL)
TO: BRUCE J RYAN @CORE	(RYAN.BRUCE J)
TO: Dick Farrahar	(FARRAHAR.DICK)
TO: Abbott Weiss	(WEISS.ABBOTT)
TO: Ken Olsen	(OLSEN.KEN)
TO: BOB PALMER	(PALMER.BOB)
TO: Grant Saviers	(SAVIERS.GRANT)
TO: Mick Prokopis @ CORE	(PROKOPIS.MICK)

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F.C.

Printed by Win Hindle

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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

Doc. No: 014450
Date: 05-Jul-1990 03:52pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: EXEC.COMM, + OTHERS
TO: See Below

Subject: DIGITAL'S BIGGEST PROBLEMS

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In listening to the recent budget presentations, I have concluded that Digital's biggest problems arise from our view of budgeting. First of all, the Finance Department clearly looks at budgeting and P&L statements as something to be neat and from which they can criticize the Company. Finance has to have a clear view that this is the tool from which people run the Company and help and mentor the Business Units.

There seems to be a consistent and strong critical view of the Company by Finance, but with no sense that they share responsibility to do analysis, to help do training, teaching, leading, guiding, and to help in the search for problems and their solution.

The second thing that is obvious from our budgeting is that we treat budgeting as a chore to be done once a year. Once there is a plan accepted by the Executive Committee and the Board of Directors, then we can go off and spend money for a year and the responsibility has been dumped on someone else. All businesses that are successful look at budgeting and the P&L statement as a wonderful mechanism for managing the Business Unit they are responsible for. It is not a once-a-year chore; it is a vehicle which is used to accomplish their task.

With an Executive Committee that has no real interest in management, I am not sure what we can do. But, one thing we should try to do is re-do the budget every quarter, which means that every week of the year we are working on reviewing, mentoring, and helping the Business Units. It also means that

every week of the year we are re-inventing the organization and the accounting system to identify problems and find their solutions.

KHO:eh

KO:4264

Dictated on 7/4/90, but not read

Distribution:

TO: PETER SMITH	(SMITH.PETER)
TO: Lyn Benton @ CORE	(BENTON.LYN)
TO: George Chamberlain	(CHAMBERLAIN.GEORGE)
TO: BRUCE J RYAN @CORE	(RYAN.BRUCE J)
TO: Dick Fishburn	(FISHBURN.DICK)
TO: Jim Osterhoff	(OSTERHOFF.JIM)
TO: Win Hindle	(HINDLE.WIN)
TO: John Sims	(SIMS.JOHN)
TO: Martin Hoffmann	(HOFFMANN.MARTIN)
TO: Jack Smith	(SMITH.JACK)
TO: Abbott Weiss	(WEISS.ABBOTT)
TO: Bill Strecker	(STRECKER.BILL)

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E.C.
RECEIVED

MAR 09 1990

INTEROFFICE MEMO
Winston Hindle

+-----+
| d | i | g | i | t | a | l |
+-----+

TO: Pat Cataldo
Pete Zotto

Date: 9 March 1990

From: Ken Olsen

Dept: Administration

CC: Win Hindle
Marty Hoffmann
Jim Osterhoff
John Sims
Jack Smith
Abbott Weiss

MS: MLO12-1/A50 Ext: 223-2301

SUBJ: Out Sourcing

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According to Peter Drucker, many companies are realizing that they never spend the time, energy and interest in the parts of the company which are not directly involved with the critical day to day operations. Kodak has contracted out their communications to us, their computer operations to IBM, and probably many other things.

We suffer as much as anyone by lack of interest in those things which are not critical each day, and we have said for some time we will consider out sourcing each one of them. Education is one of those parts which receives little attention from the management of the Corporation and which has suffered as a result. Will you propose to the Executive Committee what our alternatives would be if we decide to do out sourcing? Should we contract to Boston University or another school to run our educational facilities? Is there a professional training organization with whom we might contract?

We should lay out this alternative as part of our proposal for the new set of buildings. If out sourcing would make for a much more professionally run training facility, it should definitely be considered.

Attachment
KO:3927
(DICTATED 3/9/90 BUT NOT READ)

Sell the Mailroom

Wow, you have seen this article from when Jim Osterhoff sent it several months ago.

By PETER F. DRUCKER

More and more people working in and for organizations will actually be on the payroll of an independent outside contractor. Businesses, hospitals, schools, governments, labor unions—all kinds of organizations, large and small—are increasingly “unbundling” clerical, maintenance and support work.

Of course, the trend is not altogether new. A great many American hospitals—and European and Japanese hospitals as well—now farm out maintenance and patient feeding; 40 years ago none did. “Temporary help” firms go back more than 30 years; but while in the beginning they handled file clerks and typists, they now provide computer programmers, accountants, engineers, nurses and even plant managers. Cities farm out “waste management” (once known as street cleaning and garbage disposal); even prisons are being run by private contractors.

Farm Out Clerical Work

The trend is accelerating sharply in all developed countries. In another 10 or 15 years it may well be the rule, especially in larger organizations, to farm out all activities that do not offer the people working in them opportunities for advancement into senior management. This may indeed be the only way to attain productivity in clerical, maintenance and support work. And increased productivity in such work will increasingly become a central challenge in developed countries, where such work now employs as many people as manufacturing does.

Support work is rapidly becoming capital-intensive. In many manufacturing companies, the investment in information technology for each office employee now equals the investment in machinery for each production worker. Yet the productivity of clerical, maintenance and support work is dismally low, and is improving only at snail's pace, if at all. Unbundling will not by itself make this work more productive. But without it the productivity of clerical, maintenance and support work is unlikely to be tackled seriously.

In-house service and support activities are de facto monopolies. They have little incentive to improve their productivity. There is, after all, no competition. In fact, they have considerable disincentive to improve their productivity. In the typical organization, business or government, the standard and prestige of an activity is judged by its size and budget—particularly in the case of activities that, like clerical, maintenance and support work, do not make a direct and measurable contribution to the bottom line. To improve the productivity of such an activity is thus hardly the way to advancement and success.

When in-house support staff are criticized for doing a poor job, their managers are likely to respond by hiring more people. An outside contractor knows that he will be tossed out and replaced by a better-performing competitor unless he improves

quality and cuts costs.

The people running in-house support services are also unlikely to do the hard, innovative and often costly work that is required to make service work productive. Systematic innovation in service work is as desperately needed as it was in machine in the 50 years between Frederick Winslow Taylor in the 1870s and Henry Ford in the 1920s. Each task, each job, has to be analyzed and then reconfigured. Practically every tool has to be re-designed.

When Ray Kroc, the founder of McDonald's, set out to make hamburger shops more productive, he re-designed every single implement, including spoons, napkin holders and skillets. To improve productivity, hospital-maintenance companies have had to re-design brooms, dust pans, waste paper baskets and even sheets and blankets. In building Federal Express, Fred Smith studied every single step in the collecting, transporting and delivering pack-

Drucker on Management

When criticized for doing a poor job, the managers of in-house support staff are likely to respond by hiring more people. An outside contractor knows that he will be tossed out and replaced unless he improves quality and cuts costs.

ages, and in billing for the work. And then people have to be trained and trained and trained. This requires single-minded, almost obsessive dedication to one narrow objective—making hamburgers, making hospital beds, delivering packages—to the exclusion of everything else. But such single-minded dedication is far more characteristic of an independent, outside entrepreneur than of a department head within an organization who is expected to be a team player.

The most important reason for unbundling the organization, however, is one that economists and engineers are likely to dismiss as “intangible”: The productivity of support work is not likely to go up until it is possible to be promoted into senior management for doing a good job at it. And that will happen in support work only when such work is done by separate, free-standing enterprises. Until then, ambitious and able people will not go into support work; and if they find themselves in it, will soon get out of it.

It is hardly coincidental that the productivity decline in American factories set in as soon as finance and marketing were taking over from manufacturing in the early '60s as the main avenues of advance-

ment into senior management. Nor is it coincidence that stock brokers have been plagued by recurrent “back office” crises despite steadily increasing employment and increasing investment in clerical and support work. Until very recently even the head of the back office (though responsible for half the firm's expenses), was at best a “titular” partner. Promotions, bonuses, but equally the time available on the part of top management were reserved by and large for traders, analysts and sales people.

They are “we”; the back office is “they.” And one explanation why non-instructional costs in colleges and universities have risen twice as fast as instructional ones since World War II—to the point where they now account for almost two-fifths of the total bill—is surely that the people who run the dorms or the business office don't have Ph.D.s and are therefore non-persons in the value system of academia.

Forty years ago, service and support costs accounted for no more than 10% or 15% of total costs. So long as they were so marginal, their low productivity did not matter. Now that they are more likely to take 40 cents out of every dollar they can no longer be brushed aside. But value systems are unlikely to change. The business of the college, after all, is not to feed kids; it is teaching and research.

However, if clerical, maintenance and support work is done by an outside independent contractor it can offer opportunities, respect and visibility. As employees of a college, managers of student dining will never be anything but subordinates. In an independent catering company they can rise to be vice president in charge of feeding the students in a dozen schools; they might even become CEOs of their firms. If they have a problem there is a knowledgeable person in their own firm to get help from. If they discover how to do the job better or how to improve the equipment they are welcomed and listened to. The same is true in the independent firm that takes over customer accounting in the mutual-fund company.

Pushing Vacuum Cleaners

In one large hospital-maintenance company, some of the women who started 12 or 15 years ago pushing vacuum cleaners are now division heads or vice presidents and own substantial blocks of company stock. As hospital employees, most of them would still be pushing vacuum cleaners.

Of course there is a price for unbundling. If large numbers of people cease to be employees of the organization for which they actually work, there are bound to be substantial social repercussions. And yet there is so far no other option in sight for giving us a chance to tackle what is fast becoming a central productivity problem of developed societies.

Mr. Drucker is a professor of social sciences at the Claremont Graduate School in California.

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E.C. Please Review
BS AP

MAR 02 1990

Winston Hindle

d i g i t a l

INTEROFFICE MEMORANDUM

()*
TO: Win Hindle
Marty Hoffmann
Ken Olsen
Jim Osterhoff
John Sims
Jack Smith

DATE: 2 March 1990
FROM: Bonnie Bedell/Sarah Sumner
DEPT: Corporate Executive Resources
EXT: 251-1332
LOC: CFO2-3

CC: Abbott Weiss

SUBJECT: EXECUTIVE COMMITTEE GOAL DISCUSSION AT BOARD OF DIRECTORS

Enclosed are the results of our one-on-one's with you:

1. Our revised, suggested flow for the 12 March discussion.
2. Your description of the role of the Executive Committee.
3. Your list of Company Goals.
4. Lists of your individual/organization goals.

On 6 March, we plan to finalize the goals and resolve how you will conduct this discussion at the Board, along with other related agenda items; e.g. review of financial results and transition. We also need to decide what Ken should do on 12 March.

We need a logical, easy flow to the discussion, which will enable you to cover all the necessary subjects in a manageable way.

/ct
Attachment

() Win,*

We've also enclosed your "longer" version.

Bonnie

**12 MARCH 1990
BOARD OF DIRECTORS**

SUGGESTED FLOW FOR GOALS DISCUSSION

1. Ken Olsen leads with the role of the Executive Committee and what he expects from it.
2. Each Executive Committee member initiates a discussion about one or more of the Executive Committee's Company Goals and their own personal or organizational contribution.

See below and attached list of Company Goals for who might discuss which goals:

- Jack: He first discusses an interim model for stabilizing the Company (#1) so we can direct efforts toward solving our current business issues; plus #2, #7.
 - Jim: #3, #4.
 - Win: #5, #6.
 - John: #8 and Transition programs.
 - Marty: #9.
3. Jack does a review of the financial results, including costs and financial impact of transition programs.

SAS/BAB
2 MARCH 1990

**12 MARCH 1990
BOARD OF DIRECTORS**

EXECUTIVE COMMITTEE ROLE

1. Establish and communicate the common plan for the Company.
2. Make major investment decisions: technology and product investments and application/marketing and selling investments.
3. As individuals, solve operational problems.

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27 February 1990

12 MARCH 1990
BOARD OF DIRECTORS

COMPANY GOALS

1. Define the organization and keep it stable. Clarify responsibilities and accountabilities.
2. Establish a common plan for the Company and ensure a clear understanding of it on the part of internal management and the Board of Directors.
3. Improve decision-making. Consider proposals only in the context of the overall Company situation. Measure performance against commitments.
4. Make Digital an efficient organization, where all work has value -- and is done only once -- and all expenditures are essential to managing a successful business.
- ✓ 5. Define what marketing is for the Company and create a plan and clarify responsibilities to accomplish it. The plan should include marketing our current products and creating a marketing strategy for the future.
- ✓ 6. Increase overall worldwide marketshare each year by aggressively selling and marketing what we have. Regain the image/perception of product leadership in the public eye, especially customers.
7. Ensure that our sales and sales support people in the field are well-trained.
8. Instill in Digital managers a sense of responsibility for the spirit and morale of Digital employees.
9. Create a unified global sense of purpose in our workforce, both in the way we approach the world market and in the way we operate internally, in the U.S.

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EXECUTIVE COMMITTEE GOALS - FY91

WIN HINDLE

1. ESTABLISH A PROCESS TO PLAN FOR THE COMPANY.
2. CONTINUE BRINGING THE CUSTOMER POINT OF VIEW INTO THE COMPANY.
3. COMMUNICATE A HIGH SENSE OF PURPOSE AND ETHICAL STANDARDS TO OUR INTERNAL ORGANIZATION.

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EXECUTIVE COMMITTEE GOALS -- FY91
MARTY HOFFMANN

1. LEAD A GOOD LEGAL DEPARTMENT WHICH WILL MEET THE REQUIREMENTS OF THE MIDDLE 90's.
2. PROMOTE THE COMPANY AS A GLOBAL ORGANIZATION.
3. BE A CHAMPION WITHIN THE COMPANY FOR GOVERNMENT BUSINESS.
4. MAKE THE COMPANY SAFE FOR THE 4TH CULTURE.

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EXECUTIVE COMMITTEE GOALS -- FY91

JIM OSTERHOFF

1. MAKE FINANCE CONTRIBUTE TO THE SUCCESS OF THE COMPANY BY LEVERAGING THE FINANCE ORGANIZATION TO:
 - IMPLEMENT NEW BUDGETING PROCESS.
 - MAINTAIN CONTROL DURING ORGANIZATION CHANGE.
 - DESIGN FINANCIAL MANAGEMENT EDUCATION STRATEGY.
 - DELIVER INTEGRATED PLAN.
 - DEVELOP BUSINESS MODELS.
 - CAPITAL BUDGETING.
 - FOCUS ON CRITICAL COMPANY ISSUES.
 - DEVELOP WORLD CLASS MANAGEMENT INFORMATION SYSTEM.
 - CONTINUE PEOPLE DEVELOPMENT STRATEGY.
 - CONTINUE FINANCE PRODUCTIVITY.

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2 MARCH 1990

EXECUTIVE COMMITTEE GOALS -- FY91

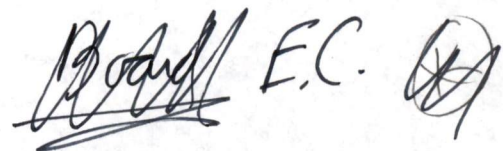
JOHN SIMS

1. MANAGE THE TRANSITION EFFORT FOR THE COMPANY.
2. CONTINUE TO WORK WITH MEMBERS OF SENIOR MANAGEMENT TO IMPROVE DECISION-MAKING PROCESSES.
3. PROVIDE LEADERSHIP TO INSTILL IN DIGITAL MANAGERS A SENSE OF RESPONSIBILITY FOR THE SPIRIT AND MORALE OF DIGITAL EMPLOYEES.
4. DEVELOP AND IMPLEMENT AN EXECUTIVE COMMITTEE EMPLOYEE COMMUNICATION PLAN.

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2 MARCH 1990

Board E.C. 

EXECUTIVE COMMITTEE GOALS -- FY91

WIN HINDLE

(LONG VERSION)

1. ESTABLISH A PROCESS TO PLAN FOR THE COMPANY AND IMPLEMENT THE PLAN OVER THE NEXT FOUR MONTHS.
 - COMPLETE A VIABLE, ACCEPTABLE PLAN FOR '91 AND PRESENT IT TO THE BOARD OF DIRECTORS.

2. CONTINUE BRINGING THE CUSTOMER POINT OF VIEW INTO THE COMPANY SO THAT PLANS AND ACTIONS REFLECT WHAT THE CUSTOMER IS SAYING AND HOW WE SHOULD RESPOND.

3. COMMUNICATE A HIGH SENSE OF PURPOSE AND ETHICAL STANDARDS TO OUR INTERNAL ORGANIZATION, SO WE CAN BE PROUD OF OUR EMPLOYEES AND SO THAT OUR CUSTOMERS LOOK UPON THEM WITH SATISFACTION.

SAS/BAB
2 MARCH 1990

E.C.

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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

Doc. No: 012861
Date: 16-Mar-1990 02:40pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: DRIVING WITH A REAR-VIEW MIRROR

DIGITAL CONFIDENTIAL

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For most of the last thirty-three years, I've been impatient with finance and now I am starting to realize that it might all be my fault.

For our business, which probably changes faster than any other business and probably more complicated, it's important that we continuously look at the future.

Most parts of our business do not have the traditions to follow which are well established in most manufacturing businesses. We change faster than we can form tradition.

Financially trained people are taught the traditions and standards of the treasury functions, those of auditing, accounting, and controllership. Traditionally, their duty is to report on what has happened in the past with enough detail and enough data so that managers can manage the future with the history of the past. Often our finance people have been frustrated with us because we are so busy looking at the future that we don't show due appreciation for the data they have collected about the past.

We, (or I) have been impatient with them because, by tradition, their duty stopped with reporting the past. It's becoming more clear that the planning function and the controller's function are different and should be separated in the running of each business unit or product line. The planning function is always worried about the future, although bases the plans on data that came from the reporting function. Their overwhelming duty is to make sure that every detail is planned, taken into account, the cost considered, and all tied together with a price that will make a profit. The traditional controller's and/or accountant's

function is to collect the data after-the-fact, organize it, and present it for the information that can be gleaned from it to see how well the plans are doing. From now on, I would like to separate planning from finance.

KHO:dao

KO:3946

Dictated on 3/15/90, BUT NOT READ

Distribution:

TO: Ken Olsen	(OLSEN.KEN)
TO: Jim Osterhoff	(OSTERHOFF.JIM)
TO: Win Hindle	(HINDLE.WIN)
TO: John Sims	(SIMS.JOHN)
TO: Martin Hoffmann @CORE	(HOFFMANN.MARTIN)
TO: Jack Smith	(SMITH.JACK)
TO: Abbott Weiss	(WEISS.ABBOTT)

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F.C. K. O. M. M. M.

John Dallas Kirk

K.O.

DIGITAL CONFIDENTIAL Document

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

Doc. No: 013175
Date: 11-Apr-1990 10:51am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: WIN HINDLE ET AL

TO: See Below

CC: DALLAS KIRK

Subject: PLEASE, DON'T LET PR INVENT OUR STRATEGY

Background attached

DIGITAL CONFIDENTIAL

DO NOT DISTRIBUTE OR COPY

I am very angry after once again reading in this mornings Globe that Digital's strategy is to get out of proprietary software and into industry standard software as soon as possible.

VMS is a, or probably the major part of our corporate product strategy for a long time to come, and probably forever. One of the reasons we are in trouble today is that our public relations people, and our marketing people, have been saying negative things about VMS because the world wants to hear negative things about VMS.

VMS is as much an industry standard as UNIX, and UNIX is as much proprietary as VMS.

VMS is more standard because there is one simple set of standards, many of which are public standards of VMS. With UNIX there are a multitude of standards, or in effect, one can almost say no standards.

I think we should have a written statement of Digital's strategy before one more PR or marketing person makes a statement, or uses the words standard, proprietary or transportable software.

We allow free flow of information, free communications and free discussions. However, we cannot allow every public relations person and every marketing person, and indeed, every engineer to define corporate strategy, or generate corporate strategy, or try to influence corporate strategy in his statements to the public.

KHO:mg

KO:4018
(DICTATED 4/11/90 BUT NOT READ)

Distribution:

TO: Dallas Kirk	(KIRK.DALLAS)
TO: Win Hindle	(HINDLE.WIN)
TO: Jack Smith	(SMITH.JACK)
TO: PETER SMITH	(SMITH.PETER)
TO: ALBERT E. MULLIN, JR.	(MULLIN.AL)
TO: Mark Steinkrauss	(STEINKRAUSS.MARK)
CC: Martin Hoffmann @CORE	(HOFFMANN.MARTIN)

DIGITAL CONFIDENTIAL Document

Business

THE BOSTON GLOBE • WEDNESDAY, APRIL 11, 1990

DEC wins \$100m German contract

By Lawrence Edelman
GLOBE STAFF

Amid signs its financial position might be on the mend, Digital Equipment Corp. said yesterday it has won a two-year, \$100 million contract for computer systems to support West Germany's cellular telephone network.

The contract, awarded by a unit of the Deutsche Bundespost, the government mail and telecommunications ministry, is one of the largest deals ever in Europe for the Maynard company.

Wall Street analysts are not predicting a dramatic turnaround at the world's No. 2 computer maker, whose results for the third quarter ~~ended March 31~~ — due out next week — are expected to be dismal. And they said the company still faces enormous challenges in adapting to a fundamental shift by users away from proprietary minicomputers.

But analysts nonetheless are encouraged by such positive signs as strong orders for Digital's new mainframe computers, the recent introduction of workstations that should bolster its position in the UNIX market, and a previously disclosed voluntary severance plan that likely will trim several thousand workers from its payroll.

"People are starting to think that maybe the company has bottomed out and can go up from here," said Merrill Lynch analyst George Elling.

This guarded optimism appears to be the reason for the recent strength in Digital's stock. It has rallied since hitting a 52-week low of 69½ on Feb. 26, just a few days after it disclosed that it might post its first-ever loss in the third quarter. Yesterday it added another 1⅞, closing at 81⅞ on the New York Stock Exchange.

Laura Conigliaro of Prudential-Bache Securities said investor sentiment about Digital turned more positive in recent weeks.

"The winds have sort of shifted. But I don't know if it is temporary or permanent," she said, noting that Digital's outlook had been so bleak that bad news has "lost its shock value."

The Bundespost contract is the kind of good news Digital has found in short supply. It is a big chunk of business for its West Germany subsidiary, which had sales of \$880 million in fiscal 1989. Companywide sales were \$12.7 billion.

Under the first phase of the deal, Digital will supply more than 100 computers in a network that will manage administration, billing, customer service, security and other operations for West Germany's cellular system. Bonn is overhauling the network as part of the European Community's plan to improve and interconnect Europe's mobile phone services.

The 12-nation EC — seeking to establish a common telecommunications infrastructure ahead of the 1992 elimination of trade barriers — hopes to have an integrated cellular network running by mid-1991, enabling callers to use just one cellular phone number throughout Europe. Currently, callers must use a different number each time they cross a national border.

K.O.

E.C.

DIGITAL CONFIDENTIAL Document

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

Doc. No: 013426
Date: 27-Apr-1990 02:27pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: CORPORATE STRATEGY

DIGITAL CONFIDENTIAL

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I would paraphrase the STF message that says we should significantly down play VMS and all the things we have that are unique, and run fast to catch up with the rest of the world.

I think it is very important that we do a great job in UNIX, but I don't think we do this by being negative on VMS. If we want people to use PC's and UNIX in-house, we should make it desirable for them to use it. If we want to sell UNIX, we shouldn't do it by not allowing people to advertise or say good things about VMS. If we do a poor job with UNIX, and if we don't know how to market it, sell it, and how to say good things about it, it is absolutely suicide to insist that we have to say worse things about VMS.

We, as an Executive Committee, have to make a decision. Are we going to be followers and continue to offer computer pieces to match computer pieces that other people do; or are we going to do real solutions? ✓

Most of our plans are still based on the theory that the customer will figure out what their problems are, and they will figure out the solution, if we offer them the pieces. At Dupont, they had a telephone ordering system which they had to develop themselves. I think that is something we should have developed for them and then offered it to ten thousand small and large companies. We could even offer a range of products using DECTalk/DECvoice to take orders and answer inquiries and sell them out of a catalog. It would be a great business.

We could also have standard products in the database area. The customer would buy them from a catalog, plug them into a wall, and plug them into Ethernet.

As long as we are being driven only to order pieces and assume that the customer will figure out how to use them, we will always be limited by the number of customers who are able to do this.

KO:eh
KO:4058
DICTATED ON 26-Apr-1990, BUT NOT READ

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F.C. K.O.

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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

Doc. No: 013515
Date: 02-May-1990 11:41am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: LARRY CABRIURETY + OTHERS
TO: See Below
CC: EXEC. COMM. ET AL

Subject: CHEAP OFFICE

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Computer scientists have no feeling whatsoever of the importance of cost in wide distribution of computer devices. If you talk to Chief Executive Officers, they are concerned about several things. One of them is the cost of an office system. Another is the time wasted by people learning to use their PCs and trying out new software which is basically irrelevant to the organization.

I would like to develop a taxonomy of Office, from the simplest, least expensive, need-to-know with nothing-to-learn, all the way to the most elegant, sophisticated system. As a first step in this taxonomy I would like to have a "bull" session to talk about the bare minimum system, which would incorporate only dumb terminals and PCs in terminal mode with very inexpensive wiring. The theme would be "Office for the Slim Company".

The wiring should be so simple, so straightforward, so cheap that the customer could wire it themselves. I assume we could use tape-on-wire on the molding. That would not be unattractive. It has to be self-diagnosing so that the customer can fix it themselves. It has to be simple, straightforward, and cheap so that sales people and service people have parts in their automobiles to fix or to sell.

I would limit this Office program to a tiny number of activities and then I would advertise the living daylights out of them. We would sell it to tiny companies and large companies who have groups that want to be tied together with Mail, but do not want to make a big financial deal out of it.

I would limit it to the following activities:

- (1) Mail.
- (2) Word Processing.
- (3) Voice Mail (where voices are stored digitally).
- (4) A voice reading of Mail which uses ASCII-to-Voice.
- (5) A terminal or PC that could generate a FAX and mail it to anyone in the country; or FAX could be sent to a PC or terminal from any country; or printed out on a FAX machine within the group. Where necessary, a cheap printer and FAX could be at any desk that needs it, or in general, better ones would be shared by a small group.
- (6) It has to be compatible with EDI.

I would limit the device to dumb terminals and PCs using the terminal mode. They could have user PCs when they want and they could transfer data in the terminal mode.

I assume we would use a desktop computer. These might be limited by disk and it may be a deskside computer with seven 3-1/2" disks in it.

With the new Ethernet boxes that Jim Liu has just about finished and with the new cheap tabletop computers, we might today solve the problem of the Office with a small budget.

I would like this study to be a step in the development of a taxonomy of Office solutions.

KHO:eh
KH:4070
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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

Doc. No: 013584
Date: 07-May-1990 02:51pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

Wain Herdell + others
TO: See Below

Subject: STRATEGY

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In the last four years, we have lost major market share in markets in which we should have had significant success. We lost much of the DECnet market to TCPIP. We lost the major part of the Ethernet market to Tokenring, and we lost almost all of the PC LAN market. We crippled VAX/VMS in a market in which we have a unique position because of our lack of confidence and our embarrassment. We lost much of the UNIX market in an area where we had a head start on everyone else. We lost major market share in LDP. We had been leaders in small business and lost all of it.

I propose that we lost these market shares because we had no strategy in these areas, and because we concentrated on getting a faster RISC machine than SUN. A fourteen billion dollar Company needs more than one strategy. It needs a strategy in each of the areas it plays in and a strategies that will win.

In the 70's, our strategy was one operating system, one computer architecture, and one networking system, because that is what the market needed. Today, we need a more sophisticated, complex strategy. We are also ten or twenty times bigger, more sophisticated, and more powerful than when we had that simple strategy. The strategy should consist of all the pieces

necessary to be successful from a financial point-of-view and from the customers' point-of-view. The strategy should consist of at least the following parts:

- (1) A marketing plan which states what we plan to offer the customer, how we plan to package it so that they can appreciate it, will buy it, understand it, and be able to use it.
- (2) Often, there is an architecture needed that would tell how we will build a set of products in an efficient and effective structure.
- (3) There has to be a plan which breaks the program into many pieces that can be built and managed independently. This means that interfaces have to be spelled out, test suites have to be defined, and all the signals, timing and software interfaces have to be specified. Each piece is then assigned to a project group. Each group is staffed, budgeted, scheduled, and organized for weekly updating and monthly review.

The by-product of the disciplined approach to planning and project management is that some pieces can be duplicated for security, some can start over again, and some can be updated after they are in production because the interfaces have been so well defined.

- (4) There has to be standards, both mechanical and electrical, that everyone in the Corporation uses. This saves a lot of negotiating and design, it saves a lot of time and efficiency, and it will make sure that things do fit together.
- (5) Testing has to be defined at the start of a project. During the VMS development days, all parts of VMS were updated every two weeks and were tested to be sure they worked together. In addition, testing was organized early in the project, to be sure that all new components and new updates would work in the field.
- (6) A management ladder has to be well defined. Each component is made by a project group with a specified leader who takes responsibility for that segment of the project. Each group of components is managed and that person is responsible to make sure all components are updated and reviewed regularly, and they meet the specifications and testing procedures.

The overall project should have a manager who is exceedingly competent. But much of the wasted time spent negotiating will become much less necessary when people take responsibility for their components at the start of the project, rather than have to be talked into doing something, and then talked into completing their commitment.

TRAPS

We have fallen into two traps, partly because of the success of VAX/VMS. The strategy of VAX/VMS was to have only one of everything. That was the market niche we were to fill, and it was a great strategy. It does not mean we will have only one architecture and only one software system, and this is an ethical rock upon which Digital is built. It just happened to be a good strategy for the time. //

We were small then, and we gained a lot of power by having the whole Company work on that one strategy. We are probably twenty times bigger today, and there is no way you can run a very large company with such a narrow strategy. We have to have many strategies and it is unlikely that we will ever be able to call again on the strategy that worked so well in the mid 70's.

The second trap we often fall into is that so many people keep looking for the one key factor which is the secret to success. // This reminds me of the phosphate craze of the early 70's. At that time, phosphates were added to a part of the lake near Greenbay, Wisconsin, and it bloomed with green growth. The observers convinced the whole country that phosphates were the key to contaminated water. It was black and white proof of it. Without the phosphates, the water was just green; with it, it bloomed.

The whole country went wild with attempts to cut out phosphates in detergents. Quite poisonous substances were substituted in detergents, with the claim they had no phosphates. Companies were started and mushroomed that sold non-phosphate detergents. Slowly, without much fanfare, the truth came out. It turns out that for growth, whether it is a bloom in water or any other organic growth (including projects), you need many factors. Plants need, besides phosphorus, potash, and nitrogen, a large list of trace elements. If any one of those, including the trace elements, were missing, growth would be impossible or very stunted. If one was missing, and then added, one could, apparently, prove that the added element was a secret to growth.

The same is true in product development programs. If any of the things necessary for a good project development was missing, and all the others were present, just adding that missing element would create a miracle, and it would be very easy for all observers to conclude that the missing element is the magic arrow

which guarantees success. Some people think we need architecture, some think we need a plan, some think we need a glorious leader, and some, project management. Of course, we need all of these.

Today, the Engineering Department is further weakened by a strange attitude that everyone has to be talked into doing part of a project and that, even then, they have no obligation to complete it if they decide not to. The result is that, today, we never know who is committed, scheduled, or budgeted to work on a project, and we often don't get things done, and they often don't work when they get done.

In the good days of VMS, Bill Heffner frustrated people enormously. He had every part of VMS budgeted, planned, scheduled, committed, organized, and managed. People felt they should be able to meet Bill in the hall and ask him to make changes with no formal proposal, no formal approval, no change in the budget, and no changes of the commitments of the various groups. We have eliminated Bill's disciplines and the results are not as delightful as it seemed they would be. Sometimes, Bill's projects were late, but the commitment was never lost. That is no longer true today.

CONCLUSION

I think the Executive Committee and the Board of Directors should assume nothing less from Engineering than a separate product strategy from each part of the Corporation, for each major product grouping. They should further insist on an architecture, a plan, a project management system, standards, specifications, and a testing program for every one of the strategies.

KHO:eh
KO:4087
DICTATED 5/6/90

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Doc. No: 013967
Date: 01-Jun-1990 11:28am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

TO: Jack Smith (SMITH.JACK)
CC: BILL STRECKER (STRECKER.BILL)
CC: Win Hindle (HINDLE.WIN)

Subject: MANAGING ENGINEERING

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When a corporation picks a chief executive officer or head of a department, it seems obvious to me that, before the commission is given, there should be a complete understanding of the job, the goals, and the measurements. Some people believe that the job of a chief executive officer or even department heads should be given to someone because of their obvious assets and then they should be given complete freedom to re-cast the job and, indeed, the corporation. In fact, they are then obligated to make major improvements in the corporation. At Digital, we have a duty not to give away, without an understanding of the direction, the key leadership jobs in the Corporation. It might change the whole Corporation without a clear understanding of direction.

Before we pick someone to be in a position to give direction to Engineering, I think we first should lay out our goals for Engineering. We have a number of traditional strengths, but a number of weaknesses which also have been a tradition of ours. In a number of groups we also have allowed time to lessen the energy, commitment, innovation, and drive to be the best in technology.

We also suffer from the need to keep promoting our friends and acquaintances indefinitely, without using the system of promotion to continuously improve the management and competence of the groups we run.

I think now is the time to make a thorough statement of how we

want to run Engineering, our problems, and our plans are to take care of them, and to identify our needs and methods to attain excellence in every area. Some people define excellence by doing certain things, such as walking around and talking to customers, but excellence is more than that. As a farmer keeps ruthlessly improving his breeding stock for excellence, excellence in engineering and management means to keep improving the management and technical stock, but without ruthlessness.

People need the feeling of security and fairness, and they need reward and appreciation. They need to be criticized and challenged, and they need to be told when they are wrong and when they are right. They need to have clear goals, the means to attain them, and they need to be educated in how to manage, motivate, and reward others. As their jobs get bigger, they need training and leadership in managing complex projects. In our business, people need to be led and taught how to do jobs and projects with small staffs. Too often the normal education without leadership teaches people to grow a staff faster than the responsibility necessitates and, as the size of the staff grows, it, in itself, complicates the problem and generates more staff. The staff itself is not technically challenged, does not develop and grow, and they do not become better managers or technologists. They often get the promotions, become the people everyone knows, and get to be in senior decision making positions, while becoming more useless as managers and technicians.

Managing Engineering is a combination of giving great freedom to encourage creativity, but it requires great discipline to make sure people develop and grow, are challenged, and become brighter, sharper, and more experienced. The natural tendency is to become mired in red tape, mired in politics, attend an infinite number of WOODS and staff meetings, and become less and less expert in managing and technology. The Corporation doesn't cause this problem, human nature does. When Engineering is left to its own way, it will fill in all its time with meetings, politics, and red tape in the name of quality control.

The leader of Engineering has to do some things which are completely in conflict with each other. First, they have to take care of the most critical items, questions, and problems when they arise, which are often strategy, architectural, or investment questions.

STRATEGIC ARCHITECTURE

Traditionally, our engineering management has done well in concentrating on strategic architectural questions when they come up, but the other half of the job is to manage the infinite number of details that go along with a large number of engineering jobs. A sizeable portion of engineering has always felt that they were outside the main stream and were often considered incompetent or enemies of the architects and the

strategists. It was not until the last few years that power supplies and packaging were at all considered legitimate jobs. Even today, the leadership in Engineering has no interest at all in standards for power supplies, packaging, or the importance these have in cutting costs in manufacturing, design, inventory, and service. Engineering management today sees nothing wrong with everyone doing their own package, power supply, connectors, or cables and there is no inclination, whatsoever, to ever solve these problems. These are just some examples of the infinite number of tasks done in Engineering, all the way from component quality, component standards, component measurements, component procurement, boxing products, labeling and numbering. In fact, this is probably ninety-five percent of Engineering's jobs.

After many years, it is bound to be expected Engineering feels that the support, help, encouragement, measuring, rewarding, goal setting, and appreciation for ninety or ninety-five percent of the Engineering staff, is someone else's responsibility. Packaging and power supplies are to be criticized, not to be helped.

It is expected that finishing the product so it can be understood by the sales people and the customer, can be sold and installed, and everyone has a complete feeling for it is the responsibility of someone else, probably the Sales department.

INFINITE NUMBER OF DETAILS

Engineering management is oblivious to the fact that the Sales department is overloaded with redundant, disconnected, irrational, illogical notices, memos, and literature. Management will bitterly criticize some mysterious people who should be taking care of this, without the slightest recognition that it is their responsibility to complete the projects they start, and it is their people who are or are not doing these jobs.

DEC MANAGEMENT

Every large engineering group has developed a very systematic method of project management which involves a clear statement of goals and strategy, with clear delegation of responsibilities to groups with schedules and budgets. Too often, we like to keep everything up in the air so we can modify them on the fly, but if we are going to make changes, it is more important than ever that things be documented, disciplined, budgeted, and scheduled. We put people in management jobs, but never teach them how to manage.

Digital's Engineering management also has the reputation of inventing exceedingly complex products with exceedingly complex product lines and then they are exceedingly critical that the sales department isn't bright enough to put it all into perspective and sell these products. Management then blames some

mysterious group for incompetence when details necessary to sell and install these exceedingly complex products and systems are not worked out.

It is obvious to me that Engineering management's job is not just to conceive and strategize very complex systems and products. Their job is not done until these concepts are put into a simple perspective and broken down so that the sales people can understand them.

SUMMARY

These are just a few items on responsibilities of managing Engineering. I am sure there are a lot more with a lot more details. The basic message is there is a lot of detail which has to be defined, scheduled, and organized or the job will not be done. It is also important that everything be done by Engineering management, or clearly made the responsibility of someone else in the Company. There is no such thing as a responsible engineering manager saying the Sales department, or someone else, is at fault without clearly, in advance, being sure that the responsibility is taken by someone else in the Company.

KHO:eh

KO:4161

Dictated on 5/30/90, BUT NOT READ

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Doc. No: 015251
Date: 07-Sep-1990 11:07am EDT
From: Win Hindle
HINDLE.WIN
Dept: Administration
Tel No: 223-2338

TO: See Below

Subject: TRANSFER PRICING

I am still thinking through the issue of "transfer pricing" between Integration/Application Business Units (ABUs) and Account Units (AUs). My belief is that it is not wise to try to do this because of the difficulty and complexity. As Bill Strecker said at Heald Pond, you cannot build a business around a piece of application software. Of course, you can build a business around a full application/solution system. In essence, it seems to me we should build a two-tier transfer pricing system--not a three-tier system.

It seems straightforward to have the Product Business Units (PBUs) distribute their products through the ABUs and also through the AUs at a standard transfer price. ABUs then pick a distribution channel for their "value-added products"--either CSOs (which are represented by OEM AUs) or by the direct sales AUs. I recommend that the ABU measurement should include the entire sale of their "value-added products" to the final customer whichever channel is used. The ABU P&L should be the total revenue from the customer less the ABU expenses, the cost of the products they buy from the PBUs at transfer price, and the sales and sales support costs. It seems to me that this is the fairest way to judge the "return on investment" made by ABUs. In my model, the sum of PBUs, ABUs, and Service BUs adds to 100 percent of the company (after internal transfers are eliminated).

AUs would have a separate measurement that is a sales contribution margin. This is the sales and service revenue less all sales and service expenses and sales support expenses. I would not include product costs in the sales contribution margin calculation. The AUs also add to 100 percent of the company.

ps

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Doc. No: 014936
Date: 10-Aug-1990 03:08pm EDT
From: Ken Olsen
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Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: WHY ENTREPRENEURSHIP AND WHAT IS IT?

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WHAT ENTREPRENEURSHIP IS NOT

Some people think entrepreneurship is having a P&L statement. Every business has a P&L statement and most are not entrepreneurial.

Some people claim having no boss makes one an entrepreneur. Some say having absolute power makes one an entrepreneur. Some say an entrepreneur can do what they want, when they want, without a plan. This is obviously not true. Every entrepreneur, like every business, is using someone's money and has to report on their stewardship.

Most of them will get nothing done without a plan, a systematic approach to the plan, and regular reporting.

As with all businesses, most entrepreneurs have much more responsibility than they have authority.

As with all businesses, an entrepreneur is affected by exogenous influences.

WHAT ENTREPRENEURSHIP IS

Entrepreneurship is taking complete responsibility for accomplishing a task. The word implies doing the task with creativity and inventiveness. It also tends to imply doing a task, job, or project with risks that would not be allowed in a large, formally ruled organization.

WHY ENTREPRENEURSHIP?

In any organization, large or small, staff grows. Staff begets staff, and the more staff there is the more rules, regulations, and controls there are. Every time there is a mistake, rules are put in place so that the mistake will never happen again. In time, there is very little freedom to be creative, or even efficient.

Organizations, either because there is a strong leader or because there is a large staff, tend to do planning in a central group or through a central individual. This is not uncommonly very efficient and effective for a time, the same way a Communist dictatorship is very effective for a time.

Central planning does, however, limit an organization to the span of interest, knowledge, intelligence, energy, and enthusiasm of the central planner or planners. The answer to all problems is always more centralized planning and more control. The result is that truly creative, unique, inventive, and entrepreneurial people within a large organization come along so rarely that the whole world can remember them.

The goal of an entrepreneurial Business Unit-organized company, is to give each Business Unit the freedom necessary to be creative and inventive, to take responsibility, and to free them from the frustrations, limitations, discouragements, and red tape of a myriad of groups and individuals who control them, can say no to them, don't have time to listen to them, don't have the energy to consider new projects, and are too busy to look at new things, but who want to hold on to their power and will not give the freedom to someone else to try new things.

We want our Business Units to have all the freedom that is necessary to compete with small companies, and yet have all of the services, assets, and advantages of a large company. The real entrepreneur does not want to fill out tax forms, figure out what hours the company will work or figure out all the policies and procedures. They do not want to staff the payroll, run the cafeteria, run the parking lot, or do the snowplowing. Some may want to do their own purchasing, but most would not. Some may want to bend their own sheet metal, but most would not. Some may want to build their own CPU, but most would be happy to buy the best, most tested, integrated CPU with the best disks from somewhere else in the company.

Not everyone can be an entrepreneur. In fact, probably very few can. They have to propose to their banker, or, in the case of Digital, the Executive Committee, a plan which is to be funded. This is part of being an entrepreneur. Those who appear to be more interested in being independent, in doing everything themselves, and who show little inclination to concentrate on those things necessary to be successful probably will not be

funded.

An entrepreneur has no rights to be funded. They have the right to propose and have the right to be free of frustrating rules and regulations by staff who have no responsibility. It is this freedom that our plan tries to give Account teams and Business Units.

KHO:eh
KO:4353
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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

Doc. No: 015429
Date: 14-Sep-1990 03:27pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

CC: *Win Hindle*

Subject: THE TROUBLE WITH NAS AND UNIX

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While visiting the European sales and marketing people, it became very clear to me that our problems with UNIX and NAS are not technical, but the lack of education. We have tried to turn the problem over to advertisers and marketers in an attempt to get a no-effort message across to the salespeople, and we have ended up with nonsense. NAS and UNIX are not something to be sold like soap. An eight-minute video, a theme song, banners, or billboards are not what we are lacking in selling UNIX, VMS, and NAS.

With all haste, I believe that we should write courses for these subjects. These courses should be fairly long and very thorough. These subjects contain too much information to get a feeling for them by listening to a half-hour lecture or a video, and they definitely do not lend themselves to the marketing one would use for soap or breakfast cereal.

The problems people have with selling UNIX are that there are many UNIX systems, and there are many reasons to either go to UNIX or not to go to UNIX, and it takes a lot more understanding than what would come out of a theme song. In order to have people sell UNIX, they have to understand it better than the customer. They will have to understand a little of the history, a little of what UNIX is, why there are so many variations, and what the politics of UNIX are.

It is particularly important for people to consider the reasons for UNIX. The primary reasons are software transportability and interoperability on a network. Customers decide they want UNIX and forget why, and if our salespeople are no more intelligent

than the customer, we can never get anywhere. We all need to have a good feeling and understanding of what makes interoperability and transportability possible. We have to understand the traditions of using languages for transportability, and we have to have an understanding for how extensive software has been made transportable through the years.

We also have to have a feeling for the importance of all the interface standards that make transportability and interoperability possible, and why the name UNIX is of little importance in solving these problems.

Everyone has to have some feeling for the meaning of the various kinds of UNIX; the what and why of System V.2, V.3, V.4, OSF, ULTRIX, AIX, HP's, SUN's, SLO, etc.

People then have to know some of the politics. For example, what will happen if OSF becomes the standard and all the big companies follow it? What are the dangers for those who have committed to System V or some of the other types of UNIX which only small companies will be supporting?

It probably is also necessary to give people a feeling for what is contained in an operating system. Today, we tie into those words much more than we ever did a few years ago. What functions are included with an operating system? What services and support, and what layered products are available? We should make a chart that shows what is available in each of the various kinds of UNIX and also compare it to what is available in VMS.

Teaching people about UNIX perhaps would be a lot clearer and rounded if, in each step, we compare it with VMS. It then would be important to explain what we mean by robustness, security, quality, and reliability.

We then should make sure that our salespeople understand why people feel that, for some kinds of problems, it is so easy to learn UNIX and to produce software in UNIX. Some vehemently believe it is easy to transport software between UNIX systems. We should also teach why there is a certain level of major, large systems which are much faster, better, and sounder when written in VMS. I suggest that we, with great haste and enthusiasm, set about to design a course that would truly encompass all the things necessary to understand and sell UNIX and VMS. As part of this, we might prepare a book or white paper; we might also have it printed in a magazine. In any case, I think we are going to have to take people aside for several days and educate them.

We should generate the data and then, in a chart, present it to every salesperson and tell what percentage of each company's sales are UNIX. It appears that many people say that they are one-hundred percent UNIX, but only a relatively small percentage of their sales really are UNIX, because UNIX won't work for the application, and they have to sell their traditional proprietary

software.

In this course, we also should probably teach the NTT Multi-Vendorization proposal.

It would also be convenient to list all the standards that OSF has picked and chart out what are the standards each manufacturer will now follow.

At the same time we should teach NAS. It is a lot simpler because we control it, but we use many glib, somewhat inconsistent statements about NAS. It is very confusing when people have to get down to facts with a customer, because you have to go beyond the glib statements. Things that seemed so clear in a rally seem very confusing when one has to explain them to a customer.

KHO:eh
KO:4452
(DICTATED ON 9/11/90, BUT NOT READ)

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Olsen, Ken
E.C.

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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

Doc. No: 015428
Date: 14-Sep-1990 03:06pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: AMATEUR ENGINEERING

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We somehow have the idea that engineering management and project management is something that one learns from one's mother's knee. Like driving a car, it is demeaning to one's macho image if one has to be taught the techniques of engineering management and project management.

The result is that we make people into managers, send them out into the world and put them in charge of groups, without any formal training, and without any standards or any of the formal techniques that we expect people to use in managing engineering at Digital.

One of the results, of course, is that we allow, encourage, or tolerate huge amounts of red tape and policing organizations to develop within Engineering, simply because we don't have any formal policies or attitudes on how management should be done. Often these groups are self-appointed; they do their own policing and dole out their own punishments.

Some managers feel that abandonment is good engineering, while others feel that doing everything themselves is good manageemt. Some people think power is the most important thing, while others think that freedom is. Some keep no records; and, some have no feel for quality.

It is not uncommon in Engineering to be discouraged with one's own people and to blame it on the Corporation, and feel no responsibility to take care of problems. The theory of an organization, management, work, and of design have never been

presented to people that we promote and make managers.

It is getting clearer that those corporations that survive and do well do have formal training, procedures, and ideas on management, and do expect a certain amount of education for every one of their engineers, and, for every one of their managers.

This sounds like red tape and formality which would slow down Engineering. If it is done right, of course, it is knowledge and certain philosophical thought that makes one free to be creative.

I recommend that with high priority, we decide on an education program for engineering supervisors and engineering managers at all levels. Of course, this means deciding on the content and should not just be teaching what some Harvard or MIT professors are currently thinking about as a hobby.

KHO:smv
KO:4445
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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

Doc. No: 015525
Date: 19-Sep-1990 01:18pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

Executive Committee & many others
TO: See Below

Subject: BASE CASE FOR DISCUSSION

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The price we will sell a large quantity product for one order, to one place, at one time, and with little sales effort will be a base case for every product.

Then, our discussion sessions will be the review of business plans to suggest how they can most efficiently add the other services that most customers want, and in one way or another, add to the price to pay for all the other services.

The base case will be the amortized engineering for the product plus overhead. In addition, there will be the manufacturing costs, plus the applicable overhead and variances. All overhead and variances will be broken down into minute detail, and only those applicable for this particular case will be applied.

In this case, there will be no integration or application costs incurred.

The sales time planned for this project will be estimated; it will only be the salesperson's costs and only that overhead directly applicable with that salesperson's time. The base case will assume a certain sales cost when the sales cost is more and its price has to be justified. When it is less, it would then be possible and desirable to give an extra discount because of the lower selling cost. The selling cost will already be very low because this kind of sale does not normally take a large amount of time and it is divided by the large number of units that we define as the base case.

People have assumed that we are a high-cost manufacturer, but I

think the result of this approach to pricing will show that we are a very low-cost manufacturer. Separating marketing, applications, integration, and all the services we give to the system customers, will show the areas we have to be more efficient in and the ones we have to justify and charge for.

We will have to do some averaging and some allocations, or the application gets much too tedious. We have to make sure that it does not distort pricing or profit. The base case will take care of the customer who buys a large quantity, at one time and at one location, with no applications. The cost of applications will vary over a wide range. We definitely can't apply those people that have no applications, and it's unlikely that an average charge to anyone who uses applications will be wise.

The business plans have to include all the specialists, the integration and installation people, all the hand-holding, teaching, special systems, and the time it takes to make the applications work on a particular system. This number will also vary over a wide range and has to be planned especially for each order. It probably can be taken care of automatically if each one is charged for individually.

As a result of this approach, it is clear that there will be no Corporate discounts and only discounts that come about because of efficiency in selling. No matter how large the customer is, if they take the normal amount of selling time, they will get no discount.

This may change how we do third-party selling. Today, we define Digital selling as very expensive because we average costs for all kinds of customers. This means that the third-party who does not incur those costs can under-sell us. But, if we charge our customers only for the cost they incur, our post to third-party selling will have to change.

KHO:smv
KO:4471
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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

Doc. No: 015540
Date: 20-Sep-1990 01:03pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: ENTREPRENEURSHIP IS NOT A NATURAL ACT

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Entrepreneurship is contrary to human nature. There is a natural tendency for people to want others to make the rules, and if they follow them, everything will be okay. The natural tendency is for those in charge to make detailed rules that everyone has to follow. The idea of freedom is a very strange idea.

Historically, this has been going on for many years. When Moses came down from the mountain with two stone tablets, he announced we are a free society with these ten commandments that we will follow. Immediately, and for the next hundreds of years, the hierarchy started adding rules to flush out the ten commandments. They, of course, said Moses could not write very fast, and he could not carry any more stones, so it was up to them to fill in the details. Later, Christ came and announced that he freed the world of bondage to all the rules. He said that the ten commandments were still valid, but they could be summarized in two simple statements: "Love the Lord thy God with all thy heart, and Love thy neighbor as thy self." Ever since that day, the Church has been flushing out his words with rules and regulations.

In looking through the literature, it seems to me that people who propose introducing entrepreneurship into a corporation, have always avoided the bold approach which I am trying to accomplish. They always suggest starting an entrepreneurship off to the side, separate from the hierocratical, top-down committee and overhead that runs the Corporation. It is probably safe to conclude that we could never change those people who ran the organization as an oligarchy, and it is probably naive to think that we can have the oligarchy run an entrepreneurial organization.

I, therefore, suggest that we consider taking the oligarchy, which is Jack's Engineering staff, and have them continue to run a portion of the Company as they have done in the past few years. They have laid out all the strategies and product plans, made all the business decisions, dispensed the money for products, Business Units, and research, and had all of these activities under their control.

Suppose we have the oligarchy, under Jack Smith, run UNIX, which is, in their words, the most promising future of the Corporation. And, suppose we have a new leader, with all new people with entrepreneurial backgrounds and ambitions, run the VAX part of the Corporation. There would be gross inefficiencies by separating these. But, we are not doing well today, it is not clear that we can change the whole Corporation, and it is even more clear we will never change the oligarchy. It is also clear that there are a large number of people in the level below frustrated by the lack of entrepreneurial opportunity.

KHO:dao
KO:4498
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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

Doc. No: 015535
Date: 20-Sep-1990 11:00am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: C. S. LEWIS AND ENTREPRENEURSHIP

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C. S. Lewis was an Oxford don and a Cambridge professor who wrote childrens stories, science fiction, and books on theology for ordinary people, forty or so years ago. He also took part in talk shows on BBC on these subjects.

If I remember one of his stories correctly, he was asked a question about heaven. He said it was not worth pursuing the question because we are somewhat like a very young boy who asked, "Do you eat chocolate while making love?" C. S. Lewis said this was so far from the boy's experience that it was useless to pursue it any further.

I think the same analogy would bear a discussion of entrepreneurship with someone from a centralized, rule-based corporation. There is no way you can communicate the freedom, concepts, feelings, experiences, and enthusiasm for entrepreneurship with someone who has never come close to experiencing it.

I think C. S. Lewis' point was that heaven isn't really worth much of an analysis when there are so many other useful things to study and think about. In the case of modern business, entrepreneurship is critical and deserves much study. I think the first conclusion we must come to is that you don't put entrepreneurial groups under someone from the traditional, centralized, rule-based organization. Six year olds don't write love stories.

In particular, it is probably impossible to ever change a person who is brought up in a centralized, rule-based organization. To

have faith in the randomness and freedom that is allowed in an entrepreneurial organization, is too hard. The words will always be, "I believe in entrepreneurship, now let's have controls."

For the last few years, all our strategy and budgets were controlled by a small number of senior engineers. We have to face the question: "Can we ever get that group to agree that freedom and randomness (built on top of very disciplined interface standards) might be more effective than strategy decided by a tiny number of people from a very narrow background?"

KHO:dao

KO:4496

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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

Doc. No: 015587
Date: 24-Sep-1990 11:29am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: ENGINEERING BUDGET

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A \$1 1/2B budget presentation is worth quite a bit of work and review. We should always jump at this opportunity to analyze the whole Engineering department, its efficiency, goals, and profitability. Most of the presentation does not have to be given face to face or orally. But, if the data is organized thoroughly, it can be analyzed and understood by individuals outside of a meeting. Of course, all the preparation, analysis, and justification is most useful to the preparer.

Let's assume that, to the Executive Committee and the Board of Directors, the biggest concerns are the questions of overhead and profitability. We should make sure that products are completed to the point where they are sold and made profitable.

First of all, we should identify all the overhead within projects and within the organizational structure. Secondly, we should clearly identify the profitability of all the products completed in the last two or three years, and the promised profitability for the products we are working on. Thirdly, we should maintain a list of all those products which are almost complete, but never presented, in a form complete enough to grab people's attention in such a way that will get the products sold.

Let's assume that the Board of Directors and the Executive Committee are particularly worried about remote Engineering groups, because there is a tendency that these groups are not run efficiently and were often started for political reasons.

Where the project is so critical, a Digital pie philosophy has encouraged duplication and there is reason to believe that we can

initially pick between the alternatives. When we are wise, we plan the duplication, up to the point where the correct direction is clear. However, we do have a good deal of concern that there is a lot of useless duplication because we don't have the discipline, the system, and the organization to identify the groups and fix the problem. It is also in the tradition of Engineering to think that each group has a sacred right to do everything themselves and make all the decisions which applies many costs in Engineering and Manufacturing.

Let's assume that every project, whether small or large, will be presented with its complete overhead structure, right down to the name of the people doing the work. We should have a standard list of definitions for all of the Engineering budgets so that overhead is clearly understood. I think overhead should be anything outside the work people are actually doing with the design, building, and testing of the product. The product's profitability should be plotted from history or future predictions. The data is represented so that the plan is clear regarding how long it takes to do the project, how much is invested before it becomes profitable, and when the profitability will pay for the investment.

Of course, the overhead, investments, and profitability for all the groups should be ordered up for the whole Engineering department, but, in addition, all the overhead structures that do not design products should be presented individually and in summary form. All overhead groups should have their own budget, a statement of what their job is, and how they measure themselves.

In summary, start off with the assumption that everyone expects the Engineering budget to be like every military, government, industrial, and a non-profit organization in that the overhead grows forever. When projects are to be cut, it is the overhead people who do the cutting, the overhead stays the same, and the projects get cut.

In a more positive sense, assume that everyone has faith that the strategic decisions are probably wise, but there is great concern about the enthusiasm for investing in the mundane, which may be last year's technology, but is necessary for today's and tomorrow's profitability.

I think, for years, everyone has dreamed about having a list of the products we started in the last five or ten years and what happened to them. How many people just get bored with it, and the products disappear? How many products were finished, but never completed to the point where they could be marketed; or how many were finished, into production, and never sold? And then, how many were truly sold and made profitable? It would also be good to know what groups these products came from? It would be interesting to know how this changes with time. There is always the fear that groups are getting budgeted and living on past

glories and may not have been effective in generating products in the last two or three years.

KHO:dao

KO:4505

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E.C.

(O- Be sure
Rosen sees these
memos - he will
get them back to us)

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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

Doc. No: 015584
Date: 24-Sep-1990 10:51am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

(He sees them
+ does return
them)

TO: See Below

Subject: SUMMARY OF CHANGES IN DIGITAL

DIGITAL CONFIDENTIAL

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Our Corporation has been divided into two separate organizations:
the first is the Field organization; the second is everything
else.

- I. The first goal is to make Digital one Company, again.
- II. The second goal is to make the Field organization manageable. It has grown into a huge glob, with enormous intertwined overhead and an unbelievably complex organization. To make the Field part of the Corporation and to make it manageable, we are dividing it into small, completely independent pieces which can be understood and managed. For example, the Selling part of the Field will consist only of the Account mangers and the direct overhead for running the Account managers. Logistics, DCCs, and ACTs will be separated and there will be no marketing programs, sales programs, or programs of any kind. All marketing activities will be left with the Business Units. Each Account will propose a budget for what it will spend and what profit it will make. And, when the budget is approved, it is that Account's responsibility to accomplish what they have budgeted.

Budgets for Engineering Business Units, Marketing, and Manufacturing have been largely made by an oligarchy made up of the Engineering staff. They hold most of the wisdom, experience, and knowledge of the Corporation on these subjects. When they have decided on budgets, they

have not left the group with the feeling that it was their budget and their responsibility, and they left the Executive Committee and the Board of Directors with little feeling of participation, or little knowledge, and no handles to control these budgets. The staff made almost all the decisions, but felt no responsibility for the results.

Product Units, teamed with Manufacturing Units, will propose budgets for products. The format will force them to look at the budget from a business point of view and, with profit and results in mind, propose it in a way that the Executive Committee can judge and manage it. When the budget is accepted, it will clearly be the responsibility of the team that proposed it.

Business Units and Marketing Units will propose budgets that will take all factors necessary for success into account, and when their budget is finally negotiated and accepted, it will be clearly be their responsibility for its success.

III. The third thing we are doing is changing the accounting system so that we have two separate systems. The first accounting system is for public statements and taxes; the second for managing the Business Units and Accounts. We will not try to do both with one accounting system, and, above all, we will not try to manage a business with an accounting system designed for paying direct taxes. This system will be designed primarily so that each Business Unit will have the information necessary to run their Business Unit, designed in a way to help them.

The second area of the accounting system will let each Business Unit know how they stand relative to other Business Units. The social pressure and the knowledge that comes from watching one's peers is a great motivating factor and a great educational factor in running a business.

The accounting system will also, as a by-product, give the Executive Committee and the Board of Directors an opportunity to see how well each Business Unit is doing, and will make possible corrective decisions whenever necessary.

KHO:eh
KO:4506
(DICTATED ON 9/23/90, BUT NOT READ)

Distribution:

TO: Jim Osterhoff	(OSTERHOFF.JIM)
TO: Win Hindle	(HINDLE.WIN)
TO: John Sims	(SIMS.JOHN)
TO: Martin Hoffmann	(HOFFMANN.MARTIN)
TO: Jack Smith	(SMITH.JACK)
TO: Abbott Weiss	(WEISS.ABBOTT)
TO: Bill Strecker	(STRECKER.BILL)
TO: PETER SMITH	(SMITH.PETER)

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E.C.

Printed by Win Hindle

DIGITAL CONFIDENTIAL Document

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

Doc. No: 015868
Date: 05-Oct-1990 03:01pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: HELP WITH DEMONSTRATION FOR OUR ANNUAL MEETING

DIGITAL CONFIDENTIAL

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We still do not have our messages across to the Press. I like the idea of presenting, with equipment and literature, six or so key Corporate messages at our Annual Meeting.

At the Commonwealth Pier, we could put two or three of these on the platform and two or three in the rooms where we drink coffee and have lunch.

- (1) I think it would be good if we insisted on developing a clear, simple explanation and demonstration of our thorough approach to a high-reliability computer. What does it mean; what are the definitions; when does one want what; and what equipment do we have to do each? We should only allow people to take part in this demonstration if they have a written explanation that is understandable by newspaper writers and newspaper readers.
- (2) Another pitch should be: What is Mainframe Computing? We define it; we stretch the definition so that one does the same thing with the smaller sizes than the mainframe machine. How do we stretch the definition to also say: How do we do UNIX on the mainframe? How many MIPS, how much storage and bandwidth can you get with a maximum size 9000 and a maximum size cluster of 9000s?
- (3) What is UNIX? What is VMS? And, what are they good for? Here we should outline in an easily-read document

that a magazine writer can simply plagiarize and have something that everyone could read and understand the politics of UNIX and a world class operating system. What and the features and advantages of each?

- (4) Another exhibit could be Server -- what is it? This should include, by definition the timeshared Servers. This should start off with our history in that area and should explain why modern Servers are not simply microchips, but the other features that make them particularly useful.
- (5) Network management and networks would be a worthwhile exhibit because network management is a complex subject and it is described in the Press as simply management. If we outlined what is meant by management, we could help explain what we have to offer, what we have to offer in the future, and imply maybe what is off in offered in other places. We could then describe networks made up of serial lines, Ethernet, FDDI, TCPIP, OSI, Novell, PC Interconnect, Local and Wide Area Networks, and how we build these and manage them. This description should be both simple and clear, but tedious, to express the completeness of our offering of management and technology.
- (6) Desktop Devices -- the completeness of our offering and the fact that we do network them together.
- (7) NAS -- what is it, what good is it?

KHO:eh
KO:4546
(DICTATED ON 10/4/90, BUT NOT READ)

Distribution:

TO: Bob Glorioso	(GLORIOSO.BOB)
TO: Dom LaCava	(LACAVA.DOM)
TO: Bill Johnson	(JOHNSON.BILL)
TO: Kurt Friedrich @CORE	(FRIEDRICH.KURT)
TO: Bill Demmer	(DEMMER.BILL)
TO: KEN SWANTON	(SWANTON.KEN)
TO: Larry Cabrinety	(CABRINETY.LARRY)
TO: Remote Addressee	(JOHN ROSE @LJO)
TO: Ralph Dormitzer	(DORMITZER.RALPH)
TO: Grant Saviers	(SAVIERS.GRANT)
TO: Dallas Kirk	(KIRK.DALLAS)
CC: PETER SMITH	(SMITH.PETER)
CC: Jim Osterhoff	(OSTERHOFF.JIM)
CC: Win Hindle	(HINDLE.WIN)

CC: John Sims (SIMS.JOHN)
CC: Martin Hoffmann (HOFFMANN.MARTIN)
CC: Jack Smith (SMITH.JACK)
CC: Abbott Weiss (WEISS.ABBOTT)
CC: Bill Strecker (STRECKER.BILL)

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F.C.

DIGITAL RESTRICTED DISTRIBUTION Document

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

Doc. No: 015902
Date: 08-Oct-1990 11:54am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

TO: See Below

Subject: FIVE BIGGEST PROBLEMS AT DIGITAL

DIGITAL RESTRICTED DISTRIBUTION

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1. Budgeting has destroyed all entrepreneurship in Digital. This is why growth and profit have been low in the past three years.
2. Marketing systems and applications are budgeted by the "nerds", "oligarchy", and "Jim Cudmore".
3. The field has many layers of people who are responsible for decision making, budgeting, and profitability in the Field. They are all measured on profitability and expenditures, and they all feel their job is to run every decision.
4. We don't know what our costs and profitability are in each part of the business.
5. The Board of Directors, Executive Committee, and the Financial community, impose decisions independent of goals for growth and profit. We meet the goals, but we miss the non-goals of profit and growth.

KHO:dao
KO:4563
DICTATED ON 10/8/90, BUT NOT READ

Distribution:

TO: Jack Smith	(SMITH.JACK)
TO: Ken Olsen	(OLSEN.KEN)
TO: Jim Osterhoff	(OSTERHOFF.JIM)
TO: Win Hindle	(HINDLE.WIN)
TO: John Sims	(SIMS.JOHN)
TO: Martin Hoffmann	(HOFFMANN.MARTIN)

TO: Jack Smith
TO: Abbott Weiss
TO: Bill Strecker

(SMITH.JACK)
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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

Doc. No: 016045
Date: 16-Oct-1990 08:40am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below *Win Hindle + Exec. Comm.*

Subject: SCIENCE PARK SYNDROME

DIGITAL CONFIDENTIAL

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In any organization, whether it be government, school, church, or business there is a tendency to break it into two groups: those who invent, help, advise, and complain; and those who take responsibility for getting a job done which means laying out plans, getting them funded, making compromises and choices, committing to a plan to make profit, and forever facing the first group who are always second guessing and giving inconsistent advice.

Each social groups decides which is the highest calling. Those who help by complaining and advising, or those who take responsibility for getting the job done and living with the results. A few years ago there were six hundred colleges who needed presidents. It was very hard to get them because, within the higher education community, the highest calling was to be a professor who always complained, criticized, and ridiculed the administration and there were few who would give up this higher calling to accept a task with accountability.

When Digital Equipment Corporation was founded, it was clearly and explicitly stated in our theory that "those who propose, do." Those who propose a product or an idea, not only propose the idea but propose the plan for which they will carry out the idea and make it profitable. At that time, it was clear to us that in industry the division of labor was not working. Companies had those who conceived an idea, those who developed it, those who made a model, those who readied it for production, and those who took responsibility for the production. At each transition point the new group would have to do it all over again because of lack

of respect for the previous group, and no one felt responsibility for anything done before them. Those who started never learned by seeing their ideas completed, and those who picked up ideas part way through never learned what it meant to take responsibility for a problem. The result was projects took forever, and no one was responsible. The key part of Digital's success through the years was the insistence that someone take responsibility for the whole job. They need not be the inventor, but they did need to propose all steps of the process, take responsibility for them, and even do the marketing and selling.

After the great initial success of the VAX 11/780 our Engineering department reinvented the division of labor and specifically broke people down into groups so the projects would be invented in one group, modeled in another, developed in another, etc. The result was morale was devastated, enthusiasm was wiped out, and we got almost no products for five years. We had a specific, clear, simple, formal, approved, Corporate strategy and architecture for computers and networking, but everyone was inventing new ways of trying vainly to follow the leaders of the industry.

About nine years ago we re-built the Company, reconfirmed our Corporate architecture and strategies, and insisted that people take responsibility for the plans they laid out. The results were magnificent, and we had some of the greatest years in the history of the Company. But in those great times we, again, developed large numbers of people who were full of complaints, suggestions, ideas, and inventions about how the Company (I never figured out who that was) should do things. Today, the enemy is those who will lay out plans and take responsibility, and the good guys are those who are telling them what to do. The problem in a society like that is that you have fewer and fewer people who will take responsibility and, in time, you end up with very few who even know the techniques for laying out plans and doing the complete job.

In my mind I always break down the organization into two groups: those who will take responsibility for a complete job; and those who will forever be giving advice. Some of the advisers are exceedingly competent and I hold them in great admiration, but they will never pay the rent or make any profit.

Those who take responsibility for building, selling, and making profit, however imperfect, are the ones who need to be nurtured, helped, trained, and encouraged.

On the Russian farm everyone is an inventor and helper, but they allow no one to take responsibility for the whole project and make it work. In this country the farmer is in charge and responsible for everything. In this country the tractor has to work during the plowing, planting, cultivating, and harvesting, and the farmer does what it takes to make sure the tractor works.

It is clear that if we continue to have more and more of our most competent people in the ranks of inventors, idea generators, critics, and complainers, and fewer and fewer who will take responsibility for all the details, compromises and steps involved in taking a product through all the steps, including sales and the making of a profit, we just will not have a Company. It must be our goal to encourage more and more people to take responsibility and still use those people who cannot do that but have great contributions to make.

The obvious way to accomplish this is to break the Company into groups of Business Units to encourage people to take responsibility for each one all the way to making profit. And then assign those people who might be inventors, staff, or helpers to a board of directors for each of the Business Units.

KHO:eh
KO:4591
(DICTATED ON 10/14/90)

Distribution:

TO: Jim Osterhoff	(OSTERHOFF.JIM)
TO: Win Hindle	(HINDLE.WIN)
TO: John Sims	(SIMS.JOHN)
TO: Martin Hoffmann	(HOFFMANN.MARTIN)
TO: Jack Smith	(SMITH.JACK)
TO: Abbott Weiss	(WEISS.ABBOTT)
TO: Bill Strecker	(STRECKER.BILL)
CC: PETER SMITH	(SMITH.PETER)

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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

Doc. No: 015976
Date: 10-Oct-1990 04:32pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: *Executive Committee*
See Below

Subject: BROADENING THE OLIGARCHY

DIGITAL CONFIDENTIAL

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I'm not sure people will understand how we are making decisions in the new Digital. Sometimes I think people feel that I claim that I, myself, or the Executive Committee will remove all the power from STF and Jack's Engineering staff and that we, ourselves, will listen to four thousand snow jobs and will make decisions on the Corporation's budget. It is not that at all. It is simply that the Executive Committee is now in a position to insist on a broader view of Corporate planning, and insist that it be systematized so that the oligarchy, Executive Committee, and Board of Directors can grasp an image of our strategy.

There is no implied criticism of the oligarchy or the STF. These are my kind of people; I enjoy them and have great confidence in them. They do, however, seem to be fighting change, and not realizing that the way we have been doing things the last few years has not worked. The Company is not doing well, and the morale of Engineering and the Integration group has seriously deteriorated.

Like the Executive Committee, the oligarchy cannot go into every detail of every project. It is commonly felt that the huge number of projects done in large groups in many places in the world are approved, but never monitored, and more money is given without review of the previous successes of the groups. At the same time, people, if they are standing alone and not part of a large group, trying to do things outside the decision making group's span of interest are having a very difficult time.

It also seems clear that when projects are late or fail, there is

little interest in correcting what might have gone wrong and exploiting the investments already made. If a person does not succeed immediately and their project is not one of the favorites of the group, that person is sent to the outer most hell, never to be heard from again.

I think we should have a systematic approach to planning and we should insist on certain disciplines. For example, some projects, I am told, are done because "Ken wants it." If Ken wants it, he should put it down on paper and it should be on the record. And, if Ken wants no negative comments or negative decisions, Ken should write that down on paper and put it in the record also. If it is not written down and not in the record, "Ken wants it" should never be an excuse for lack of wisdom. That, of course, goes for other things too.

It is also obvious that plans should be complete and a new product should not be accepted just on the cost of Engineering. All costs, including marketing, testing, introducing, selling, application, development, and training should be part of the plan and should be identified with who will manage each of the steps.

This system also identifies how things should be managed. If a manager of Engineering groups, a manager of Accounts, and a manager of Integration groups make all the decisions, each of these groups lays out a plan and a budget. When it is accepted, the manager facilitates when something is wrong, corrects mistakes and encourages them to be wise, but the manager does not change the strategy, nor do they change the plans. The entrepreneur is the account manager or the project manager, not the boss.

KHO:eh
KO:4569
(DICTATED ON 10/9/90, BUT NOT READ)

Distribution:

TO: Jim Osterhoff	(OSTERHOFF.JIM)
TO: Win Hindle	(HINDLE.WIN)
TO: John Sims	(SIMS.JOHN)
TO: Martin Hoffmann	(HOFFMANN.MARTIN)
TO: Jack Smith	(SMITH.JACK)
TO: Abbott Weiss	(WEISS.ABBOTT)
TO: Bill Strecker	(STRECKER.BILL)
CC: PETER SMITH	(SMITH.PETER)

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F.C.

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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

Doc. No: 016036
Date: 15-Oct-1990 04:00pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below
cc: Win Hindle & others

Subject: LET'S MAKE BETTER USE OF STF

DIGITAL CONFIDENTIAL

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We have always worked on the theory that people should propose business projects and the Executive Committee would pass judgment on these with help from experts. The expert system has not worked well. The comments from STF usually come in the form of a statement that STF has voted such and such. From this, we learn little. We don't know what is unanimous; we don't know what the minority opinions are; we don't know if it was a compromise vote; and we don't know what the Committee would recommend we do.

Under this, there also comes a feeling that the highest calling in the Company is to be the critic and not the proposer with the result that the word that is given to the Company's newcomers is "keep you head low, propose nothing, and become a critic, rather than a doer."

If we don't get people who will propose projects all the way to marketing, selling, and taking responsibility for profit, and, if we continue our path of listening to all the critics, I think it is obvious that this model degenerates into a downward slide, forever.

In the Company, it is commonly understood that there are thousands of people who can say no, but no one can say yes. This is because questions are never allowed to be brought to the Executive Committee, who could say yes. Rather they go back and forth between the groups who have no responsibility, except to criticize proposals.

When proposals are brought to the Executive Committee, they are

not brought with any useful information, they are not put in context, nor are alternatives identified.

I'd like to make STF and other critical groups more useful. I'd like to propose two things: First of all, I'd periodically like to contract with STF and maybe other groups to lay out alternatives, strategies, and business plans for the Company, and let them feel that if their strategies are picked, they share the responsibility.

Secondly, as we break the Company into Business Units and then combine Business Units into fifteen or so groups, I'd like each group to have something similar to a board of directors, made up of experts who have the feeling that their job is not just to criticize and complain, but to make the group successful and to share in the responsibility for the projects they take on.

Somewhere in the Engineering establishment, someone has decided how much the Company can afford to invest, and they have given the Executive Committee blame or credit for that number. This, of course, is not true at all. It is obvious that there is really no limit as to what we can invest. Our problem is just the opposite. Our problem is finding investments which will give us return. If we have a lot more investments with a very good return, we can find the resources. However, we cannot afford to try to squeeze as many things as we "want to do" into some magic number that someone picked. If we can get all the great people we have working together to make the Business Units successful in contributing positive ideas and not just negative criticism, we probably can do great things. If we can make STF an ally instead of an enemy to the Business Units, I propose we will have a great future.

Let me know what your thoughts are.

KHO:dao

KO:4592

Dictated on 10/14/90, BUT NOT READ

Distribution:

TO: Remote Addressee	(BOB SUPNIK @HLO)
TO: BILL STRECKER	(STRECKER.BILL)
CC: ROBERT R. EVERETT	(EVERETT.ROBERT)
CC: Jim Osterhoff	(OSTERHOFF.JIM)
CC: Win Hindle	(HINDLE.WIN)
CC: John Sims	(SIMS.JOHN)
CC: Martin Hoffmann	(HOFFMANN.MARTIN)
CC: Jack Smith	(SMITH.JACK)
CC: Abbott Weiss	(WEISS.ABBOTT)
CC: PETER SMITH	(SMITH.PETER)

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complicated Company, and Engineering should be in the mode of always being helpful to other Engineering, EIS, Integration, and Marketing and Selling groups.

KHO:dao

KO:4575

Dictated ON 10/11/90, BUT NOT READ

Distribution:

TO: BILL STRECKER	(STRECKER.BILL)
CC: Ken Olsen	(OLSEN.KEN)
CC: Jim Osterhoff	(OSTERHOFF.JIM)
CC: Win Hindle	(HINDLE.WIN)
CC: John Sims	(SIMS.JOHN)
CC: Martin Hoffmann	(HOFFMANN.MARTIN)
CC: Jack Smith	(SMITH.JACK)
CC: Abbott Weiss	(WEISS.ABBOTT)
CC: Bill Strecker	(STRECKER.BILL)

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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

Doc. No: 015870
Date: 05-Oct-1990 03:26pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

cc: *Win Hindle*

Subject: SELLING DIRECT AS OPPOSED TO INDIRECT

DIGITAL CONFIDENTIAL

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I have a hunch that it is cheaper to sell direct than it is to sell indirect for many products. I, of course, do not have the data to prove this, but I'd like you to see if you can find out.

If we take the cost of selling directly and compare it with the discount we give to resellers, how do these compare? We have to subtract from both of them the overhead which is not pertinent for the comparison.

It always looks more profitable to sell to OEMs because, for the same product, the NOR is smaller, so for the same profit, the percentage of profit looks bigger if you compare dollars for cost-of-selling for each one.

Then consider for me what would be the cost, and how practical it would be for our Field Service personnel to sell Local Area Networks.

KHO:eh
KO:4549
(DICTATED ON 10/4/90, BUT NOT READ)

Distribution:

TO: Ralph Dormitzer (DORMITZER.RALPH)
TO: Lyn Benton @ CORE (BENTON.LYN)
TO: DONALD ZERESKI (ZERESKI.DONALD)

CC: Jim Osterhoff (OSTERHOFF.JIM)
CC: Win Hindle (HINDLE.WIN)
CC: John Sims (SIMS.JOHN)
CC: Martin Hoffmann (HOFFMANN.MARTIN)
CC: Jack Smith (SMITH.JACK)
CC: Abbott Weiss (WEISS.ABBOTT)
CC: Bill Strecker (STRECKER.BILL)
CC: PETER SMITH (SMITH.PETER)

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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

Doc. No: 015869
Date: 05-Oct-1990 03:24pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: THE MANAGEMENT OF ENGINEERING

DIGITAL CONFIDENTIAL

DO NOT DISTRIBUTE OR COPY

Everyone believes we are spending too much money on engineering, but they want to concentrate on killing projects. I'd like to concentrate on the management of Engineering and see what we can cut out. I'd like to suggest that we should immediately set up several auditing teams to audit all the projects in Engineering groups for the last two or three years. Have each group make a list of all those projects that were worked on, then find out how much money and time went into them, and what happened to them. If those that were cancelled or stopped, why were they cancelled. Were they cancelled for a good reason? Did we lose markets because they failed? How many projects were duplicated and should not have been? How many were duplicated, but for a very good reason, to gain efficiency and safety? How much of each group's budget was actually spent on budgeted projects and how much was spent on other things?

I think we should break it down by both Engineering group and location. It would be good to see how productive some of the remote Engineering groups are.

The Board of Directors, and particularly the Executive Committee, hears about many projects that have been started. They do not hear about many others that are started but never talked about, but, above all, they never hear about those that fail.

KHO:eh
KO:4548
(DICATED ON 10/4/90, BUT NOT READ)

Distribution:

TO: BILL STRECKER	(STRECKER.BILL)
TO: Jack Smith	(SMITH.JACK)
TO: Jim Osterhoff	(OSTERHOFF.JIM)
CC: Jim Osterhoff	(OSTERHOFF.JIM)
CC: Win Hindle	(HINDLE.WIN)
CC: John Sims	(SIMS.JOHN)
CC: Martin Hoffmann	(HOFFMANN.MARTIN)
CC: Abbott Weiss	(WEISS.ABBOTT)
CC: PETER SMITH	(SMITH.PETER)

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KO memo

E.C.

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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

Doc. No: 017378
Date: 14-Dec-1990 05:10pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: CORPORATE FUNCTIONAL MANAGER

DIGITAL CONFIDENTIAL

DO NOT DISTRIBUTE OR COPY

Now that the Company is made up of a large number of independent Business Units, there is a danger each group may tend to over staff in each of the overhead functions. These functions must always be managed, controlled, minimized, and rationalized. Each one has to be budgeted and worked from a business plan, and, like all Business Units, each month they must report how they are doing.

For seven functions, we will have a Corporate manager who will have dotted line responsibility to each of those functions if they are represented in Business Units.

Within Business Units, the overhead functions will be included in the budget and the Business Unit report each month. But, in addition, for each function they will be added up as a function for the whole Corporation and also reported to the Corporation by function.

The seven functions are:

- I. Corporate Budget Manager
- II. Corporate Public Relations Manager
- III. Corporate Communications Manager
- IV. Corporate Personnel Manager

F.C.

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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

Doc. No: 016013
Date: 12-Oct-1990 02:42pm EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below
CC: Win Hindle + Exec Comm

Subject: REPORTS ON ENGINEERING PROBLEMS IN THE FIELD

DIGITAL CONFIDENTIAL
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- I. I think it would be a good idea if you would review, at each Executive Committee meeting, the reports we receive on Engineering problems in the field. Most of us read them with no idea how to grab a hold of them, and we assume that Engineering is taking each one seriously. But, I think it would be a good idea if you made a very short comment on each one of them at each meeting.
- II. Periodically, we get a report that Engineering is cutting projects out of the budget which are key to certain commitments we have already made to customers. I think whenever Engineering is considering cutting out projects for which we have already made commitments, this should be brought to the Executive Committee. If you know ahead of time, the parallel should also be true which means that if you see us making commitments for something you are considering cutting, please bring that one to us early.
- III. It seems that EIS needs a lot of help in technology and Engineering. Please propose to us how Engineering can integrate with and help EIS.
- IV. Several years ago, there was tremendous conflict, even verging on hatred between Engineering groups and little productivity. We seem to be going back to that, and the tension between the Engineering groups is not at all helpful. Sometime, discuss with us what you think we can do to have the groups works together as one Company and not as competitors and enemies. We are now a much more

- V. Corporate Training Manager
- VI. Corporate Controller
- VII. Corporate Marketing Manager

Normally, the Business Unit manager concentrates on their own business and may not spend the necessary time to fully support each of the functional managers. Therefore, each of these functional managers will take that responsibility and share it with the Business Unit manager.

CORPORATE BUDGET MANAGER

For example, the Corporate Budget Manager will have laid out a budget for each Business Unit and each function within the Corporation. There will be a schedule, a budget to accomplish the budget, and a common format for each one. Each month there will be a report on how much is spent doing the budget, how far along they are, and, in addition, each month, during the six months before a budgeting period, there will be tentative budget delivered, along with this financial report. That tentative budget will get better and better each month, until the final budget is approved for the Corporation, approximately six weeks before the end of the fiscal year.

Two weeks before the start of each quarter there will be an update of each budget.

Too often, budgets have been taken care of by staff members without the manager's detailed participation. They were done with precision, but without the wisdom of the manager. From now on, the budgets will be done with less precision, but with all the interest, care, and enthusiasm of the manager, and with a lot smaller staff.

Budgeting can only be described by the word travail. There is never enough money to do all the things that have to be done. Balancing the things one wants with the things one has to get done is an enormous amount of work. It is the Corporate Budgeting manager and the Budgeting manager for each Business Unit who have the responsibility to ensure this travail goes through with efficiency and dispatch.

CORPORATE BUDGET RELATIONS MANAGER

The Corporate Public Relations Manager will be responsible for all the Public Relations managers throughout the Corporation in the same way described for the Budgeting manager. The PR manager will be able to assure the Board of Directors and the Executive Committee that public relations, through the Corporation, is done efficiently, professionally, and economically. If there are

areas in question, the PR manager will have the responsibility for bringing them to light. This manager will also have the expertise and the contacts for all media.

CORPORATE COMMUNICATIONS MANAGER

The Corporate Communications Manager will be responsible for rationalizing all the media throughout the Corporation. This includes everything from information letters to television programs, from Corporate meetings, sales meetings, and departmental meetings. By collecting the budgets and the plans, this manager shall be able to influence the whole Corporation to be efficient, practical, and professional in this area.

The Corporate Communications Manager will also be able to assure us that each communications person understands our products, our way of doing business, and is expert in their particular skill.

The Corporate Communications Manager will assure us that everything of interest, excitement, enthusiasm, and importance is distributed immediately throughout the Corporation and in a form that is very interesting and satisfying to an employee.

This manager should be sure that every staff member in every communications operation is efficient and practical and meets the highest professional standards. Each group will work with the speed, professionalism, enthusiasm, and the efficiency of a newspaper or magazine that produces a document every day of every week.

CORPORATE TRAINING MANAGER, CORPORATE CONTROLLER, CORPORATE PERSONEL MANAGER

The Corporate Training Manager, the Corporate Controller, and the Corporate Personnel Manager shall do the same in each of their areas.

KHO:eh
KO:4806
(DICTATED ON 12/11/90, BUT NOT READ)

Distribution:

TO: PETER SMITH	(SMITH.PETER)
TO: Lyn Benton @ CORE	(BENTON.LYN)
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TO: Ken Olsen	(OLSEN.KEN)
TO: Jim Osterhoff	(OSTERHOFF.JIM)
TO: Win Hindle	(HINDLE.WIN)

TO: John Sims (SIMS.JOHN)
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F.C.

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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

Doc. No: 017243
Date: 11-Dec-1990 02:26pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: JANUARY AND FEBRUARY WOODS

DIGITAL CONFIDENTIAL

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Following are a few things I would like to do at the January and February WOODS meetings:

- (1) I'd like to define and start the development of an architecture for business computing.
- (2) I'd like to have one or two training sessions where we will train the Executive Committee on how to pass judgment on business plans. This will also, in effect, outline what we want in the business plans. I'd like John, Abbott, and Jim to figure out how we should do this. Should we have Professor Larry Selden from Columbia, or Frank Fabozzi from MIT, teach us for a half day or for one or two days? Should we divide the training in half and, in between, have a work session where we formalize what we want in the business plan?
- (3) Within that period, I would like another Ken Olsen School of Marketing. I want to divide the Company into seven pieces, one for each member of the Executive Committee, and then assign a team of six or eight Business Unit managers and Engineering managers.

We will give each team a particular problem. They will have four to six weeks to lay out the solution or the equipment, and on the day of the school, we will take an empty factory floor, take seven piles of equipment that were ordered by seven groups, and let them put them together and demonstrate the network and the application

RR

running on that network.

KHO:eh
KO:4803
(DICTATED ON 12/10/90, BUT NOT READ)

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TO: Abbott Weiss	(WEISS.ABBOTT)
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CC: Jim Osterhoff	(OSTERHOFF.JIM)
CC: Win Hindle	(HINDLE.WIN)
CC: John Sims	(SIMS.JOHN)
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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

Doc. No: 017261
Date: 12-Dec-1990 02:37pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: ENGINEERING PRODUCT BUDGETS

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In the new system, which we will start using on January 1, 1991, the Integration Marketing Business Units will lay out a plan for each Business Unit that incorporates all the detail necessary to be successful in that Business Unit. This includes all the hardware, software and the engineering details that have to be taken care of.

The Engineering Product Development groups have an obligation to produce these units. If they don't think it's wise, or if they think there is a better way, they will, of course, have an opportunity to first convince the Business Unit and then convince the Executive Committee that there are better alternatives.

However, there is no such thing as Engineering Business Units saying they won't do it because they don't feel like doing it. There is absolutely no argument. We will not take money away from one engineering commitment and put it on another one without a formal change to be approved by the Executive Committee.

To get started, I would like the Marketing Integration Business Units run by Bob Glorioso, Russ Gullotti and Pete Smith to present to the Executive Committee on December 18, all those projects which have been committed to customers for hardware and software, and all of those which are important to the business plans which they have assumed for the next year or two. I would also like them to include all the things they never have thought of before such as data base servers and fiber optic clusters.

At the same meeting I would like Bill Demmer, Bob Palmer, Grant

Saviers, and Dave Stone to list all those items which have been removed from their budget, or never were on their budgets, and propose how we would get them budgeted, or how the Business Units can survive without them.

If there is insufficient money, is it possible to cut the number of CPUs we are developing, or is it possible to find engineers who are not being fully utilized and put them on the job?

Above all, we want a very clear, simple list of all the projects needed by our Application/Integration Business Units and a clear budget and commitment to develop them.

KO:4812

(DICTATED 12/12/90 BUT NOT READ)

Distribution:

TO: Russ Gullotti @ CORE	(GULLOTTI.RUSS)
TO: PETER SMITH	(SMITH.PETER)
TO: Bob Glorioso	(GLORIOSO.BOB)
TO: Bill Demmer	(DEMMER.BILL)
TO: BOB PALMER	(PALMER.BOB)

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Hunt
R.M.

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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

Doc. No: 016738
Date: 19-Nov-1990 11:15am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

TO: See Below

Subject: 10 DECEMBER 1990 BOARD OF DIRECTORS MEETING

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I. MAINFRAME

At the December 10, 1990 Board of Directors meeting, I'd like someone from Bob Glorioso's new group to present the mainframe business plan for the next couple of years.

I'd like this presentation organized so the Board of Directors can clearly and simply see the business plan. This plan should probably be broken down by different applications such as TP, vector, servers, etc. It also should be broken down to indicate what products are needed from the product groups, such as CPUs, networking, UNIX, and VMS.

We want to present a balanced business plan to the Board. We are consistently accused of not getting a clear message across to the Field and then to the customer, for not using advertising wisely, and for not getting our message across to publications like The New York Times and Business Week.

We also do not get all of Digital behind the messages. Almost any customer has a relative or friend who works for Digital. We do not exploit this marketing tool by convincing everyone at Digital of our products.

The goal should be to present the budget breakdown between all the components of the business plan, a breakdown of the manpower, a breakdown of the areas of emphasis and creativity, and to make a strong commitment to the accomplishments that can be measured in each of these areas.

This should not be a lengthy discussion. We should not spend a long time talking about the technology; the Board takes

that for granted. However, they would like to be assured that we are working on all aspects.

II. FAULT TOLERANT COMPUTING

I would then like to have someone present the Fault Tolerant business plan with all its components, investments, and commitments. It is important to put high availability with clusters in context with fault tolerant computing.

III. PETE SMITH'S GROUPS

I'd like the same proposal to be presented in a very concise form by some of Pete Smith's groups. They should be presented by product and not by industry.

THE PRESENTATION

Let's break the presentation into three pieces: the product part, which will include hardware and software; the marketing part, which will include all the things necessary to get the messages across and understood by our salespeople, our customers, and the press; and the pricing formula -- how are we going to price for standard hardware and software, taking into account the base price, the addition of marketing costs, and the allocated selling costs, and still have consistency between marketing groups, and how do we take into account the specialized things that get added?

KHO:eh
KO:4746
(DICTATED ON 11/18/90, BUT NOT READ)

Distribution:

TO: Bob Glorioso	(GLORIOSO.BOB)
TO: Dom LaCava	(LACAVA.DOM)
TO: PETER SMITH	(SMITH.PETER)
TO: Bill Demmer	(DEMMER.BILL)
TO: George Chamberlain	(CHAMBERLAIN.GEORGE)
CC: Jim Osterhoff	(OSTERHOFF.JIM)
CC: Win Hindle	(HINDLE.WIN)
CC: John Sims	(SIMS.JOHN)
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Wen to review ASAP Hint

W.A.C.M.

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Doc. No: 016737
Date: 19-Nov-1990 11:12am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

TO: See Below
Subject: WHAT'S NEXT?

DIGITAL RESTRICTED
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I am afraid now that we have a way of organizing the Company and doing the budgets, people think the job is done and we can just wait for the results.

Our new way of looking at budgets, reporting, and responsibility does not solve problems, it just makes them visible. I'd like to use the executive session of the Executive Committee meeting on Tuesday, 20 November 1990, to formalize the implementation schedule and the steps which will allow us to organize the problems the new systems present.

I am afraid there is a feeling that all the money has been spent, the budget has already been made out, there is no money left to do those things necessary to sell and market products, and, therefore, there is basically no change possible.

At this meeting, I'd like to develop a schedule for the Board of Directors. I'd also like to be able to make a simple statement of perspective which shows how much effort we spend today on core computer components and core computer software, and compare it to our history of marketing investments.

I sometimes think that because of our history, we are not able to look at the marketing question. I think we should hire an outside consulting firm to go over all our messages, organize them, see how well we have communicated them to our salespeople, and then tell us what has to be done.

On Tuesday, as a group, I'd like to go over the messages and see if we think we have communicated them well. Some questions are:

- o Do our salespeople know the difference, the reasons why,

and the advantages and disadvantages of Ethernet on (1) Twisted Pair, (2) ThinWire, and (3) Yellow Wire with 15-pin Connectors?

- o Do our salespeople know the difference between TCP/IP and DECnet, and do they believe the party line as to which one will eventually win?
- o Do our salespeople know what NAS is? Do they know what to sell and what not to sell? Do they think that NAS is something customers buy, or what is a useful knock-off point? Is NAS an application or is it a help?
- o When the customer wants UNIX, do we know when they should use N86, VAX, or RISC? What are the advantages and disadvantages of each?
- o I've learned not to ask to put MS-DOS, ULTRIX, VMS, SCO, and System V in perspective. Religious beliefs should not be discussed in the Company. Every salesperson should make up their own mind without interference from the Company.
- o Have we told our salespeople the difference between fault tolerant and high availability on clusters?
- o Currently, our salespeople are sold separately and in competition with each other on clustering on NI, CI, DSSI.
- o Have we convinced our salespeople when they should sell Novell and when they should sell PC Connect?
- o Do our people understand standards and open software?
- o Do our salespeople know when to use timesharing with serial lines or Ethernet?

When we evaluate the marketing dollars we do spend, how much of it is spent competing with other Digital products? How much have we identified to compete against the competition? In our new organization, who will be responsible for these clear messages and coordinate all the internal competition for the salespeople?

How does our advertising budget compare with the advertising budget of the competition? How much of their budget is spent presenting the competitive message relative to outside competitors? How do we compare? What are our messages? Are they understood?

KHO:eh
KO:4745


(DICTATED ON 11/18/90, BUT NOT READ)

Distribution:

TO: Jim Osterhoff (OSTERHOFF.JIM)
TO: Win Hindle (HINDLE.WIN)
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TO: Martin Hoffmann (HOFFMANN.MARTIN)
TO: Jack Smith (SMITH.JACK)
TO: Abbott Weiss (WEISS.ABBOTT)
TO: Bill Strecker (STRECKER.BILL)

CC: PETER SMITH (SMITH.PETER)

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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

Date: 23-Oct-1990 11:33am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: ETHERNET BUSINESS UNIT

DIGITAL CONFIDENTIAL

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I have concluded it is unwise to move Ralph Dormitzer into Grant Saviers' group. After talking to BJ, I decided that Ethernet should be a very major Business Unit of the Corporation. It is one area where we should have a monopoly, and we should own the whole market.

I am going to ask Ralph to propose how he would get all of the networking market. Today's approach to networking is to have one of every possible box so that any job that comes in, we can do. I would like Ralph to have a completely different approach and that is how does he get 100% of the simplest part of the market which would be just Thinwire Ethernet. Then, what would he do to gain 100% of each additional increment as we offer more equipment.

It seems to me that FDDI, network management, SNA connection, etc., are all parts that contribute to the total Ethernet market.

KO:4633
(DICTATED 10/23/90 BUT NOT READ)

Distribution:

TO: Grant Saviers	(SAVIERS.GRANT)
TO: Jack Smith	(SMITH.JACK)
TO: Ralph Dormitzer	(DORMITZER.RALPH)
CC: PETER SMITH	(SMITH.PETER)
CC: Jim Osterhoff	(OSTERHOFF.JIM)
CC: Win Hindle	(HINDLE.WIN)
CC: John Sims	(SIMS.JOHN)
CC: Martin Hoffmann	(HOFFMANN.MARTIN)

CC: Abbott Weiss
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(WEISS.ABBOTT)
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Hint V.E.L.

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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

Doc. No: 016739
Date: 19-Nov-1990 11:13am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: RALPH'S PRESENTATION TO THE EXECUTIVE COMMITTEE

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As a starter for selling in stores, let's propose the most trivial and simple network. This would be a series of PCs or workstations just daisy chained together. All we have to offer to do this is a supply of cheap, coax cable, ready made with connectors. What sizes would we offer -- three, six, twelve, or twenty-four feet?

The next question is: How do we drive printers and telephone lines? Is there a cheaper way than our terminal server? For the real cheap case, could we say that one of the PCs has to be commandeered as a part-time print server and telephone server? Or, is it cheaper to sell a separate PC without display and without display cards as a print server/telephone server with backup?

Let's also present a serial line proposal. Suppose we have this terminal server/telephone server in a cheap box with all display parts removed. We could then use that as a timeshared computer, not used for computation, but as backup storage, a telephone server, and a print server.

In this case, we would sell a magic box which has trivial pieces with plug-in modules that drive serial lines, telephones, print servers, and backup tape. We might be able to take part of Gary Eichhorn's software to drive it.

KHO:eh
KO:4747

(DICTATED ON 11/18/90, BUT NOT READ)

Distribution:

TO: Ralph Dormitzer	(DORMITZER.RALPH)
TO: Jim Liu	(LIU.JIM)
CC: PETER SMITH	(SMITH.PETER)
CC: Jim Osterhoff	(OSTERHOFF.JIM)
CC: Win Hindle	(HINDLE.WIN)
CC: John Sims	(SIMS.JOHN)
CC: Martin Hoffmann	(HOFFMANN.MARTIN)
CC: Jack Smith	(SMITH.JACK)
CC: Abbott Weiss	(WEISS.ABBOTT)
CC: Bill Strecker	(STRECKER.BILL)

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~~Rob Hayes~~

^{Hnd}
Win, Rob Hayes is EC ^{KO}
Working on this and
will talk w/you on
Monday. He is on
your call list.
11/28
Hkt.

Printed by Win Hindle

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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

Doc. No: 016925
Date: 28-Nov-1990 11:51am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

John Sims + Dick Farrahan
TO: See Below
cc: Win Hindle + others
Subject: PERSONNEL NUMBERS BY CATEGORY

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Before the December Board of Directors meeting, I'd like to present to the Board the numbers of personnel, by category, in each of the groups supervised by a vice president (or one who should be a vice president). I'd like to give these numbers to the Board ahead of time. The Board can then ask for the vice presidents they would like to have come and discuss their groups' staffing and also their plans for increasing the efficiency of their areas of responsibility.

Because most people are either in Japan or Palm Springs this week, I'd like Personnel to prepare the charts this week so that the individual Vice Presidents can correct them when they return, before we send them to the Board of Directors.

We announced that we assigned responsibility for personnel to the Vice Presidents responsible for that part of the Corporation, and we do not make decisions centrally on these matters. I'd like to show the Board that this does not mean we have abandoned the responsibility for this, but that each group is doing a responsible job in their area.

KHO:eh
KO:4470
(DICTATED ON 11/28/90, BUT NOT READ)

Distribution:

TO: John Sims (SIMS.JOHN)
TO: Dick Farrahar (FARRAHAR.DICK)

CC: John Alexanderson (ALEXANDERSON.JOHN)
CC: Don Busiek (BUSIEK.DON)
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CC: Rose Ann Giordano (GIORDANO.ROSE ANN)
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CC: BRUCE J RYAN @CORE (RYAN.BRUCE J)
CC: Grant Saviers (SAVIERS.GRANT)
CC: Remote Addressee (GEOFF SHINGLES @REO)
CC: John Sims (SIMS.JOHN)
CC: Jack Smith (SMITH.JACK)
CC: PETER SMITH (SMITH.PETER)
CC: David Stone @ CORE (STONE.DAVID)
CC: BILL STRECKER (STRECKER.BILL)
CC: HARVEY WEISS (WEISS.HARVEY)
CC: Remote Addressee (RICHARD YEN @TAO)
CC: DONALD ZERESKI (ZERESKI.DONALD)
CC: Abbott Weiss (WEISS.ABBOTT)

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Doc. No: 016839
Date: 26-Nov-1990 02:05pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

*Rogers has not
seen this.
Would you like
for him to have
a copy?
Doc 143 - YXN -
Ref Ayres is
generating the report*

TO: See Below

Subject: STAFFING REPORT TO THE BOARD OF DIRECTORS

DIGITAL RESTRICTED

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The press, analysts, and maybe the Board of Directors are very critical of me and of Digital because we are approaching our staffing problems from a decentralized point of view. I'd like each Vice President and each Manager to figure out what problems they have with surplus people and unneeded overhead. I can tolerate the accusations of being incompetent, but I do think we owe it to the Board of Directors to report exactly the situation in each of the areas on which we put this responsibility.

Before the next Board of Directors meeting on 10 December 1990, I'd like a chart sent to each member showing the staffing by each Vice President, or equivalent, and then an analysis of the staffing situation. I think we should break down the people in each group by job, whether it be Finance, Personnel, Marketing, Engineering, or Overhead, with a statement of the correctness of that staffing and the efficiency of the organization by the person in charge.

We should overlap some of these reports because much of Finance and Personnel come under both Jim Osterhoff and John Sims.

It would be particularly useful to somehow identify the staffing in terms of where they are located. There seems to be particular concern about remote locations that they do not receive the critical interest that the home staff gets.

KHO:eh
KO:4756
(DICTATED ON 11/25/90, BUT NOT READ)

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TO: Jim Osterhoff	(OSTERHOFF.JIM)
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TO: Abbott Weiss	(WEISS.ABBOTT)
TO: Bill Strecker	(STRECKER.BILL)
TO: John Alexanderson	(ALEXANDERSON.JOHN)
TO: Henry Ancona	(ANCONA.HENRY)
TO: Jay Atlas	(ATLAS.JAY)
TO: Dave Copeland	(COPELAND.DAVE)
TO: Henry Crouse	(CROUSE.HENRY)
TO: Jim Cudmore	(CUDMORE.JIM)
TO: Bill Demmer	(DEMMER.BILL)
TO: Gary Eichhorn	(EICHHORN.GARY)
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TO: Dick Fishburn	(FISHBURN.DICK)
TO: Sam Fuller	(FULLER.SAM)
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TO: Dave Grainger	(GRAINGER.DAVE)
TO: Russ Gullotti @ CORE	(GULLOTTI.RUSS)
TO: BILL HANSON	(HANSON.BILL)
TO: Local Addressee	(HEFFNER.BILL)
TO: Bob Hughes	(HUGHES.BOB)
TO: Bill Johnson	(JOHNSON.BILL)
TO: Dom LaCava	(LACAVA.DOM)
TO: Frank McCabe	(MCCABE.FRANK)
TO: BOB PALMER	(PALMER.BOB)
TO: DICK POULSEN	(POULSEN.DICK)
TO: Mick Prokopis @ CORE	(PROKOPIS.MICK)
TO: BRUCE J RYAN @CORE	(RYAN.BRUCE J)
TO: Grant Saviers	(SAVIERS.GRANT)
TO: TOM SIEKMAN	(SIEKMAN.TOM)
TO: PETER SMITH	(SMITH.PETER)
TO: WILLIAM M. STEUL	(STEUL.BILL)
TO: David Stone @ CORE	(STONE.DAVID)
TO: HARVEY WEISS	(WEISS.HARVEY)
TO: DONALD ZERESKI	(ZERESKI.DONALD)

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E.C.

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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

Doc. No: 016851
Date: 26-Nov-1990 04:48pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: REDEFINITION OF ETHERNET

DIGITAL CONFIDENTIAL

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I am setting about to redefine Ethernet. We always told the Ethernet story by starting off with the Orange cable, and H4000's with 15 pin connectors. We insisted people memorize how long each kind of cable can be and how you drill holes in the Orange cable, etc.

In Volume I of the new Ethernet book, I would like to define it as simply ThinWire interconnecting devices. Vary rarely does it get to be big enough that one has to worry about lengths, and very, very rarely does one have to worry about Orange cable. When floors are interconnected, it can be done with Orange cable, or ThinWire, or fiber optics.

Volume II would discuss interconnecting to IBM systems. Volume III would discuss the use of esoteric boxes and Orange cable in very complex systems. Ninety-eight percent of the people need only Volume I, and we tend to lose them because we insist that they understand all the complexities and the fancy boxes we offer before we let them interconnect.

Every officer, salesperson and engineer at Digital should know how to hook up a whole floor of devices with Ethernet using ThinWire, DEMPRs, and DELNIs.

Even more shocking, I would like to reinvent timesharing. Most organizations in the world are small. Therefore, the biggest market for computers is in very small organizations. Many of them think they want Ethernet, but in looking over their problem and their ability to manage an Ethernet system, I have concluded they want a trivial time-shared system using asynchronous lines

RR

and terminals. When they want to add a workstation or a PC, they simply do it as if it were a terminal.

KO:4755

(DICTATED 11/26/90 BUT NOT READ)

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TO: Ralph Dormitzer	(DORMITZER.RALPH)
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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

Doc. No: 016837
Date: 26-Nov-1990 01:56pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

Jack Smith + Jim Osterhoff
TO: See Below

Subject: JACK & JIM TO PRESENT TO THE BOARD OF DIRECTORS

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I think the Board of Directors likes the general idea of the new approach we have to running Digital. However, I think is it also clear that they are concerned whether or not we will ever get it done, and whether or not the Executive Committee will support it.

It was a year and one-half ago when we announced the three business groups that would run the Company, and it has been almost five months since we decided on the present organization at the Heald Pond Woods meeting. I think the Board clearly wants a schedule as to when we will get this done.

I'd like both of you to present the schedule because it will show your commitment to this way of doing things, and it will also commit us to doing things on a specific time schedule.

In particular, I think they would like to know when we will get the new pricing and discount schedule working so we can get the simple, low cost jobs we over price for today, and make money on the complex jobs we lose money on today. I think they are less interested in the accounting system, because it is clear we can run the Company without perfect accounting; it is also clear that we cannot run the Company with perfect accounting.

I think they also would like to know how we organize responsibility, reporting, and decision making.

If we know what we are talking about, this could be a very short presentation. If we don't know what we are talking about it could take several hours.

KHO:eh
KO:4757

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TO: Jack Smith	(SMITH.JACK)
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Doc. No: 016838
Date: 26-Nov-1990 01:59pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

Jahn Sims
TO: See Below
cc: Wei & others

Subject: EXECUTIVE COMMITTEE WOODS MEETING

DIGITAL RESTRICTED

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Please set up an Executive Committee Woods meeting soon. It would be good to get away for two days where we can decide each Executive Committee member's task.

Before we do this, I think each member should define the task for all other Executive Committee members, send them all out, and then see if, as a group, we can decide what the tasks are and how we regularly report on them.

Traditionally, the Executive Committee listens to people, passes judgment on them, but never has responsibility. We then pass this attitude down to the lower levels where we have a lot of people always complaining about the other people, but never really feeling a clear obligation to a clear reporting system for their own task.

The first part of this discussion should define the general tasks for all Vice Presidents and Senior Managers, i.e., the training, education, nurturing, supporting, reprimanding, and disciplining of everyone under them. It also should mean taking a real interest in the career path of each of their direct reports, which sometimes includes taking jobs in other parts of the Company; sometimes it means moving, sometimes it means going to school for a time. Often, it means taking on a peripheral task, in addition to the main task, to broaden one's understanding of the organization.

Then there are the tasks which specifically go with the job title. We think of Project Engineering as a task for Engineering, but it probably should be for the Corporation to develop so that it is a system that every job uses and so that it

can be simplified as it goes up the organization chart. This would give everyone at the top and all the way through the organization a feeling for how each project is going.

KHO:eh
KO:4758
(DICTATED ON 11/25/90, BUT NOT READ)

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TO: John Sims	(SIMS.JOHN)
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D- Do I have the KO memo in my E.C. file all marked up? History KIRK

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W- The copy you requested is attached. Now

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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

11/19

Doc. No: 016615
Date: 13-Nov-1990 11:08am EST
From: Dallas Kirk
KIRK.DALLAS
Dept: CORP. PUBLIC RELATIONS
Tel No: 223-4562

TO: Ken Olsen (OLSEN.KEN)
CC: Win Hindle (HINDLE.WIN)
CC: Remote Addressee (ANNE KREIDLER @PKO)

Subject: DECEMBER 6 STATE OF THE COMPANY MEETING

Ken, *(Ken's memo attached)*

Thanks for inviting the PR plan onto the agenda for the December 6 meeting. I believe it is too early to take advantage of this. The May meeting is better because we can then demonstrate real examples of success.

I am coming to Executive Committee on November 20 to discuss the issue. We have the process elements designed and now need the corporate vision and strategy articulation. This is a non-trivial piece of work. Dave Berry outlined the message development process in his note to you on November 12, "Digital Uniqueness".

Regards, *attached*

Dallas

P.S. I'm in Zurich on December 6 for an annual GIA and European Country PR Managers' meeting.

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D - I thought I was there
from 8:30 - 12 NOON??

FYI - your commitment
on the day of "The State of
the Company" is from
12:30 - 4:30 in Walltown.

W - YES. The original request was
A.M. - but when info arrived,
the request is for P.M. I confirmed
this.

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(Custom announcements
every - requested by
Bill Alommon.)

INTEROFFICE MEMORANDUM

D I hope I will get the script
early to modify it to my
winds -

Doc. No: 016573
Date: 12-Nov-1990 09:26am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

Anne Kreedle + others

TO: See Below

cc: Win Hendle + others

Subject: 6 DECEMBER 1990 STATE OF THE COMPANY SPEAKERS

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Now that we have organized the Company to plan around marketing
units, I'd like to orient our State of the Company meeting around
the more interesting and bold Business Units.

- I. I will begin the meeting with a review of our organization and how we are going to do accounting and planning.
- II. Then, I would like Jim Osterhoff to make a study and present the results at the State of the Company meeting. We normally tell how badly we are doing and imply that people should know how to get out of it without any help from Finance. In most companies, Finance not only reports on results but also does studies that help orient people in their market. Therefore, I'd like Jim's presentation to be a study of the market.

I'd like this study to be a review of the computer industry, comparing twelve of the most important computer companies in the world on many characteristics. We should list those companies that are not included and tell why they are not included. We might leave the Japanese companies off because the data is hard to find, and we might dismiss others because they are unimportant. I would like to include all of our traditional competitors, even though many of them may not be important anymore. This list should include Wang, Data General, Prime, Unisys, etc. I'd like to plot them in graphic or tabular form. I'd

like to plot what we can divine from the data gathered from the computer portion of their business. For example, for companies like National Cash Register and AT&T, I would report their computer business and not their cash register or telephone business.

Some of the obvious data to plot would be profit, leverage, cash flow, R&D, and the number of architectures and operating systems. How well have those companies done with UNIX, and how much of their business is UNIX? If we can tell, how much have they invested in UNIX? It would also be useful information to know within the last ten years which UNIX they have used and at which time.

I think it would be good to group the businesses into product companies, such as Apple, Compaq, and Sun, and those who are in the systems business.

It will also be useful to know how many companies have been in the computer business for the last thirty years. At one time, I know there were two-hundred-sixty in the minicomputer business; and, I guess there were about five hundred in the personal computer business.

It would be very interesting to know who has what percentage of the personal computer business - maybe in several categories, who has what percentage of the workstation business - in various categories, and who has what percentage of the networking business - in various categories.

It also would be interesting to know who has what percentage of each of the various industries - maybe in categories such as mainframes, minicomputers, PCs, etc.

I think this would be a great step in showing how useful the Finance department can be to the Company, and also give us a document which will be very handy to have as we do all our planning. It would also mean that we do our planning from the same document.

This might also be a good document to leak to the press because I have the feeling they do not have an overall view of the industry when they talk about us.

III.

I'd like to have sessions on each of the interesting, exciting markets we are going into. Because they are new, I can't be sure they will be prepared and that they will really be exciting when they are prepared, but let's try them.

These marketing presentations should be presented as if they were being given to our salespeople. Too often our marketing pitches give only the positive things and do not mention the negative, political, or the interesting things. No one wants to be negative about their product. The result is the salespeople get in trouble and they are afraid to sell the product because they do not want to hear the negative things from the customer, and they will only get into trouble one time with any product. However, our marketers somehow got the idea that marketing should always be somewhat overly enthusiastic and only positive. This means they sometimes give a distorted picture and a very ineffective marketing pitch.

The marketing presentations should be clear and objective, presenting exactly why one product is better than other Digital products, and should identify what other Digital products are better than the one being presented. There should be a simple list of all the features, why this product does better than others, and a list of what Digital products and other vendors' products might do better than this one.

- IV. One of the themes throughout all of the presentations should be the new Digital strategy which is, if we make a bid, we should charge a low price for the hardware and software because we are charging only for the costs. Then, in the bid, we will charge for everything else we do. This does several things. It probably makes us better than the competition on the hardware and it flags the high value and the high cost we put into all the other activities we do for the customer. It, indeed, does give them the opportunity to buy the hardware from us, and the services from someone else. But, our new strategy says we have to be competitive on all products, including the services.

I may make these statements as an introduction to the marketing presentations.

- V. I'd like Kurt Friedrich to present the marketing pitch we give to our salespeople on ULTRIX. I'd like it to be simple, straightforward, and factual. What does ULTRIX do that VMS cannot do? What does VMS do that ULTRIX cannot do? What are the things we normally do in clustering and networking that we cannot do with ULTRIX? Of the normal, traditional things we do with DECnet, which ones can we not do with TCP/IP? How do we compare with the other UNIX versions? What do we have that is better, and what do we have that is not as good?

What are the politics of UNIX? What happens if someone picks System V and OSF wins? What happens if someone picks Sun and OSF becomes a dominant player? What are the political risks that each of the major players take with the operating system they happen to pick?

What is the possibility if we, and others, make an investment equal to the one we have made, and we continue to do and test VMS for all the things needed for mainframe computing?

VI. I'd like Rick Spitz to make the same presentation on VMS and clearly identify those things VMS does better than, and those things VMS does worse than, ULTRIX. One of the most important theories of marketing is that you do not want the salespeople to find out the truth while standing in front of the customer. And, you do not want the salesperson to design a system to find out that TCP/IP does not work on the server he designed into the system after telling the customer about it.

VII. If Bob Glorioso can get it put together, I'd like him to give the pitch for UCCS (Uncomplicating Complex Computer Systems). Most medium and large companies, have a computer system which is too complicated to manage and it takes forever to introduce a new application because of the complexity of the system. Our goal is to off load parts from the mainframe, introduce new TP systems, new database systems, and distribute the databases. Tying all this together in an exciting, complete marketing pitch, for uncomplicating complex computer systems could make a big contribution to the the Business Unit itself and could grab the enthusiasm of our people in an area they have never fully understood. This could also be a useful way to get the message across to our salespeople.

VIII. I have asked Dallas Kirk to form a Public Relations committee to identify the Corporation's goals, identify all the public relations opportunities we have as world news happens and as our Business Units develop, and effectively exploit these. If we get this group organized, I'd like to present our plans for public relations.

IX. The marketing of minicomputers is unlikely to make an innovative presentation. However, I would like Jesse Lipcon and Ken Swanton to analyze why IBM was a great success with the AS/400 which was poorer than ours and inconsistent with everything IBM does. The AS/400 did not use UNIX and had no winning characteristics that

were particularly noticeable. They did, however, clean up in the market and wiped us out of much of this market. I'd like Ken and Jesse to review IBM's marketing approach and then conclude any lessons we might learn.

- X. I'd like one of Dom LaCava's people to present our approach to selling our workstations in college stores, company stores, PC stores and PC catalogue stores. The company that wins in these stores is the company that will win in the market. We have the least expensive products but we do not spend the time to find out the details of what people want because we tend to sell only to large companies where we can dictate what they want. If Dom concludes that we will do the investment in developing all the hardware and software, and give it away to someone else to make the sale, I'd like him to explain that theory first to the Board of Directors, and then at the State of the Company meeting.

If Dom says that our pride is in winning in development and research, but not make money, it is going to be tough to say in public.

- XI. I'd like Ralph Dormitzer to tell us how he plans to make our Ethernet the industry standard, and to get a large majority of the industry business by selling through catalogues, computer, company, and college stores with a product that is so easy and cheap to use.

- XII. It would be good if someone could organize a good presentation of NAS - what it is and is not. There is danger if we promise everything it will do, and it is terribly dangerous to promise things it cannot do. NAS means different things to different people. It definitely does not mean to our marketers what I think it means to the people who conceived it. It might be a spiritual thing that disappears if one analyzes it too much, and we might be better off talking about it in a worshipful tone and not present any data on it. It might be like poetry that does not say anything, but sounds good.

It might be worthwhile, however, to have someone explain it simply and concisely so people can understand it and would stay around to listen to it.

- XIII. Most of our traditional applications are rather dull and unexciting and would not make good presentations. The goals are not bold and exciting. The messages do not grab anyone.

However, if we took imaging and voice products from the dullest of the application groups and made it a group of its own with an inspired leader, it might get beyond tokenism in a market that is leaving us far behind, and, we might get an interesting presentation.

Even though it is not our approach to applications, if we present an overview of all the applications and uses for imaging, identify what is being done in each one today, identify how many of these we could satisfy for a customer, identify which ones we could be the leaders in, and get excitement for the Company by doing so, it could be a talk that is as dry as a stick, or it could be a talk that would really grab the audience.

XIV. I will present a summary of the Corporate goal which is "do best what a big company does best, and do best what a small company does best, because, theoretically, we can do both, and we have to work hard at doing that."

Big companies tend to get involved in big plans, big meetings, and do not get involved in the infinite number of details that make products work which, most of the time, is what only small companies can do. Small companies do well selling to stores because they worry about the details that bore big companies. Big companies have a lot of unused, unenthusiastic people because they are not given the opportunity to worry about the details people in small companies worry about.

KHO:eh
KO:4716
(DICTATED ON 11/8/90, BUT NOT READ)

Distribution:

TO: Anne Kreidler	(KREIDLER.ANNE)
TO: Jesse Lipcon	(LIPCON.JESSE)
TO: KEN SWANTON	(SWANTON.KEN)
TO: Dallas Kirk	(KIRK.DALLAS)
TO: Bob Glorioso	(GLORIOSO.BOB)
TO: Kurt Friedrich @CORE	(FRIEDRICH.KURT)
TO: Jim Osterhoff	(OSTERHOFF.JIM)
TO: PETER SMITH	(SMITH.PETER)
TO: Ralph Dormitzer	(DORMITZER.RALPH)

TO: Remote Addressee (RICK SPITZ @ZKO)
TO: Dom LaCava (LACAVA.DOM)

CC: Win Hindle (HINDLE.WIN)
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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

Date: 12-Nov-1990 09:49am EST
From: DAVE BERRY
BERRY.DAVE AT A1 at CAPNET at
Dept: CORP. EXECUTIVE PROGRAMS
Tel No: 276-9643

TO: See Below

Subject: Digital Uniqueness

o Introduction

Ken, as you requested several weeks ago, I have taken the lead on a project that will result in our top management (and, eventually, other levels) being better able to communicate Digital's uniqueness.

The program plan spans several months, but it is designed to begin to pay off early in the process. We (collectively) have the list of unique Digital advantages that can be effectively used to illustrate our company strategies. The plan explained below will allow us to emerge with a shorter, clearer set of statements that can serve as a consistent, but flexible architecture of Digital's corporate positioning and vision. The plan includes verifications (external and internal), personalization (via our top 4-6 executives) and finally, internalization. This final step is the execution and practice (via a one-day executive education session) that will allow the top 30 or 40 of our executives to articulate the Digital uniqueness message in their own style, clearly and consistently.

The spring "State of the Company" meeting or an earlier DVN broadcast could be the first large scale use of the results of the program.

o Objective

To design and implement a plan that will enable Digital executives to clearly articulate Digital's strategy and uniqueness in three modes of communications:

- ...a 2 minute "elevator" encounter
- ...a 4 minute Television interview, and
- ...a 20 minute presentation.

o Support Required (through early phases)

- Memo from Ken Olsen indicating this program should be supported and participated in...
- Continued leadership from Dallas Kirk to help develop and maintain company positioning...
- Interviews with about 12 key Digital executives (proposed list includes Peter Smith, Jack Smith, Bill Strecker, David Stone and Pier-Carlo Falotti)...
- Interviews with about 8-10 customer executives...
- Outside communications consultant (CSI, who helped us with DECworld), to help with the process and the interviews...

o Metric

We will know we're successful if the press, the investors, our customers and our employees can all recognize that a clearer message is being communicated.

The process has already begun. With your support for the plan, we will continue on this important project.

Please let me know your thoughts and suggested changes.

Best Regards,

Dave Berry

Distribution:

TO: KEN OLSEN @CORE

CC: SUSAN GEORGE @OGO

CC: DALLAS KIRK @MLO

CC: DAVID STONE @MLO

CC: PETER ZOTTO @MRO

CC: PAT CATALDO @BUO

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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

Doc. No: 016505
Date: 07-Nov-1990 03:45pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below
cc: Win Hindle & others

Subject: 5 NOVEMBER 1990 BUSINESS UNIT COMMITTEE MEETING

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Monday's Business Unit Committee meeting was good, but we did miss the main point of our reporting system. In the old Product Line days, a group owned a the market and fought violently to get every sale included in the category for which they took credit. The result was that they, or their peers or management, could, in no way, measure the success of their investment, except for their investment in lawyers to argue that all orders should be included in their category.

The system we are now instituting does not measure people by categories "which they own." Measurements are made on the individual projects. Yesterday, we heard summary data on people with and people without NAC. I have the feeling that some projects do well and some do poorly and interest is lost in some products before the financial return is complete.

Next time, let's do NAC over again. This time, let's prepare a sheet listing all the projects and some explanation for the NAC budget, if the NAC total budget is bigger than the sum of the product.

In each row, let's give the history of each project in the last two or three years. This should include those projects which have been dropped because that's a part of business and has important information in it. This should include those projects which are doing very well and those that are doing poorly. It should not include products done by people outside of NAC on a different budget.

The information on these projects should, of course, also include

the planned numbers for the next two or three years. We also should have the actual or the guess at the base cost or base price, the marketing and integration costs, the MLP, and the percent allowed for selling. It is more important to have an approximation of these numbers than to wait until they are perfect.

We might do well starting off with one product and be sure we have the format right. FDDI might be a good one for that because it is a brand new product, and it is doing well and shows great promise for the future.

KHO:eh
KO:4701
(DICTATED ON 11/6/90, BUT NOT READ)

Distribution:

TO: John Alexanderson	(ALEXANDERSON.JOHN)
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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

Doc. No: 016507
Date: 07-Nov-1990 04:23pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

John Adams
TO: See Below
cc: Win Hindle + others

Subject: EARLY SUCCESS IN SELLING FDDI

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Congratulations on your early success in selling FDDI. BJ has told me about the competitors who would like to buy FDDI from us and how much better, nicer and less expensive than our's is.

I've asked that at the next Business Unit review we do over again the review of NAC. On Monday, our first review of NAC was in the style of the old Product Lines where we looked at everything that could be called "networking," in one big glob, and we lost all useful information.

The reason for the new accounting is that the business managers will budget and get information on each project. This information will be directed mainly for them to manage the project. This information will also be available to peers and to management so that the peers will pressure or appreciate the work, and the management can pass judgment on future projects.

Therefore, the business reporting will be (1) for management, (2) for peers, and (3) for Corporate management. It will consist budgeting and reporting on every project.

When we do this, we should be sure that the positive results for FDDI are very clear. And of course, while doing that, I have to encourage that as we opened up, we particularly emphasize those that are going well.

KHO:eh
KO:4709

(DICTATED ON 11/6/90, BUT NOT READ)

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Hrst

[Signature]

**PROPOSAL FOR
ONE SERVICE BUSINESS**

- EIS and CS have today created one single program for:
 - Program Management Operation
 - Program Management Training
 - Program Management Tools
 - Consultant Pricing
 - Bid Process
 - Worldwide Resource Program

- EIS and CS are working on the elimination of:
 - Redundant efforts
 - Charter conflicts
 - Simplicity of the business portfolio

- EIS and CS have similar functionality that could be combined to Digital's benefit.
- The combined Corporate group would fit the new Digital model and work similar to an IBU. Focus would be:
 - Strategy
 - Vision
 - Products
 - Engineering
 - Investments
 - New Businesses
 - Marketing
- The Corporate measurements would be based upon transfer priced P&L versus direct Geography P&L.

DIRECT BENEFITS

- Combine Engineering groups

C.S.

EIS

ASDS

CSS

CSSE

SWE

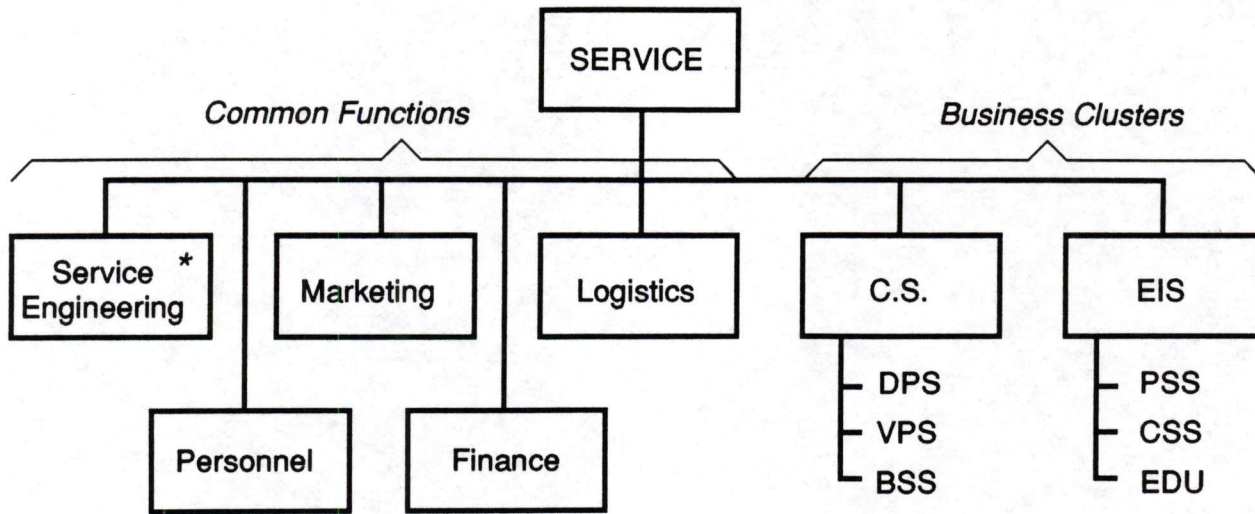
Product Support

Repair Engineering

- Combine Logistics groups
 - Andover and Wilmington move to US.
 - Corporate Planning groups combined.
- Combine Service Marketing groups
 - Integrated messages as part of Corporate Campaigns
 - Critical mass for both groups.
- Combine Finance and Personnel
 - Need only one group.
 - Simple reporting with transfer pricing system.

**KEEP C.S. AND EIS BUSINESS UNITS
AND CLUSTERS INTACT AND SEPARATE.**

- The business models are different.
- The resource requirements are different.
- The investments are changing at variable rates.
- We want all Business Units represented in the Account Plans.
- We want visibility to the P&L and performance of each Business Unit.



- Structure would exist at Corporate as the key driver of strategy, planning and new business start-up.
- Also at each of the three geographies as the implementation/operational service group.

* *Service Engineering is Service Delivery in the Field.*

WHY A CORPORATE GROUP

- Retain functional excellence !
 - Service Strategy
 - Service Tools
 - Repair Infrastructure
 - Problem Management
 - Engineering Interface
 - New Product Introductions
 - End of Life Product Plans
 - Marketing Excellence
 - Strategic Human Resource Planning and Management
 - Base Pricing Support
 - Technical excellence in "training"

- Retain global service capabilities and worldwide standards.
 - "We buy from DEC because they have true global capability and standards."
 - We are better than all competitors in this area including IBM.

- The role of the combined group with new responsibilities provides the best integration with the new Digital.
 - They create products
 - They integrate

**SERVICE IS AN
IBU WITH
DECENTRALIZED
MANUFACTURING IN THE
GEOGRAPHIES**

Hast

[Handwritten signature]

KO

Printed by Win Hindle

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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

Doc. No: 016446
Date: 05-Nov-1990 04:40pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

Win Hindle + others
TO: See Below

Subject: ALLOCATION OF COSTS TO ACCOUNTS

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It is clear that in the new system we do not allocate DCC and ACT costs to accounts. ✓

In the new system, the costs of manufacturing a product are charged to the product accounts to make sure we cover all the costs, plus a good profit, in the base price.

All the integration and marketing costs are charged to the Marketing and Integration groups to make sure that the final price they set on a product covers the product's base price, plus all their integration and marketing costs, plus a profit on them, and leaves enough money for the accounts to want to sell that product.

The account manager then has a fixed amount to use for selling. Hopefully, the manager will use less and will keep some as a profit on selling.

This system is very simple, but in no way does it apply, at all, that we are going to allocate, individually, all manufacturing, development costs, integration costs, and marketing costs to each product sold by an account. It is up to the product and marketing people to be sure they cover their costs and still have a system so simple to use that it is not a burden to the customer or the account salesperson.

All the account manager has to know is that they have a certain

amount of money to spend for costs, discounts, and sales profit. ACTs, DCCs, DECworlds, and the like are all marketing tools and probably some of the best we have. But, these are clearly marketing expenses and will not be allocated to the user. In fact, the marketing person wants to do everything to encourage the salesperson to use their marketing tools.

There will often be times when the marketing calculations don't bear directly on a particular order. For example, if an order is for a large number of units and it is clear that allocating marketing expenses in an average way does not give a fair representation of the marketing used for this very large quantity order, the Account Manager directly calls the marketing vice president. There is no longer left any hierarchy in the sales department to answer pricing, discount, or technical questions. These all go directly back to the marketing group, and sometimes the product group.

I believe that most marketing managers will make a rule that no large orders are to be bid without their participation because I am sure they want to re-calculate their costs as they affect each of the large orders.

Above all, we have to make sure transfer costs are simple, the accounting and red tape are very simple, and that it is very easy to order, both from the customer's and salesperson's perspective. There will probably be consulting charges for all cluster systems and other complex systems. This means that a consultant will charge for the complex part of order processing.

KHO:eh
KO:4686
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U.S. ORGANIZATIONAL MODEL PROPOSAL

Executive Committee

PRIMARY GOALS

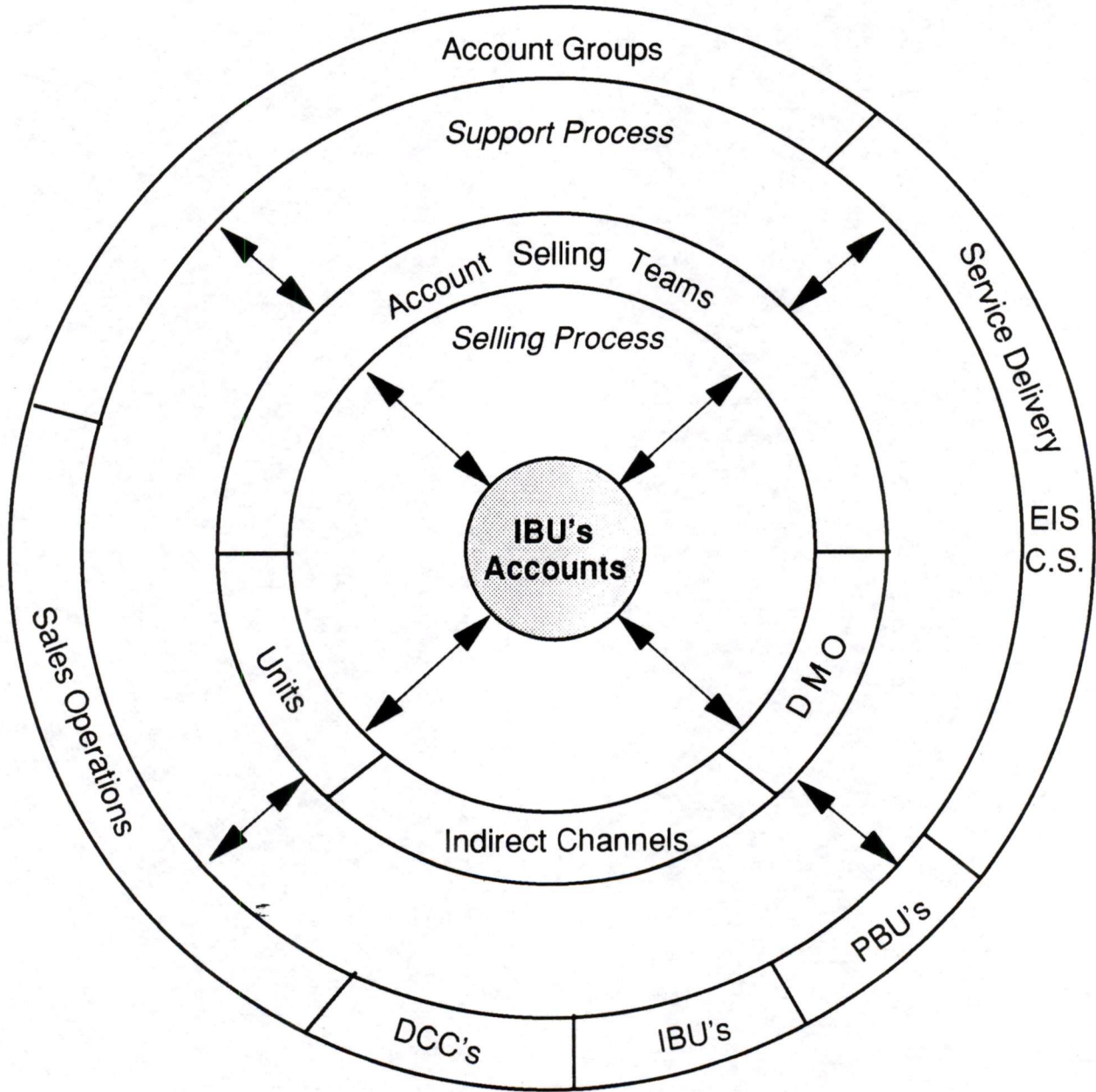
- The account is the key focal point of the entire organization.
- The account will have ONE cross functional selling team lead by an account manager.
- The account selling team makes the deals without additional approvals. Very large programs/projects are more easily escalated for resolution when necessary.
- The account selling teams are responsible for the account plan and will be held directly accountable for delivering the plan.
- Dramatic improvement in U.S. Country profitability and predictability.

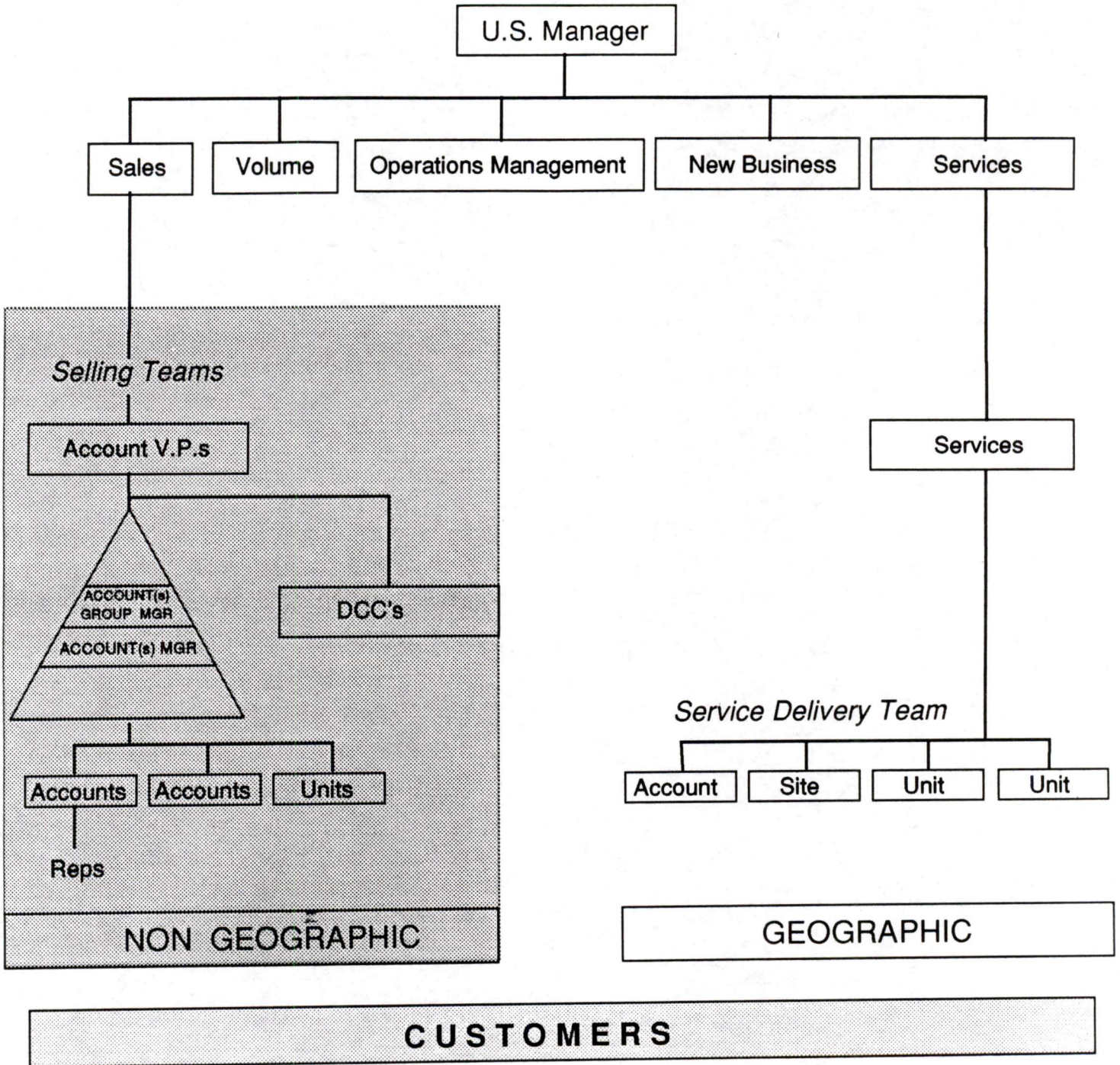
PRIMARY GOALS

- The account selling team will have integrated goals, measurements and rewards.
- The account selling team will have no geographic boundaries.
- A planning, budgeting, reporting and management operating system will be created that fully supports the account management team, and allows complete linkage and reporting to PBU's, ABU's and SBU's.
- The new accounting system using transfer prices, business models, standard costs, etc. are fully implemented.

PRIMARY GOALS

- Account managers plan and budget to ensure placement of resources anywhere, without difficulty.
- A host management process will be created to facilitate the placement, nurturing and local management of account resources.
- The account plan process will be aligned to ensure direct linkage to the Corporate Strategic Planning Process. It will fully support the one plan process.
- Optimization of all U.S. resources through integration.
- Ability to deal with economic variations without jeopardizing performance.
- The ability to start new businesses and accommodate new innovation during any portion of a fiscal year.





FUNCTIONAL GOALS

(Draft Thoughts)

SALES

- Best trained/educated sales force in the industry; "the Industry Benchmark"
- Investment in customer success
- Sell the "Total Solution"
- Recognized leaders of account team management
- No "stone" in the account left unturned
- The model of functional excellence
- There are "no" accounts too small
- Grow the Top "200" accounts to the Top "500" accounts
- Develop as many new accounts as possible
- Embrace all sales channels
- Embrace our installed base and effectively merchandise to them forever
- Every account is a reference account.

Hind

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NBU
AOL

Printed by Win Hindle

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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

Doc. No: 016256
Date: 26-Oct-1990 10:57am EDT
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

Win Hindle v Exec. Comm

TO: See Below

Subject: NOVEMBER 13, 1990, BOARD OF DIRECTORS' MEETING

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I can guess why Phil Caldwell was so disappointed when I said we would have the people who are responsible present their strategies to the Board of Directors.

I think he is afraid that the Executive Committee members have no strategy or goals and feel their jobs are limited to saying yes or no to proposals and feeling no responsibility for those proposals afterwards. The proposals are usually technical and do not contain much in the way of marketing and goals for marketshare and all of the steps necessary to gain marketshare.

Maybe we should not ask the doers to come, but maybe we should have the Executive Committee and Phil discuss with each manager their ambitions for each of the markets we are investing in.

Maybe we should have the meeting at Phil's house or in a small room in Lancaster or the Headmaster's House.

KHO:dao
KO:4650
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Hint *EOA* ✓

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Doc. No: 016346
Date: 31-Oct-1990 03:57pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

TO: See Below

Subject: COMPANY PLANNER

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Let's quickly pick a Company Planner. He or she should be strong enough to get plans out of each of the groups and to make sure they spend the time on it they should, and they are staffed appropriately. I don't think that measuring dollars per person in the Company is at all a valid measure. Those who do not manufacture their own parts and those who don't service should have a much lower number of people per dollar of sales. However, I do believe that a planning function should have a benchmark of dollars per person for each type of operation we do. Not that we allow groups to have that number if they don't need it and not that we don't allow them to go above it, but it should be a benchmark with which we can evaluate groups.

KHO:eh
KO:4670
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~~Win Hinkle~~
Rec 10/24/90

Hist

D	I	G	I	T	A	L
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INTEROFFICE MEMORANDUM

TO: Executive Committee

DATE: 24 October 1990
FROM: Ken Olsen
DEPT: Corporate Administration
M/S: MLO12-1/A50
EXT: 223-2301

SUBJ: Audit Committee Presentation

Attached, for your information, is my presentation to the Audit Committee, 23 October 1990.

/eh

OPERATIONS STAFF

There are five business groups in the product development, but they need several centralized support groups. They are:

1. the R&D Group;
2. centralized staff to maintain Standards, Corporate architecture, centralized testing, and centralized services, such as model shops.

NOTES ON ORGANIZATION

- o Each group operates as if they are a separate, independent business. They have certain standards, interfaces, and architectures they must meet, but there is no centralized group laying out strategy for each one of them, or allocating resources to them.
- o There is a Corporate Research Group, supported by the Corporation.
- o No group spends money and allocates the cost to another group.
- o All accounting is done to help each group run their business and run it as if they were completely accountable for all their decisions and expenditures.
- o All selling is done through Account managers. The Services generate products and have to define the products in a way that they can be packaged and sold by the Account Managers.
- o Accounts Managers make out their own budget and the results are evaluated in how much they spend for how much profit they make. They are given the freedom to make decisions on discounts, resources, and assets. Their supervisors are there to help them, but the supervisors do not have control over their budgets, which are contracts with the Corporation.
- o There are several layers of support managers in the Field. Temporarily, these levels are called Salespeople, Unit Managers, District Managers, and Regional Managers. We will change these names because we don't like the implication that they are organized by geographic areas. A Unit Manager helps about ten salespeople, with the number being more like five and fifteen. The District Manager helps five to fifteen

Unit Managers. The Regional Manager helps between five and fifteen District Managers, and there are five or six Regional managers in the U.S. The level of an Account Manager depends on how many people are budgeted to service that account. It takes one person per account, or it takes five accounts for one person with the Account Manager as a single person. If there are five to ten people on an account, then that person is probably called the Unit Manager. If there are one-hundred people on the account, then that person is probably called a District Manager.

- o There is an allowance for selling clearly stated in the pricing. The Account Manager can spend this on selling and or give it away for discount.
- o All Business Units will receive reports of results and cost incurred each week and will produce a report to the Corporation each month.
- o Reports are made first for the manager to help them manage their account; second to their peers, so that they can see how they compare with their peers; and third for the management of the Company.
- o The Cluster Marketing Integration Unit takes complex groups of computers and does the integration. Sometimes there is a final product, sometimes it is part of another group's product, and sometimes it is part of the product of another group.
- o The EIS group takes the large scale integration jobs and supplies the education, design, consulting, and the management of an integration project. They get the complex computer integration from the Cluster group.
- o The Systems Product Group does jobs like Banking, Factory, and Office, where the product they sell is a combination of hardware, software, and applications, and is what the customer buys to do a particular job.

- o The Telecomm Group sells to the Telecommunications industry, and does all of the things necessary for that sale.
- o The NAC Group contains about seven activities, not necessarily logically tied together, and someday may be broken apart. The Disk group, the Integration Services group, and the Services group sells their products and services to the other Business Units. Their transfer prices will be fixed at the benchmark price set by the Company. If their profit is significantly lower than that benchmark profit, they make good profit.

KHO:dao
KO:4632
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I
PRODUCT GROUPS

II
MARKETING
AND INTEGRATION
GROUPS

III
SELLING GROUPS

(1) Designs &
Produces
Products

(1) Produces System
Products

(1) Sells

(2) Sets Base
Price

(2) Integrates
Systems

(2) Sets Discount
Bases of Allowed
Selling Cost Not
Used

(3) Base Price is
Based On
Benchmark

(3) Markets Systems

(3) Manages Profits

(4) Profit is
Difference of
Base Price and
Cost

(4) Measures Profit

23 October 1990

KH:4630

I

Workstations and
Ultrix
LACAVA

VAX & VMS
DEMME

TP, Database
STONE

Discs & Tapes
SAVIERS

Integrated
Circuits
PALMER

Services
ZERESKI

II

MF, FT, and
Clusters
GLORIOSO

Enterprise
Integration
GULLOTTI

Systems Products
P. SMITH

Telecom & System V
JOHNSON

ETHERNET

III

U.S. Accounts
HUGHES

GIA Accounts
POULSEN

European Accounts
FALOTTI

Telemarketing and
Electronic Store
ALEXANDERSON

3rd Party Selling
ATLAS

22 October 1990
KHO:4631

Hint
Ash Ken's office to send
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file B.C.
11/6 - B after
Ellie to 20 Oct 1991
to Lynn

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Doc. No: 016300
Date: 30-Oct-1990 08:43am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

TO: See Below
cc: Win Hindle + Exec. Comm.
Subject: PLANNING AND BUDGETING

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We will work out a new budget and new plan before the beginning of calendar 1991 which will be based on a new organization and accounting system. The budget will include, in detail, the rest of fiscal 1991 and 1992; the plan will include more in goal setting and include two more years.

Traditionally, we have assumed that basic planning will be done around CPUs and everything else will fall into place around them. This time, we will assume that markets are the basic units for planning.

The list of marketing units we pick will not be consistent in their dimension. Some are products which, in themselves, imply, to a large degree, a market. These are PCs and workstations. Other units are applications such as TP, fault tolerant, and vector computing. Other business units are specific application systems for specific industries such as trader workstations and shop control. We will not organize marketing by industry, except for some industries. The group that markets application systems to them knows everyone in the market and has regular contact with them. It is obvious that they should do the planning for everything that is sold into these markets.

Above all, the planning is to make sure we do a thorough and complete job that will guarantee success in each of the markets. We are not organizing things to allocate credit for sales. Our accounting is to give the managers a reason to pass judgment on their investments in particular applications or products.

We won't worry if there is some double counting, except that we want to be sure that we should take into account all costs incurred for a product when we plan for its profit and its

pricing.

For our Corporate planning procedure, we will assume that disks, tapes, integrated circuits, servers, Field Service, and CPUs are components for the marketing plans. We will not assume that PCs and workstations are normally marketed without particular applications and special uses, but rather as a general category of equipment to be used widely in an organization.

For each of the Systems Application groups, we will have marketing and planning. For example, for each system we sell for banking, for factory, etc., we will have a separate plan.

Bob Glorioso's marketing group will set up a plan for each type of production computing which they will market. They will have a plan for timesharing, TP, vector computing, fault tolerant computing, and "modern realtime accounting systems." Each plan will be standalone and will be presented separately. They will be separated to the degree that they could be moved to different groups as any time we wish. These plans will include all the documentation, marketing, Sales department training, customer training, in addition to the development of FA&T capability and all of the myriad of tests and benchmarking that has to be done for each one of these.

We have not done well in some of the production computing because we never did all the planning and investment necessary. When we face the question of the cost of doing some of these, we may conclude that the return isn't worth it. We should face each one and not assume that we can go into these markets half-heartily as simple windfalls from the other work we are doing. If some of them take significant hand holding and customer support afterward, either free or to be charged for, they have to take that into account in the planning and the pricing. It is probably clear that the base price for a VAX 9000, 6000, or 3000 will end up being low compared to the price we charge when we supply an enormous number of benchmarks and an enormous amount of design and help.

KHO:eh
KO:4654
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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

Doc. No: 016343
Date: 31-Oct-1990 03:50pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: NEW PRICING POLICY

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When can we institute a new pricing policy so that there are no standard discounts except maybe to third parties (where we have no selling costs) and where the discounts and allowances are given only by the account manager, depending on whether they have to spend all their sales expense allocation?

KHO:eh
KO:4673
(DICTATED ON 10/30/90, BUT NOT READ)

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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

Doc. No: 016349
Date: 31-Oct-1990 04:06pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: BUDGETING AND PLANNING

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Our budgeting and planning is broken into three groups: Product, Marketing, and Integration and Selling. Each of these, in turn, are broken into three groups. Each of the product groups should have three separate budgets - one for order processing, one for manufacturing, and one for product development, testing and base marketing. It should be clear that development, base product marketing, and testing should be one category. Order processing is another, and manufacturing is another.

I. PRODUCT DEVELOPMENT

- A. Order Processing
- B. Manufacturing
- C. Product Development, Base Marketing, Testing

II. MARKETING AND INTEGRATION

- A. All marketing costs, including DCCs, ACTs, Sales Training, Literature, DECworlds, Trade Shows, etc.
- B. Integration costs which include some hardware and software development, benchmarks, testing, FA&T.

III. SELLING

- A. GIA
- B. Europe
- C. U.S.
 - 1. Account Selling

2. Telemarketing and Electronic Store
3. Third-Party Selling

It is our goal to be the lowest cost, the most efficient, and the best in: (1) product generation, (2) manufacturing, (3) marketing, (4) integration, (5) selling. We will go over each group in the Company to make sure there is no extra overhead, that everyone is efficiently used, that everyone has a job that is clearly defined and is doing it efficiently and effectively, and we will be sure that job fits into the strategy of the Corporation.

In this new budgeting, we will assume that there are no constraints on what budget is asked for. We do insist, however, that it be generous and fast returns on all investments. There is no limit to what we can invest if we get the returns that are big enough and soon enough.

We assume that the budget for product generation will be smaller than today's "Engineering Budget." There are things in today's budget that are included in the integration and marketing work and we expect significant new efficiencies in Engineering. We also expect Engineering to be more efficient. We expect the product groups to be closely tied to their manufacturing partners and together they will work on making them the best and most efficient. Those parts of manufacturing that are outside of these partnerships will then be watched very carefully to make sure they are important to the Corporation.

Marketing has not received due emphasis and due budgeting in the past. Therefore, we expect to be much more aggressive in marketing. IBM has run circles around us with many more products because they have invested energy, time, cleverness, and money in marketing. We have assigned the responsibility for marketing and expect each group to exploit all the products we have by competent marketing. We do, however, want marketing that will pay off quickly and should pay off well.

Integration consists of a certain amount of engineering, such as clustering, but it also includes the actual integration and the FA&T that we have claimed does not exist. In general, the integration's expense goes along with orders, but has to be budgeted. All the developmental costs that go along with it should be budgeted as if they were a product generation investment.

All overhead will be taken out of the Sales Department, except that directly part of Account Selling. There will be no business managers, but instead, the accounts will go directly to the product lines and the marketing groups for help in design, help in selling, and help in deciding on a deal. There will be no marketing and selling programs in the Sales Department. All of these will be done in the marketing group.

This means that there will be people available from the Sales Department who can immediately step in and contribute to the new marketing program. Those responsible for marketing should immediately put these people to work so we lose no effort from them and so that we can get results as quickly as possible. Remember, we are to be the lowest cost maker of products and the best and most efficient deliverer of services.

KHO:eh
KO:4663
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Doc. No: 016299
Date: 30-Oct-1990 08:26am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

Win Hindle & others
TO: See Below

Subject: DECEMBER STATE OF THE COMPANY MEETING

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We will make the State of the Company meeting approximately the size it has been in the last few years. The agenda will be a presentation of our new approach to planning and budgeting where we will plan by Marketing and not by CPU.

I will present a concise review of our organization and accounting.

I'd like Pete Smith to study why the AS/400 was a great success even though it was a mediocre computer and even though it was not UNIX, not standard, and was sold as a mini computer. I would like Pete to present the results of this study at the State of the Company meeting and point out what lessons we should learn.

I'd then like each Marketing group to outline their plan to capture a large part of their market. I'd like all of them to start with the same list of available marketing tools such as advertising, news releases, DCCs, training, customer courses, loaners, and then have each one explain which of the tools they will use and which ones they will not. They should also take responsibility for benchmarks, systems testing and all necessary support.

At the Annual Meeting, I may announce that one of the changes we are making is to plan and budget around markets.

Some of these markets include TP, timesharing, fault tolerant, and vector processing; others will be how we capture the whole Local Area Network; while others will include PC's, Workstations, ULTRIX, VMS, etc.

KHO:mp
KO:4659

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Doc. No: 016286
Date: 29-Oct-1990 01:11pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

Win Hindle + others
TO: See Below

Subject: CORPORATE PLANNING/CORPORATE STRATEGY

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I am assuming with the new organization, Corporate planning and Corporate strategy will be based on market plan. This means that when we present Corporate plans and Corporate strategies to the Corporation, we present to them a market plan instead of a group of CPU plans.

I am assuming the list of market plans are not consistent in their definition but are quite pragmatic. I am assuming that workstations, mainframes, vector computers, TP, high reliability, and personal computers all are part of a list of market plans.

I further assume the groups under Pete Smith, such as manufacturing, banking, science, and medicine are not keepers of the whole industry, but, instead, have a group of applications and systems that are part of the application.

No one owns an industry; no one owns a chunk of the market; and no one argues over credit, because accounting is not there to give credit. Accounting is to allow managers to evaluate the return on the investments they made on a product or an application.

I assume disks, tapes, integrated circuits, service, and CPUs are components of the marketing plan.

The components will be there to accomplish the marketing plan, rather than have the plans there for the components as we do now, and hope that someone does the marketing and applications to fulfill the goals.

KHO:dao
KO:4656
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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

Doc. No: 016347
Date: 31-Oct-1990 03:59pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

TO: See Below

Subject: DECEMBER STATE OF THE COMPANY MEETING

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Originally, we planned to use the State of the Company meeting to explain the new organization and accounting system. But, I have concluded that this is not necessary. Once we institute the plan, people will learn very quickly. It takes hours and hours to tell a story when it is a dream that we hope to introduce some time in the future. People can't wait. Let's introduce it, get the new budgets and plans done, and get them approved before early December. We will limit the discussion of the new system to only about three-quarters of an hour.

Then, let's use the rest of the meeting to rally people around our strategies for winning during recession. I think the theme should be: "Highest Quality, Best Service, and Lowest Cost."

I think we will then take a sampling of the Business Unit groups, let them say how they are increasing their efficiency and lowering their cost, how they are striving to be the lowest cost producer with the best service and the highest quality.

Each group then should also outline what they are doing in marketing. Our biggest problem is acknowledging that we have had the best products but we have not sold them. Why do we get poor press with our products and what are we going to do about it? Why don't our salespeople and our customers understand the products? Why is it so difficult to buy from Digital, and what are we going to do about it? What is our strategy on UNIX and VMS? Why don't we have a clear statement of our strategy on UNIX and VMS? Why can't our salespeople put fault tolerant systems into perspective? Why does most of the Company not know what a mainframe computer is? Why is there so much confusion on NAS? Why do so few people in and outside the Company know the difference between the words "standards," "open," and

"proprietary?"

Let's have each group state publicly what the messages are that they are committed to get across to the Company, our salespeople and the public in the next six months. What media do they have and how will they use them? How will they use ACTs, DCCs, literature, advertising, news releases, pictures, magazine articles?

What is the list of messages that we have to get across? Who is committed to get them across, and what are the dates for which we can measure their success?

I think these would make an exciting State of the Company meeting. Let's leave out dull things like Open Door Policy and Personnel issues and dull speeches like "What are we going to do to succeed in the '90's?"

KHO:eh
KO:4668
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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

Doc. No: 016284
Date: 29-Oct-1990 10:56am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No:

Win Hindle + Exec. Comm.
TO: See Below

Subject: BOARD OF DIRECTORS MEETING IN NOVEMBER

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I believe that the Board of Directors wants to talk alone with the Executive Committee. Therefore, I suggest that we commandeer the entire Headmaster's House on November 13, 1990, and that we spend the whole day alone with the Board of Directors discussing everything and anything. Let's have no structure and no overheads. Instead, we would listen to each Director and each Executive Committee member tell what they visualize the future should be for Digital and what their dreams and goals are.

My ideas for the December State of the Company meeting are changing. I was thinking that we should have a very large meeting, mainly with engineers and marketers, and educate them on the new accounting and budgeting system. Now I am thinking that as soon as we start using it, they will understand it immediately, and a just a general, overall view would be worthwhile, and we should spend that time telling them what our dreams, visions, and strategies are for the future.

KHO:eh
KO:4658
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- TO: Jack Smith (SMITH.JACK)
- TO: Abbott Weiss (WEISS.ABBOTT)
- TO: Bill Strecker (STRECKER.BILL)

CC: PETER SMITH

(SMITH.PETER)

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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

Doc. No: 016294
Date: 29-Oct-1990 05:35pm EST
From: Jack Smith
SMITH.JACK
Dept: S.V.P. of Operations
Tel No: 223-2231

Paul Kinzelman
TO: See Below
CC: Win Hindle + others
Subject: YOUR MEMO OF 10/5

Paul, *Kinzelman* thank you for your recent memo. *attached* It has generated some thought-provoking comments and fresh ideas.

When I talk about engaging all of the employees in the success of the Corporation, I do mean "all". Whether it's the Executive Committee, Engineering, Sales, Services, Finance or any other Group, we need absolute dedication and commitment. I believe we must all act as leaders. I must count on all levels of management, in all functions, to be examples of leadership -- not be in the way of leadership. At the same time, I expect even more of our senior leaders. It has been my experience that ordinary people do extraordinary things with the right kind of leadership. Think of what we can accomplish with Digital's excellent people!

I have copied Ken, the Executive Committee and my Direct Reports on your memo. I'll ask not only that they review it but also come to me with recommendations as to how we can successfully address that challenge of engaging all employees in our success and assuring that we focus on being "best in class" as managers. I have asked all of us to benchmark ourselves as "best in class". This benchmarking is of critical importance in the management ranks. If we don't measure up as managers, we should correct this quickly, or if we choose not to measure up, we should leave or be asked to leave. This is an area where there will be no compromising on my part.

We have institutionalized the evaluation of people by managers; there should be no reason why we can't institutionalize having managers evaluated by their people. Obviously, this would be a big change, so we will have to do it with a great deal of thoughtfulness and sensitivity. I will explore how and when we can initiate this process.

One last comment. I cut my teeth on MBWA. I haven't forgotten how to find the folks in the 'trenches'. Somehow, as busy as we all are, we must find time to continue to go there and listen.

Again, thank you for your insights. I appreciate that they were direct, constructive and well-organized. I will count on your

support as we all work diligently toward making these changes that are needed.

Distribution:

TO: Remote Addressee (PAUL KINZELMAN @PKO)

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FROM: Paul Kinzelman
ENET: ECADSR::KINZELMAN
DATE: 5-OCT-90
LOC: PKO3-1/21H
DTN: 223-4811

TO: Jack Smith

I'd like to follow up some more on the question I asked during your talk concerning management restructuring. I appreciate your reaching out for input from employees who know best what the problems are and what solutions may work.

THE PROBLEM

I can't emphasize enough that the perception of many employees that I talk to is that the crisis concerns lack of management leadership. Most people perceive you as softpedaling the management crisis. Out here in the trenches, management is not perceived as part of the solution, nor even as part of the problem, but rather as THE problem.

Managers are poor due to one of two (or both) problems:

- 1) They are on a power trip playing political games.
- 2) They are too far removed or otherwise don't understand a project.

Coopers and Lybrand's analysis suggests a "lack of upper management involvement" in the area of engineering. In other words, your information about a project comes through the "stovepipe" sanitization process. You can't provide leadership if your perception is formed by reports resulting from various political turf wars going on in the company. We need only look as far as Aquarius to find a prime example.

Managers currently need only please their boss. Managers are not being held accountable to the corporate goals, but are often working their own agenda of power. Digital's open door policy is supposed to resolve such "goal discrepancies", but works only for those few individuals with the initiative to push a particular issue through immense resistance. It's much easier to just play along with the game of politics. There is little support for people who would be willing to do the right thing.

A further perception is that Digital is now an established bureaucracy; we have become top heavy. I remember not many years ago, that I couldn't pick up an issue of DTW without reading that several more VP's had been appointed (meaning big salaries and plenty of stock options). People are going to resent being hurt by "the small stuff" unless they perceive people at the top being affected too. Exhortations are not sufficient.

Tom Peters in his books says perception is everything. What upper managers do is seen by all. Thus, upper management MUST lead by example. MBWA (management by walking around) seems to be done by no one higher than a cost center manager. The perception is that anyone above a cost center manager is generally out of touch.

OBSERVATIONS

I think you will be much more successful in convincing the overall workers of your efforts when they see you taking hard, painful steps in

solving the management crisis. We don't see that yet.

Jack, what you ask for is an attitude shift. For the success of Digital, this attitude shift must happen, but will not happen without direct leadership and policies from the top to combat the calcification of the current political structure.

Ken used to walk around and talk directly to people on projects. He could gauge the moral of the company. A memo I saw from you recently implies Ken still wanders around and is far more in touch with the folks in the trenches than anybody else in senior management. Is Ken the only one who understands how Digital works? If you want to solve problems, you must personally gather some your own data in a low key manner. Teleconferences are a good start, but cannot give you the whole picture.

LONG TERM SOLUTION - ATTITUDE CHANGES

The management paradigm must shift before the corporate paradigm will change. I believe that it was Einstein who said that a problem cannot be solved using the same thinking that caused the problem. Similarly, the current management structure is not going to be able to solve the problems that the management structure caused in the first place.

Managers must understand that it is involvement and participation in common goals, and not the participation in politics, that will empower the company and themselves.

Managers must be able to understand the process under them, and make decisions for the good of the company. You must design a process to support this attitude shift. The process must have the ability to identify and then retrain or remove inept managers. I see no progress toward this goal, nor even any action that demonstrates upper management even understands the basic problem.

We must support people in doing the right thing, especially if the right thing is not aligned with local management goals.

LONG TERM SOLUTION - MANAGER REVIEWS

People underneath a manager have some of the most important input about how effective that manager is. I've worked for DEC for over 16 years, and I've never been asked to evaluate any manager.

We must establish a process to accurately assess the effectiveness of a manager without people feeling like they are "ratting" on somebody. What better way to achieve this assessment than by subordinates and sometimes parallel groups giving input to the review of a manager. Gathering this input will probably have to be done by a person outside the group to ensure the accuracy of the manager's review.

SHORT TERM SOLUTION

I think the above solutions will help in the long term, but the management crisis is serious and requires immediate attention. To isolate the standard management chain from inhibiting the solution, I suggest we institute a set of cost center auditing teams. Perhaps you could assign technical cost centers to audit other technical cost centers, and financial cost centers to audit other financial cost

centers, etc. Eventually, each cost center would be audited by another disinterested cost center. The result of this audit would be an accurate view of the efficacy of the cost center and the management above the cost center. Then you would have some hard data you could use.

Direct audits would be able to find and address problems. By interviewing everybody, you'd be able to sort through data from people with personal axes to grind. You would not have to rely on the sanitized "monthly report". You get a necessarily sanitized version because each manager writes in such a way that he looks good before the next level of management, so by the time it gets to you, all situations look great but we're still sinking.

People must also perceive that these cutbacks and reductions are affecting all levels of management. We'll feel much better if we know that everybody is being affected. Are we all in this together, or is upper management directing us to man the bilge pumps while they sprint for the lifeboats? We need to know, Jack. Please give us specifics.

WHAT WILL HAPPEN

Workers will respond with the desired attitude change if they perceive that the management process is non-political and competent, and managers are making decisions aligned with the corporate goals. If we don't perceive real leadership we can all be proud of again, any changes you implement will fail to turn this company around.

OBSERVATIONS FROM OTHER PEOPLE

I read the memo sent to you recently by Julio Silva. I thought the memo was excellent. I've exchanged comments with Julio and others over the network, and as far as I can tell, there is widespread agreement with the memo, with just as much agreement that the issues raised in the memo are still not being addressed. It's been almost two weeks since he sent his memo and he has not gotten a response from you. THE RESTRUCTURING PROCESS WILL FAIL unless workers perceive that the crisis of management is being effectively addressed.

I rode the MLO-PKO shuttle bus back to my office after your talk. Several people on the bus commented that they liked my question, but that your answer was (I'm being charitable here) not specific. On top of that, a couple of women said that their group had 6 workers and 5 managers for those 6 workers.

Later the same day, a friend from MRO said cheers broke out in the audience from my questions about management issues. It was clear what that audience thought was the source of our crisis. They obviously do not perceive the issue being addressed.

Somebody else told me of a group that used to schedule meetings in such a way that the manager couldn't attend because he was so disruptive to the meeting.

Everywhere I go, I find management horror stories like the above. What are your specific plans to find and correct these situations? How is it that I, an individual technical contributor, constantly find out information like the above without even looking for it, and nobody fixes

it? Relying on the current management structure has clearly not worked.

SUMMARY

Not many years ago, Jimmy Carter understood that our energy problem was going to become an energy crisis and tried to lead the country to begin solving the problem early. His leadership failed because the management structure of the country was too calcified. An energy crisis of a magnitude not yet seen will be required. Let us not make the same mistake here at Digital. Let us not allow victory to the politicians, spelling defeat for all of us.

The Chinese symbol for "crisis" is the juxtaposition of the symbol for "danger" and the symbol for "opportunity". Let's use the danger we face to alert us to the opportunity to design a management structure of which we can all be proud.

I believe the people of this company will support you 200% if and when they see you addressing the leadership crisis of the company. I know I will.

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TO: HARVEY WEISS (WEISS.HARVEY)
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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

Doc. No: 016376
Date: 02-Nov-1990 08:33am EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

TO: See Below

cc: Win Hindle & Exec. Comm.

Subject: EQUIPMENT RELIABILITY

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We argue that the advantage of our equipment is that it is safe and secure. Twice in the last month, we have been wiped in the Mill - once by a weekend thunderstorm, which took us days to recover, and the other time by a power fluctuation. Please come to Executive Committee and tell us why these things still happen, and tell us exactly what our message should be to the outside world on reliability and security.

KOH:smv
KO:4679
(DICTATED ON 11/1/90, BUT NOT READ)

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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

Doc. No: 016367
Date: 01-Nov-1990 02:45pm EST
From: Ken Olsen
OLSEN.KEN
Dept: Administration
Tel No: 223-2301

David Stone
TO: See Below
cc: Win Hindle & others

Subject: NTT AND THE NEW ORGANIZATION

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With the new organization, we are going to avoid all the legalism that we grew into in the time of Product Lines. We will not set up a system where we can charge the Japanese organization for NTT investment.

Our approach is much simpler, if not as precise. BJ simply proposes this as a business, complete with budget and promised return. If the Corporation accepts it, it's a BJ project. The engineering costs will be recorded and the profitability will be reported on. The responsibility of the NTT account will be clear, even though it will not be reported on the reporting system.

KHO:smv
KO:4681
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