SUBJECT: LINES OF BUSINESS and ONE INTEGRATED PLAN

The rapidly changing business environment, coupled with the substantial restructuring of our industry, requires further clarification and simplification of the business decision-making process, along with substantial decentralization of this process closer to the customer. A number of changes introduced during the past twelve months were designed to accomplish the goal of decentralized decision making.

The complexity of Digitals worldwide business continues to grow, requiring a different approach to the way the company plans, invests and executes it's business. A number of new opportunities will spawn Digital Businesses that were not in existence last year and we expect more in the future. Each Business has a unique business model that must be managed carefully if we are to ensure the success of the individual business and more importantly, Digital in total! We are going to take our existing business segments and create a number of new focused businesses from them along with the existing businesses. Digital's entire business portfolio will be based upon individual "Business Units". Each will have a unique charter and business model. The Business Units will be measured on their growth, market share, value added and profit contribution. Business Units can be made up of products, applications, components or services. A complete description of the Business Units, their charter, timeless business model, etc. will be communicated to you in the near future.

Effective immediately, the planning process, the budget and the execution of the business plan will be one integrated process across all Business Units. Although the process will be integrated, each Business Unit will have a complete plan which will be executed and measured in the subsidiaries and Country Groups.

The integration inside the subsidiary will reinforce the need for all common support groups to provide cost effective support. It will also allow them to deal with other groups outside the subsidiary such as manufacturing, DCC's, etc.

The purpose of this rather detailed memo is to clarify the roles and responsibilities at all levels of the organization in the planning, budgeting and execution phases of our business plans.

(only Europe):

The overall responsibilities to manage the business on a day to day basis, is being delegated from the subsidiaries to the next appropriate level (Regional management in Europe).

The Country Manager and the Regional Managers (for the multi-region countries) will be held responsible to present their detailed Business Unit plans and then manage their execution so that we maximize the total business, quarter by quarter, while optimizing each Business Unit, in line with the approved plans.

(only Europe):

Expanding the Systems Business approach which began in FY86, these managers will, in the new context, have the responsibility for final business decisions on behalf of Digital for initial sales of systems and projects, including the related initial services. The level of the approvals will be in line with the existing approval levels used in the High-Impact Project Organization (HIPO) process and the equivalent one at the Country/Regional level.

The Integrated Plans will be composed of the three major Groups of Business Units :

- Product/Applications
- EIS
- Customer Services

~~The Product/Applications and~~ the PSS Business Units constitute the Systems Business segment.

REPLACE ABOVE SENTENCE with the FOLLOWING;

all caps. THE Product/applications and the EIS business units (CSS, PSS, ES) constitute the Systems Business. additionally, EIS will Manage an "overlay" of all businesses for our systems integration efforts.

Each Business Unit will have a specific business model with primary and secondary measurement to ensure that for each line of business the delivery method, the cost incurred and the relative measurements are the most appropriate to foster the right business behavior and decisions. For example:

- some Business Units like Personal Computers, Projects, Network Management Services, Management Training, etc. will have as their primary goal Volume, and as primary measurement Earnings-Per-Share / ROA, with a relative low profit as % of NOR.
- other Business Units will have as their primary goal high profit as % of NOR, etc.

Small subsidiaries will not be required to have a plan with all of the separate Business Units identified in a plan. Each subsidiary management team will define the extent of their plan segmentation with their Country Group Manager. In all cases, the key parameter has to be simplicity, while doing what is needed to understand and make the right business decision. Actual performance will be measured by Business Unit regardless of the subsidiary size.

The sum of all lines of Business Units will be the total goal for each subsidiary or Regional entity, however each will be measured quarterly against the unique Business Plans. If the approved plans are not achieved on a quarterly basis, appropriate action will be required as outlined later in this document.

Business Units will be providing the subsidiary and Regional teams with advice packages. Some Business Units may choose to conduct seminars on the content of the plan for subsidiary managers and their teams.

The Steps:

Critical to the success of the integrated plan is the involvement of the subsidiary and regional teams in their planning process, budget process and execution of the plan.

The Planning SMP - Process:

- The integrated business planning process starts in November each year and continues through February, concluding with a very clear Strategic Market Plan (SMP) in each subsidiary/ Region to ~~ensure complete synchronization of the main direction of the Subsidiary.~~ The SMP is the fundamental document for the development of integrated plans.
  to ensure that the plans of the subsidiary are synchronized with the plans of Digitals Business units

- The output of this plan is documented in the Market Mapping Chart which shows the multiple dimension of the plan on one page, including Markets, Accounts, Applications, Process Industries, Channel Industries, Third-Party Products, and the Services.

  The participants in the planning process will be expanded to include all current business unit groups, (Sales/Systems, EIS, C.S.) and others as added by the corporation. The marketing manager will lead the process on behalf of all business units and will ensure the results are the foundation of all plans.

  The Resource Plan:

- Once the SMP has been defined in its broad context, the Resource Plan starts in parallel with the budgeting process. This process expands the Industry/Applications/Account dimension of the SMP to the Sales organization, for all the accounts covered by a specific Office, Region or Country and the International Corporate Accounts, the last one having first priority.

- For both the Sales and EIS organizations, the product, application and project dimension is to be complete enough to allow the appropriate training plan for the resources and the definition of new resources required to implement the plan.

- The output of this process will be each office having a plan agreed between Sales, EIS and Customer Services, covering the detailed requirements of the account plans, the CERTS goals and also the manpower required from the support functions.

  These elements will form the base for the bottom-up plan in line with the opportunities of the market in the specific entity, and in line with the overall marketing directions of the Corporation and the Business Unit Plans.

The Budget Process

- With both the SMP and Resource Plan in place, it is then possible to add the various elements of the plans and develop an integrated Regional and Subsidiary plan matching the local opportunities and desires with the Corporate guidelines.

- The Corporate business model for each Business Unit constitutes the frame of reference for each level in the organization to build the appropriate local detailed tactical plan across all elements of the organization which are inter-dependent for both plan preparation and implementation.

- Another key difference of the new Integrated Plans is that the Business Unit plans will be presented as such to the Subsidiary, European and Corporate management. This is part of the empowering process for the Regional Management Team while ensuring we have fully exercised all opportunities by Business Unit.

- World-wide account plans will require coordination and approval by the World-wide Account Manager. Once approved, the decision will be implemented by the District and Regions/ Countries. No deviation from the approved Account plan can be made without the full involvement of the Account Manager and the agreement of the relevant managers involved. This is part of the empowering process for Account Managers and applies to all levels of account management and eventually to all accounts. The documentation on decisions which deviate from the standard business models will be sent to the cross-functional account team and the senior management members involved for review.

- If the guidelines provided by Management put a clear constraint on the opportunities available, these limitations should be identified, supported or disagreed with by the local Team, and elevated for appropriate review and consideration to the next level of management.

- The ownership of the Budget (Systems, Services, Customer Training and the total plan) is clearly with the local Team, led by the respective Regional or Country Manager. The team and Regional or Country manager will be measured and held accountable for the execution of the budget by Business Unit. Significant Deviations from ~~pl~~ a an agreed to business unit plan need to be discussed and planned with the appropriate business unit.

- The effort of the Team and the leadership of the Regional/ Subsidiary managers should be focused on those activities where added value is created by their involvement and common planning. In other areas, like renewal of services contracts or on-going business, we must let the respective responsible manager conduct his/her business and avoid everybody getting involved in everything in a clumsy, time-consuming, non-entrepreneurial process.

The Escalation Process:

One process which is essential in managing interdependencies is the escalation process. We need to greatly improve our understanding and use of it.
The desired escalation process is:

- Do not come to the "boss" by yourself with a problem with a colleague! You can and should come together when you cannot resolve something.

- Then, first - jointly - state precisely your areas of agreement; then identify the areas of disagreement and the alternatives you have identified and those alternatives each of you favor.

- Then, together, (those escalating and the appropriate "boss") will solve the problem. We should concentrate on building on the areas of agreement to see if we can create a solution that is satisfactory to each of you, always keeping as first priority the interest of Digital and the needs of the customer.

This is a process used as an exception, and not as a rule. However, escalating is not "badness" and should be done to avoid procrastination of decisions, especially when it involves customers or employee related actions. Escalation should not be used as a way to win an argument vis-a-vis a colleague.

To Summarize:

- With the completion of SMP and the Resources Synergy Plan, preparation of the budget will be facilitated. The primary goal of each Subsidiary/Country Group/Regional team is to deliver 100% or more of the total approved plan, quarter by quarter. Each operation entity will be measured and held accountable for the optimization of the plan by Business Unit, quarter by quarter. Deviations of greater that +-5% by Business Unit in a given quarter will require explanation. If the deviation is expected to continue into the subsequent quarters a formal plan modification must be requested.

  The Definition of the Plan:

- Once the plans are proposed it is the Business Unit Manager's responsibility to approve them.

  The Execution of the Plan:

- The overall intent of these changes is to make Digital more responsive to customers with an individual empowered to speak on behalf of the company (the Account Manager in the first line, and the Regional/Subsidiary Manager as representative of all Digital resources).

- The changing market will require different levels of investment and focus that will vary by Business Unit. The modifications will ensure appropriate focused investment and resources, Business Unit by Business Unit allowing Digital to meet our customers requirements and grow in new areas of opportunity.

- Another intent is to ensure we maximize the Digital business and understand and maintain the profit models for each line of business, to allow us to make the proper future investment decisions.

- Therefore, the Account Manager and the Regional Manager have the final decision-making power and the responsibilities to execute the plan and to maximize the total on a day to day basis. However, they will have the added responsibility to ensure all Business Unit Plans are achieved. Quarterly measurements and reviews will allow better understanding of progress to plan at every level of the organization, improving our success in total.

- Documenting, reviewing and understanding the execution of the plan versus the budget is key to ensure we develop the right management behavior, learn as we evolve and improve our business models to become more innovative and competitive.

- As usual, with responsibility and authority comes the duty of performing against the plan and of developing further as individuals and as a team.
  If the plan is in danger of not being implemented, it is the responsibility of the Geography to raise it with the Business Unit Manager, propose an alternative or ask (early) for help/suggestions on how to improve the actual business situation.

- The detailed map of roles and responsibilities as well as the business measurement reporting requirements will be sent as an attachment to this announcement later.

We are sure that this new delegation of decision-making power and the improved processes will contribute towards making us more flexible and proactive by creating more empowered people (and Business Units) closer to the customer and make us able to react faster and winning even more often.

We are also sure these changes will play a key role in our effort to maintain the excitement and enthusiasm of the winning D.E.C. (the most Dynamic, Exciting Company to work for).

Let's make it happen.
Regards.

Attachments:	List of the Lines Of Business for FY91
mailed later	Map of roles and responsibilities.
	Business measurement reporting requirements.

QUESTIONS

- Will every business Unit have a focused and dedicated manager at the European level?
- How will the Subsidiary and Regional teams be measured? Rewarded?
- What is an acceptable deviation to plan by quarter.
- What must I do if I miss my plan and expect to continue to miss it.
- Will the human resources be tied to the plan by business unit.
- Will new businesses be treated differently from existing businesses?
- Can a subsidiary choose not to implement a Business unit in total?

Distribution:

TO: PIER CARLO FALOTTI (PAPER MAIL AT A1 at CSSE at OGO)
TO: DICK POULSEN @AKO
TO: DAVE GRAINGER @MRO
TO: RUSS GULLOTTI @BTH
TO: DICK FISHBURN @OGO
TO: DICK WALSH @OGO

Resend to Dist

Don Zereski's version of Pier Carlo's document does a good job of showing more of the detail behind the business unit concept for Digital. I support his amendments.

I would change one paragraph to clarify some of the EIS role...

on ~~page 2~~ the bottom of page 2, I would rewrite the paragraph to read as follows;

"The integrated plans will be composed of the ... ~~[illegible]~~

The product/applications and the EIS Business units (CSS, PSS, Customer Training) constitute the systems business. Additionally, EIS will manage an "overlay" of all businesses for our system integration efforts."

digital™

CUSTOMER

Don's model

Geography/Service	G	G	G	S ~~G~~	S ~~G~~			
Application	A	A	A	A	A	A	A	A
Systems/Platforms	SYS	SYS	SYS					
Component Product Development	CPU	DISK	TAPES	SEMI	NETS/ COMM	TERM	S/W	
Functions	ENG.	MFG.	FIN.	ADM.	PERS.			

- Define a singular area of focus for each entity.
- Accountability
- Measure
- Report
- Reward

GOODNESS

- Reduce number of blocks
- Reduce number of layers
- No operational product line at any entity

END STATE

① Rewrite thoughts on Service BU implementation an...

A - cc for Carol
Have her critique carefully and comment before my Ron Smart meeting.

Hold for Ron Smart meeting.

DIGITAL CONFIDENTIAL Document

INTEROFFICE MEMORANDUM

Doc. No: 000548
Date: 26-Apr-1990 10:09am EDT
From: RON SMART
SMART.RON
Dept:
Tel No: 223-7011

TO: See Below

Subject: DEVELOPING "MANAGEMENT MEMO" TO COMMUNICATE NONAME TF IDEAS

TO: NO-NAME TF (A)
CC: GROUP VPs
FR: RON SMART 4/23/90 Mon 11:48:42
RE: DEVELOPING "MANAGEMENT MEMO" TO COMMUNICATE NONAME TASK-FORCE IDEAS

The attached document LAPZ14#10 is the result todate of translating the Task Force discussions and agreements into a set of business management principles which, once uniformly understood and agreed with, can inform the changes to our Management Systems and our plans for human resource development activities.

This first version is the result of preliminary work by Grant and myself. Please review, add and feedback on important disagreements or omissions.

To Task-Force A members re: Task Force meeting results:

I've edited the TF overheads with output from the last TF meeting, added Dick Fishburn's edits to pricing responsibility/accountability, and his latest page on reporting. Some of the work on reporting is ongoing and should be informed by the enclosed basic Business Management Principles. Therefore I have not included all the individual detailed report formats.

More work remains to be done on this detailed TF document, which should be considered as a backup to these Basic Business Management Principles.

We should evaluate both documents as the basis of a "Management Memo" to explain the new business management systems we have been defining. Bill Strecker, did we clarify how shared responsibilities get done, at the level you believe we need?

Ron 4/25/90 Wed 7:37:16

CONTENT OF DRAFT MANAGEMENT MEMO ON THE NEW BUSINESS MANAGEMENT SYSTEMS:

LAPZ14#10.0 DIGITAL BUSINESS MANAGEMENT PRINCIPLES ed Ron Smart 500 650

1. ADDING UP THE COMPANY BY BUSINESS UNIT:

We have three types of Business Units in three orthogonal dimensions of the company's total business. They are Geography, Application and Product/Service. The individual Business Units of each type add to 100% of the company's revenues and expenses.

```
.-------------------------------.
| Geographic Business Unit 1.   | )
'-------------------------------' )
                                  )
.-------------------------------. )
| Geographic Business Unit 2.   | ) the set adds to 100% of the company
'-------------------------------' )
                                  )
.-------------------------------. )
| Geographic Business Unit 3.   | )
'-------------------------------'
```

these should not be called business units since it MAKES the rest of the document unclear as to roles + responsibilities

```
.---.   .---.               .---.
|   |   |   |               |   |
|   |   |   |               |   |
| 1.|   | 2.|  Application  | N.|
|   |   |   |   Business    |   |   the set adds to 100% of the company
|   |   |   |    Units      |   |
|   |   |   |               |   |
'---'   '---'               '---'
```

This gives no service dimension. In both of these service is bundled into the business units so it gives a picture of service (CS + CIS) not being a business unit. Even if this is not the intent that is the message people will read.

```
   .        .              .
  / \      / \            / \
 /   \    /   \          /   \
 \ 1. \   \ 2. \  Product \ N. \
  \    \   \    \   and    \    \   the set adds to 100% of the company
   \    \   \    \ Service  \    \
    \    \   \    \ Business \    \
     \    \   \    \ Units    \    \
      \   /    \   /           \   /
       \ /      \ /             \ /
        '        '               '
```

** DIGITAL CONFIDENTIAL **

Ross, on the prior page all 3 dimensions are considered business units (geographies, ABU, PBU) so it is unclear who has this set of responsibilities. There needs to be a prioritization of responsibility because it sounds like everyone manages the business + the resources.

2. DIGITAL'S BUSINESS MANAGEMENT PRINCIPLES - INTRODUCTION:

BUSINESS UNITS:

There are Geographic, Application, Product & Service Business Units.

MEANING OF RUNNING A BUSINESS UNIT IN DIGITAL:

This sounds more tactical than they intend.

* Establish a business model consistent with corporate strategy and plan.
* Manage all the details necessary for the plan to succeed.
* Recommend trade-offs among investment alternatives.
* Achieve planned revenue, market share and return targets.
* Lead the internal and external infrastructure to achieve the plan.
* Create value that customers will buy.
* Manage the resources under the direct control of the Business Unit.

geographies implement

Adding another section stating the geography roles would CLARIFY this ALOT.

Which are these? Just HQ types since the implementation resources are "owned" by the geographies now.

IMPLICATIONS:

* The person recommending investment tradeoffs is running the business.
* Resources needed to "run a business" should, ~~if at all~~ whenever ~~possible~~ reasonable, be under the control of the business manager. WHAT does THIS MEAN? IT IS CONTRARY TO HOW OUR EIS RESOURCES ARE CONTROLLED.

geos implement.

* Processes need to be established for managing the resources not under the control of the business manager.

HOWEVER:

* Our unique opportunities to out-perform others include potential benefits from our networking product architecture and our DIGITAL culture (knowledge-authority basis of decision making). While our productivity with investments is below our goals (see our current level of profitable growth in market position and stock price), increasing this performance depends on doing business management by Business Units instead of by Functions, and removing business management confusion. Our DIGITAL edge will come from integrating our investments and spending in Geography, Application, Product or Service business segments by using inter-dependencies to leverage revenue from investments in the other business unit segments. This apparent complication is the potential advantage we want to use. We don't want accounting complexity to limit our ability to do it, or formal lines of authority to limit the strategy tradeoffs the company should make.

need ROI responsible people

- I agree but not being said clearly.

2. DIGITAL'S BUSINESS MANAGEMENT PRINCIPLES - INTRODUCTION (cont.)

GENERAL PROCESS FOR RUNNING THE COMPANY'S BUSINESS:

An integrated formal annual planning process insures we will meet customer needs plus our financial and market share targets.

Let's say it doesn't EXIST YET.

Right -- the integration piece NEEDS to be WORKED ON.

Ongoing reporting and requirements statements provide a framework for tactical modification of the plan.

THE REPORTING SYSTEM:

A corporate management, financial and investment report system will be designed and specific reports will be established for each type of Business unit. All Business Units will contribute ~~as necessary~~ the resources to insure timely, accurate ~~reports~~. – mostly gros

BUSINESS MANAGEMENT GROUPS:

For the purpose of connecting our many business strategies and plans into an effective corporate strategy, plan and budget, we have Group VPs who, as an executive collegiate, ~~manage groups of~~ Business Units or Functions. They are responsible as an operating committee, to establish and maintain the important synergies between the different dimensions of our business, as well as to ensure that the capabilities of their own Business Units and/or Functions are being developed, and their business segments planned and managed successfully in terms of contributing to corporate success.

new title?

YOU, P. Smith, D. Zereski, etc.??

new committee?

I think this is just a way of saying that the individual ABU and PBU managers are not of op. committee members.

which ones? ABU or ABU+PBU

3. BASIC BUSINESS MANAGEMENT PRINCIPLES (from NoName TF @ 1/17 + GS + RST ?

a) THE BUSINESS UNITS ARE THE FUNDAMENTAL BUSINESS ~~SEGMENTS~~ ENTITIES OF THE COMPANY. THEY ARE RESPONSIBLE TO PLAN AND BUDGET THE CORPORATION'S BUSINESS AND ARE ACCOUNTABLE FOR RESULTS, WHILE BEING INTER-DEPENDENT.

B) THE GEOGRAPHY'S PRIORITY IS TO MAKE THE TOTAL BUSINESS PLAN BY QUARTER ~~AND NEXT,~~ TO MAKE THE ANNUAL PLAN BY THE APPLICATION, PRODUCT AND SERVICE BUSINESS SEGMENTATIONS.

wrong! by Quarterly business YES.

C) WE RUN THE CORPORATION ON THE PRESUMPTION THAT EACH GROUP WILL PERFORM TO PLAN. WE MANAGE BY EXCEPTION. WE CHANGE THE PLAN IF INTENTIONS CHANGE, OR IF MAJOR DEVIATIONS OCCUR.

D) WITHIN A QUARTER, WE RELY ON GEOGRAPHIES TO SOLVE TACTICAL CERTS, PROFIT AND OTHER OPERATIONAL PROBLEMS. THE BUILD/SHIP PLAN IN THE QUARTER IS WORKED OUT BETWEEN GEOGRAPHIES & MANUFACTURING.

mean?

This implies that if a problem is more than 1 QTR in length it gets worked with bus. unit. That should be stated

E) DECISIONS ARE MADE BY BRINGING TOGETHER THE BEST AVAILABLE KNOWLEDGE ABOUT THE QUESTION, NOT BY THE ARBITRARY PREFERENCE OF RESOURCE OWNERS OR ON THE BASIS OF POSITION AUTHORITY. OCCASIONALLY, THE PERSON WHO IS DESIGNATED AS PRIMARILY RESPONSIBLE WILL MAKE THE TIE-BREAKING CHOICE & WILL BE ACCOUNTABLE FOR EXPLAINING THE RATIONALE SO EVERYONE LEARNS

This disempowers B.U.M.

F) THE RELATIONSHIP BETWEEN DIFFERENT INTER-DEPENDENT BUSINESS UNITS IS THAT THEY COMMUNICATE TO IMPROVE ONE ANOTHER'S EFFECTIVENESS IN THE CONTEXT OF SATISFYING THE CUSTOMERS AND ACHIEVING FINANCIAL TARGETS. THE ANNUAL PLAN ESTABLISHES THE BASELINE CONTRACTS BETWEEN THE BUSINESS UNITS.

POOR CHOICE OF WORDS

G) FULLY LOADED P&LS TO PBT + RUA ARE USED TO TEST VIABILITY OF BUSINESS MODELS FOR THE VARIOUS KINDS OF BUSINESS UNITS. MANAGEMENT REPORTING WILL BE ACCORDING TO AN ~~INCREMENTAL~~ BUSINESS MODEL FOR THE THINGS THE BUSINESS UNIT DIRECTLY CONTROLS.

Does this refer to the cross-industry groups?

H) REVENUES AND EXPENSES ARE ADDED TO 100% AS AN ACCOUNTING ANALYSIS TO ENSURE THE BUSINESS MODEL & PLAN FOR EACH LINE OF BUSINESS IS VIABLE. THIS DOESN'T CONSTRAIN US FROM HAVING SEVERAL DIFFERENT KINDS OF LINES OF BUSINESS WITH BUSINESS MODELS AND PLANS WHICH ARE INTER-DEPENDENT AND FOR WHICH THE SAME REVENUE OR EXPENSES MAY BE COUNTED OVER AGAIN, AS LONG AS THE ADDED VALUE OF THE INCREMENTAL CONTRIBUTION IS CLEAR.

unclear - Need to separate ABU PBU geo etc.

I) BUSINESS PROPOSALS ARE APPROVED ON THE BASIS OF THEIR VALUE-ADDED CONTRIBUTION TO CORPORATE PERFORMANCE IN STRATEGICALLY IMPORTANT SEGMENTS (E.G. PRODUCT/SERVICE, APPLICATION OR GEOGRAPHY) AND ON THE QUALITY OF THE PLAN FOR MAKING THE CONTRIBUTION. A QUALITY PLAN AND BUDGET INCLUDES ALL THE DETAILS NECESSARY FOR GETTING THE PROMISED, PLANNED RESULTS, INCLUDING MANAGEMENT PLAN FOR CRITICAL DEPENDENCIES.

J) ASSETS ARE ONLY PLANNED AND REPORTED WHERE THEY ARE SIGNIFICANT OR ARE UNIQUE TO THE BUSINESS UNIT.

& B.U are global

BUSINESS MANAGEMENT PRINCIPLES IN MORE DETAIL:

These more detailed explanations are to clarify the ten basic principles.

a) BUSINESS UNITS

There are Geography, Applications/Industry and Product/Service Businesss Units. Our choices in Business Units are not constrained by the necessity of adding up the company to get to 100% cuts. Instead, this is an analytical process designed to ensure that the business models for each of the Business Units and their resource/result plans are viable in the sense that if the Business Units succeed against their plans, then the corporation also succeeds.

For example, the EIS "Systems Integration" business leverages ? about 10% of the company's revenue now. Projecting from the growth rate for the solutions market segment, this business is likely to be 40% of the company's revenues within a relatively few years. This leveraged business is revenue we can't get without developing Project Managers and selling our solutions project management services to customers.

To be effective in this business, EIS has to be seen as a key partner with most other business Units of the company (Management Consulting, CSS, PSS, Customer Training, Customer Service, Hardware and Software products) as well as to bring in third party software and/or systems integration partners. The business shouldn't be viewed as separate division, or simply as a Function. To do so would be to overlook the concept of leveraging additional revenue by complementary motivation. People will collaborate with EIS because this increases their own market shares in their own segments. EIS wants these other segments' products to be easy to sell and profitable, to increase EIS business success. The value which EIS adds is the knowhow and skill to price, market, support the sales and deliver the solutions projects. The EIS incremental business model will reflect the extra revenue for project management relative to the extra costs and business risk provisions. Their business contribution must be clear, independent of whether the business is measured on an incremental basis against a value-adding business model or on the basis of a complete, fully loaded P&L. This project management business might almost be viewed as a channel into the rapidly growing solutions business. To have its full effect in terms of leveraging the other Business Unit's revenues, this project management (Systems Integration) business needs the relationship of a partnership for learning together about how to succeed in this very rapidly growing portion of the total market, not of an independent arm's length contractor with limited formalized cross-collaborations.

How should it be viewed? Leaves the question open.

not so.

Good

b) MEETING CORPORATE GOALS USING SUB-SEGMENT EXPERTISE:

Our organization design uses many sub-segmentations of the business. This is done to get world class expertise and creativity which will add value in many important dimensions (Product, Market and Functions e.g. Resource or Process development thrusts) of the whole business. We want the sub-segment expertise and focus to add knowledge or skill to business decision-making, not to frustrate operational management.

We plan and install resources based on this sub-segment knowhow. The Products, Services, Markets (Industries, Applications), Geographies, Accounts, Channels and Functions are essentially many overlapping segmentations of our total business. Some are further segmented and managers assigned to give us the benefit of this focus. We measure results in a sub-segments as a means for knowing if the contribution we expected from this focus of resources was effective. Business Unit sub-segmentation can be measured in terms of extra revenue results and market share in return for added investment and spending, e.g. a Cross-Applications Unit. For Functions we use other results measures.

Some think this should be SI.

Increasingly, sub-segment added value will be in terms of knowledge transfer through and to the other business segments or Functions. It isn't in operational control of other segments or allocation hassels.

We do not try to control operational results to all the interlocking sub-segment result goals. If these sub-segments do a quality job, the operational or strategic units will naturally use their contributions to improve corporate performance. Sub-segment results will follow. Sub-segment contributions aim at securing our corporate performance.

If one sub-segment (country) is having difficulties meeting its goals because of adverse market conditions, the upper levels of geographic management need to decide whether to add resources in this country or make up for the shortfall based on favourable conditions in other countries. These next higher levels of management are in the position to decide how best to satisfy corporate performance in both resources and results. This might entail letting the one country performance slip temporarily in the interests of meeting the revenue AND the cost commitments to corporate. The incentives for all managers need to encourage corporate success rather than sub-segment micro-management.

geos vs Bus Units ± 5%

Mathematically, the more we sub-segment the results from an uncertain process, the more uncertain is the result by each sub-segment. But by planning and managing the inputs (resources) at the sub-segment level we increase likelihood of reducing uncertainty in overall results.

c. LOCAL RESPONSIBILITY vs ROUTINELY REPORTING DETAILED FORECASTS:

Local output, schedules, expenses, assets and any other locally controllable business parameters in the local plan, need not be routinely forecasted to others with interdependent plans. Managers are accountable ± 5% for coming in on plan and budget for the local items.

??

If material deviations from plan are becoming likely for any reason, the local manager is responsible for reporting these to all others whose interdependent plans are materially affected. This exception reporting is used by local managers for explaining corrective actions taken and for plan renegotiation if in fact correction is impossible.

Note: The bases for this management principle in DIGITAL culture are:

* We are responsible for making agressive plans which anticipate competitive pressures, and for meeting the commitments made in deliberations and negotiations when we got our plans approved.

* We are responsible for learning systematically by testing our plan assumptions and knowledge against reality as it plays out.

* As a matter of basic honesty, we are responsible for renegotiating any plan commitments when they are proving not to be realistic.

* We want to minimize policing roles and un-necessary communications and their associated costs in people and in technology consumption.

* Local management control is done on local information systems. Only exception reporting is required to be sent over the network to the other interdependent groups, including management. Management will assume that the unit will perform on plan unless advised otherwise.

Exception rptg. does not mean no rptg. / Means minimum a note saying we are on plan.

d) OPERATIONAL VS STRATEGIC CONTROL:

There are many interdependencies among the Business Units. For major interactions, formal responsibility charts ~~will be developed~~ have been developed. to help clarify roles. For example, there are many interactions between the remedial service organization and the geographies. Each significant issue is identified and responsibility for planning, execution and exception approval are assigned. does this include EIs? Should it?

The Applications and Product business units use Marketing programs and Product/Service Engineering as the channel of influence on their revenue results. These are longer term means of influence. Therefore we do not expect these kinds of Business units to be able to solve short-term business issues, other than to support Sales activities.

Although the Applications Business Units are less closely coupled to operational management, they are crucially coupled to the longer term (strategic investment) decisions on business direction. For example, the choice of business segments in which we invest Geographic support resources or the choice of product investments or pricing are key determinants of where our future revenue will come from. It is the role of these business segments to educate Geographies and PBUs about what the business opportunities are and about how to realize them efficiently in the business segment. Geographies and PBUs will want to listen to Applications Business unit inputs which help them achieve good business performance. However, if Business unit communications are ineffective then the Field or PBUs will want to get this message back to business units quickly, constructively and efficiently for mutual benefit.

The natural affiliation between Applications and Product Business units and the Field (Account Management) requires a communications

Service Bus Units have direct ties to geos. for implementation resources are in field ABU / PBU are in supplying.

channel focussed on effective development, sharing and application of knowledge about application solutions and product capabilities. This is done through in Field DCC sites and the sales support resource base. A development project is in the works for I/T computer network support for this knowledge processing.

ef) DECISION MAKING AND RESPONSIBILITY WITHOUT DIRECT CONTROL:

In a networked, adaptive, value-adding, interdependent organization like ours, where we have many dimensions of expertise adding value across the whole organization, we minimize the use of hierarchical management controls, or decisions made to protect resources we "own". Thus, decisions are primarily influenced by "knowledge authority".

There are many shared tasks requiring associated decisions. These are generally not "democratic" decisions in the sense that everyone has equal say on any subject. Rather, the different critical expertises are brought together to find solution alternatives and to evaluate them. Decision participants are accountable for the quality of their knowledge contributions. This is their added value, their reason for being invited to participate in the decision process. If agreements can't be reached, this may require identification of who has the "tie-breaker" vote. Exercise of the "tie-breaker" responsibility obligates the designated individual to lead and help the affected resources to accomplish what was decided.

Formal responsibility charts are being established for key decision areas between the various Business Units. These charts identify responsibility for planning, for execution and for plan approval and exception approval.

When different business managers have inter-dependent business plans (e.g. Geography with local presence concerns, and Manufacturing with cost concerns, in a decision about putting a factory in a country), it is very important that their respective performance measures are complementary. Only this way can they quickly converge on agreements which make sense for the corporation. (See approval bases, item j).

g) MANAGING WITH "CONTRIBUTION MARGIN" BUSINESS MODELS AND PLANS:

[illegible] UNITS?

Lines of Business have complete business plans, including customers and suppliers. They take care of every detail, including all their interdependencies with other internal "supplier" or "customer" units.

Each Business Unit has three types of reports. First is a MANAGEMENT REPORT. This report is frequent (weekly or monthly) and identifies performance against plan for direct responsibilities. The management report is used by the responsible manager to immediately identify and correct operating problems so she/he meets the committed plan.

The next is a FINANCIAL REPORT. This report shows an intermediate level of financial results, e.g. Field Contribution Margin for a

This section is good. We need to be sure that the questions you will be expected to answer are those that are supported by this reporting process since this is all the info. we will have.

quarterly

Geographic Business Unit, or Variable Margin for a PBU. It is issued ~~less frequent~~ly than Management Reports and does not contain full allocation of all costs in the corporation. The "Contribution Margin" is used by the Business Unit manager to identify and correct developing trends in financial performance and to issue corrective programs.

Finally, and in many cases only annually, a full P&L with complete cost allocation will be provided as an "INVESTMENT REPORT". This report identifies the quality of the business in an ongoing way:- particularly market share, ROA and profit being generated as a result of the investment by each Business Unit.

h) CORPORATE BUSINESS CONTROL WITH MIXED KINDS OF BUSINESS UNITS:

Each Business Unit has its own business model and business plan, set by accounting analyses to integrate into the corporate model/plan.

If all our Business Units were in fact arm's length, independent businesses, we would know how to manage. We would use a free market relationship between them and they could establish appropriate pricing. However, we have already chosen to organize so as to exploit useful inter-dependence among the Lines of Business. This inter-dependence is a fact of life even between different firms who are suppliers, customers or partners. To have effective business relationships we want to spend our efforts on planning for mutual success.

It is the nature of our business. What toasters and jet engines

Where possible we will establish simple systems to insure all costs are covered in our plan. For example, since we sell products at several levels of integration, we can create algorithmic "creation costs" that insures that each level of integration carries its fair share of costs for that product. Each successive layer will add additional "creation costs" which cover the cost of their value added.

Our business communications are aimed at expanding our mutual business and making it mutually profitable. Inside our own organization, we can do the management accounting as though we were separate Lines of Business, but avoid the wasted effort of actually having arm's length dealing. Choosing the right kinds of success measures and management feedback are important means for encouraging management decision making which gives corporate success through local manager role/goal agreements. (I still have to elaborate the concepts for kinds of success measures we need as referenced in j).

i) APPROVAL OF BUSINESS PROPOSALS:

EC/OC can review any strategies, business models and business plans, but the approval of resources ~~can only~~ WILL be ~~done~~ GIVEN ONLY if a business proposal is complete enough to be evaluated in terms of impact on corporate performance in segments which are strategically important to the corporation. To be able to make this determination, the business proposal needs to include certain minimum of information as a summary of what the proposal claims and offers to the corporation, if it is in fact approved. There's a project under way to describe the content that will meet these requirements. Example: the minimum requirements:

1. REGULAR BUSINESS PLAN: / Long range plan
   The strategy and plan regarding Product, Market, Resource, Process development and delivery approach, with segmentation, recommended levels of resources and results promised including schedules, etc. This is a summary of the regular business strategy and plan. It should ~~i~~dentify the risks and the risk management provisions.

   One way to structure this basic plan includes identifying:

   a) Who are the customers?
   b) What are the Products and services?
   c) How will you deliver these products into this customer market?
   d) How will you make money?
   e) What is unique, where are you differentiated from competition?
) etc

2. CONTRIBUTION TO CORPORATE:
   The contribution of the business to corporate performance in the business segments which are important to corporate strategy. If the business is not in any established list of important corporate strategies, then the proposer makes this a recommendation. The form of the performance promised is according to the corporate measures of success, typically profitable market expansion.

3. MANAGEMENT PLAN:
   The Management Plan showing all the important inter-dependencies and the status of the agreements with these other Business Units. This plan is necessary given the complexity of our organization.

this should be crisper.

4. CHANGES TO CORPORATE SYSTEMS:
   Recommended changes in the corporate management or administrative systems necessary for this business to be successful. This item encourages proposals which would otherwise not be made because of "the system".

Ideally, all proposals will be prioritized and the best ones funded. The crucial question is how to prioritize. The principles stated at the beginning provide a starting point for evolving useful, effective ways to make this prioritization. More work is needed to develop and test this approach, namely profitable rate of growth in market share.

Proposals should be possible at any time, not simply at the budgeting season. As we get away from the Functional top-down budgeting, we can expect to make and approve incremental proposals which clearly add to corporate performance in terms of our expectations for profitable growth in market share in strategically important businesses. A separate addendum on business planning/approval will be developed, including resolution of current "incompatible measurements" issues.

— What is the process. How ARE CROSS bus. unit investments funded — i.e. SI?

Important

LRP 3-5 yrs
plan 0-2 yrs — proj. plan.
- 1 yr. BOD

j) INTELLECTUAL PROPERTY AND PEOPLE AS AN ASSET:

Although at this stage, only tangible assets find their way into the accounting system, increasingly, the development and management of our human assets will figure in our investment desision making. The obvious issue for most businesses today is the rate of knowledge and skill obsolescence on the one hand and the big competitive advantage of accelerating our knowledge and skill development on the other.

TO: Jack Smith, Abbott Weiss, Bruce Ryan, Mick Prokopis, George Chamberlain, Dick Poulsen, Pete Smith, Russ Gullotti, Grant Saviers, Bill Strecker, Dick Fishburn, Ron Smart.

CC: Don Zereski
CC: Bill Hanson
FR: Ron Smart/Abbott Weiss

This document summarizes what we've collected on the agreements and remaining issues as developed by the Management Systems task force A (also known as the "No-Name TF"), following meeting on 4/17/90 and subsequent resolutions of outstanding issues. Please review and confirm agreements or question for clarity. Read this as an appendix to LAPZ14#10 on Basic Business Management Principles.

Next steps:

a) Confirm agreements and clarify/resolve outstanding issues.

b) Review with other Group VPs

c) Resolve or describe remaining issues from these additional inputs.

d) Make the results of both task forces converge (appx. on Ken's ideas).

e) Communicate agreements as recommendations to Ken and EC.

f) Review management systems design with Ken and EC.

g) Plan the implementation

CONTENT:

1. BASIC BUSINESS MANAGEMENT PRINCIPLES (see separate document).
2. RESPONSIBILITY/ACCOUNTABILITY CHARTING (including PRICING)
3. BUSINESS MANAGEMENT REPORTS SUMMARY (some details still being worked)
4. DEVELOPMENT & DELIVERY COSTS IN P&Ls
5. CURRENT ISSUES TO RESOLVE
6. TESTS FOR WHETHER NEW BUSINESS MANAGEMENT SYSTEMS ARE POWERFUL ENOUGH

APPENDIX:

7. FULL FORMAT VERSION OF BUSINESS MANAGEMENT REPORTS (not included, details still being worked)

2. RESPONSIBILITY & ACCOUNTABILITY CHARTING

2.1 RESPONSIBILITY/ACCOUNTABILITY OF BUSINESS UNITS & GEOGRAPHIES:

	RESPONSIBILITY TO PLAN	PLAN EXECUTION	APPROVAL AND EXCEPTION APPROVAL
BUSINESS PLAN & TIMELESS MODEL	S	G	B.U.
GEOGRAPHY LRP	INPUT TO BU PLAN	G	G
UNIQUE BUSINESS UNIT METHODS & PROCEEDURES	S	S	B.U.
STAFFING DECISIONS	S	G	B.U.
TRAINING & DEVELOPMENT PROGRAMS	S	G	B.U.
BUDGET APPROVAL 8 QUARTER P&L	S	G	B.U.
INVESTMENT & TRADEOFFS FOR THE GEOGRAPHY BY BUSINESS	S	G	B.U.
SALARY REVIEWS & STOCK FOR DCC MANAGER	S	S	B.U.
SALARY REVIEWS & STOCK FOR COUNTRY MANAGER	S	S	G

MEANS # of people not who is hired?

Who approves individual business deals within a geography. ie. A large SI program in US -- does Granger approve or you? For a large PSS deal, you approve now. Does that continue? Or is this covered under next mtg on next pg?

KEY: B.U. = Business Unit (Line of Business)
S = Shared
G = Geography Management

2. RESPONSIBILITY & ACCOUNTABILITY CHARTING (cont)

2.2 RESPONSIBILITY/ACCOUNTABILITY TO MANAGE A GEOGRAPHY BY BUSINESS UNIT:

	RESPONSIBILITY TO PLAN	PLAN EXECUTION	APPROVAL AND EXCEPTION APPROVAL
CAPITAL SPENDING (Unique to B.U.)	S	G	B.U.
ASSETS (Unique to B.U.)	S	G	B.U.
PRODUCT/SERVICE OFFERINGS	S	G	B.U.
BUSINESS PRACTICES	S	G	S
ACCOUNT MANAGEMENT	G	G	G
PRODUCT VOLUME PLAN	(See chart 2.3	)	B.U.

KEY: B.U. = Business Unit
S = Shared
G = Geography Management

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2. RESPONSIBILITY & ACCOUNTABILITY CHARTING (cont)

2.3a CROSS APPLICATION UNITS (e.g. Henry's OIS) discussion led by P. Smith

Pete Smith, I think we need this to replace the following page. HELP!!

	RESPONSIBILITY TO PLAN	PLAN EXECUTION	APPROVAL AND EXCEPTION APPROVAL
CROSS-APPLICATION BUSINESS MODEL & BUSINESS PLAN	CA	S	ABU
TECHNICAL SUPPORT OF GEOGRAPHIES	S	CA (via DCC)	ABU

This says that the Cross appl. groups focus on application area & do not directly influence the geography. Not good for SI -- too little influence

CA = Cross Application Unit, e.g. OIS
ABU = Application Business Unit
S = CA + ABU

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2. RESPONSIBILITY & ACCOUNTABILITY CHARTING (cont)

2.3b CROSS APPLICATION UNITS (e.g. Henry's OIS) discussion led by P. Smith

PLANNING, APPROVALS, REVIEWS FOR CROSS APPLICATION UNIT PLANS:

WHO PLANS: Cross-Applications Units
WHO APPROVES: Business Units (Ken's Lines of Business = LOB)
WHO REVIEWS: K&F might, but it is separate from budget approval
(K&F = Ken and friends, anyone he elects to help him think about it)

Plans show the goodness of the investment in terms of market impact: Incremental LOB revenue promised vs incremental spending to get it.

Note: the attractiveness of this planned return/investment can be computed by the analytical approach of filling out a complete P&L.

IMPLEMENTATION OF THE PLAN IS REVIEWED THROUGH QUARTERLY REPORTS.

Quarterly report includes (also see other tables (section 4 and 7).

* CERTS (taken automatically from order coding)
* DIRECT EXPENSE: Marketing,
  Engineering,
  Advertising,
  Support for DCC/Sales
  Training for Sales and Sales support

COMMENTS:

The point of Field planning & investment decision-making is the BU. Normal marketing etc. communications with the Field are via the DCCs.However, the Field goes directly to the Cross Applications Units (or PBU or Function) on technical issues. Don't communicate via BU.

Pete Smith listed the Cross-Application units and their degree of dependence on DEC versus 3rd Party applications development:

	DEC		3rd Party
OIS	Hi		
EP			Hi
IMAGE	Hi	--->	
IS/CASE	Med		Hi
FABS			Hi

We discussed whether Cross Application Units should get monthly Certs and concluded it was not necessary. The LOBs will be quick to give feedback directly to the Cross Applications Units who they've funded in order to get incremental revenue in Cross Application subsegments.

2. RESPONSIBILITY & ACCOUNTABILITY CHARTING (cont)

2.4 RESPONSIBILITIES BETWEEN APPLICATION BUSINESS UNITS & FUNCTIONS:

	MANUFACTURING	PBU	GEOGRAPHY	BUSINESS UNITS
2Q QTD PLAN	I	I (for intros.)	R	
CAPACITY PLAN		I	I	R
NEW PRODUCT RAMPS	I	R	I	
FUNCTION LRP - COMPETITIVENESS - TIME TO MARKET	R	R		
PRODUCT REQUIREMENTS INPUTS: - WHAT PRODUCTS? - FUNCTIONALITY? - TIMING SCHEDULE?		S		S
PRODUCT PLAN PROPOSAL		R *		

* to STF + Marketing/Sales Committee --> Ken & friends

KEY: R = Responsible S = Shared I = Input

Fig 1. DEGREE OF INFLUENCE OVER MANUFACTURING BUILD PLAN

```
           6 months : 6-18 months : 18+ months
      100% .-------------------------------------.
           |        :             :     PBUs     |
           |        : Application :              |
           |        :  Business   :              |
           |        :   Units     :              |
           |        :             :              |
           | Geog.  :             :              |
        0% |-------------------------------------|
  Current quarter                                3 years
```

2. RESPONSIBILITY & ACCOUNTABILITY CHARTING (cont)

2.5 HOW DO WE DECIDE ON PRODUCT INVESTMENTS?

```
       .------------------.
       |                  |
       | PBUs PROPOSE     |------------------------>|.--------------.
  .----| INVESTMENT       |                         |               |
  |    |   PLANS          |                         |     KEN       |
  |    |                  |       .---------------->|               |->DECIDE
  |    '------------------'       |    .----------->|  (& FRIENDS)  |  PRODUCT
  |                               |    |      .---->|               | INVESTMENTS
  |    .-----.                    |    |      |     '---------------'
  |    |     |              RECOMMENDATIONS   |
  |--->| STF |--------------------'    |      |
  |    '-----'                         |      |
  |            .-----------.           |      |
  |            | CUSTOMER  |           |      |
  |----------->|  VALUE    |-----------'      |
  |            |TASK FORCE |                  |
  |            |    ?      |                  |
  |            '-----------'                  |
  |                           .-----------.   |
  |                           | BUSINESS  |   |
  '-------------------------->|  UNITS    |---'
                              |(LINES OF  |
                              | BUSINESS) |
                              '-----------'
```

Where would SI investments fall?

2. RESPONSIBILITY & ACCOUNTABILITY CHARTING (cont)

2.6a PBUs (e.g. Storage) - discussion led by Grant Saviers:

Grant, do we need this form of responsibility/accountability chart to replace the next page? Is it right (rational and consistent) HELP! HELP!

	RESPONSIBILITY TO PLAN	PLAN EXECUTION	APPROVAL AND EXCEPTION APPROVAL
ENGINEERING INVESTMENT	PBU	PBU + FUNCTIONS	Ken & friends
LIFETIME REVENUE PLAN	PBU	ALL	Ken & friends
8 QTR NOR & PRODUCT VOLUME BY ABU & GEOG.	PBU (Inputs from ABU & G)	ALL	Ken & friends
BUSINESS MODEL & BUSINESS PLAN	PBU	PBU + FUNCTIONS	EC with inputs from Ken & friends

2.6c PBUs (e.g. Storage) - discussion led by Grant Saviers:

PLANNING, APPROVALS, REVIEWS:

WHO PLANS: PBU
WHO APPROVES: Ken & Friends + Function (Engineering)
WHO REVIEWS: ?

This discussion seemed inconclusive but we did converge on the following PBU plan, review and approval process model:

```
 .-----------------------------------------------------------------.
 |   communications about requirements and possibilities           |
 |  .------------------> LOBs <-------------------------.          |
 |  | Requirements and      |          Requirements and |          |
 |  |  possibilities        |           possibilities   |          |
 |  |                       V                           |          |
 V  V                                                   V  V
 PBUs -------->| .-------------------------------. |<-- Geographies
 8 qtr Rev. &  |   LOB's Annual Revenue Plans      |
 units proposal'-----------------------------------'
                              |
              LOB Proposals for Revenue, Profit, Market Share,
              Product Mix (plus significant unresolved issues)
                              |
Knowledge Inputs:             V
* PBUs (via proposals) .-----------------------------.
* STF (tech evaluation) |     Ken & Friends decide   | Setting corporate
* Marketing & Field    '-----------------------------'(product) strategy
* LOBs(via business plans)    |
                              | Official PBU revenue and units
                              V by Business Unit and Geography
               .----------------------------------------.
               |Operating plan, budget & implementation|
               |----------------------------------------| Operations
               |Product  |  Sales   | Support  | Geog.  | management
               |Units by |resources |resources | revenue|
               |  PBU    | by PBU?  |  by PBU  | by PBU |
               '----------------------------------------'
```

QUESTION: Can Geographies refuse to sell a PBU's major Product?

PROPOSED ANSWER: Only by agreement. However global support will be needed in global accounts. If a Product's value in the marketplace is questioned as indicated by serious volume plan disagreement, resolution is required. Some PBU investments with long time-to-market may be funded without Field agreement on volume. E.g., corporate strategy decision by Ken & Friends.

2. RESPONSIBILITY & ACCOUNTABILITY CHARTING (cont)

2.7 PRICING RESPONSIBILITIES (per Dick Fishburn 4/24/90)

	Responsibility to PLAN	Execution	Approval & Exception Approval
* PRICING ARCHITECTURE (How DIGITAL products are differentiated vis-a-vis one another: including VAX/UNIX; Processors/Peripherals; discount strategy)	BU, (Coordinated by VP Mktg)	G	EC or designated body
* PRICING STRATEGY (How DIGITAL products are differentiated vis-a-vis competition, including competitive positioning; value-added pricing; and Application/System/Component pricing strategy)	BU	G	BU
* GEOGRAPHY UPLIFT/DOWNLIFT PLAN (Within individual countries, how products are priced consistent with pricing architecture and strategy)	G	G (At introduction US CLP must equal MLP)	BU (Differences from strategy)
* NEW PRODUCTS (Introduction price consistent with strategy)	PBU (unless BU specific)	G	BU
* RESPONSE TO COMPETITIVE PRICE CHANGE	All (Emphasis on short reaction time)	G	BU (if response changes the competitive positioning)
* INDIVIDUAL CUSTOMER PROJECT (Deal Making)	S (Allowance budget)	G	BU (If Mega deals affect budget)

define the size. [illegible] are the ones you will be asked to approve.

2. RESPONSIBILITY & ACCOUNTABILITY CHARTING (cont)

2.7 PRICING RESPONSIBILITIES (cont.):

CREATION COSTS

DELIVERY COSTS

* BOX COST

  Mfg. actual per box
  (NPSU + E97 + E98) / # units — Box Period Investments
  Mfg. other / # units

* SYSTEM COST

  Sum of box costs
  (NPSU + E97 + E98) / # systems — System Period Cost

* APPLICATION COST

  System cost + extra boxes
  PMG cost / # appl. sold

DISTRIBUTION COST

COS, Logistics, Launch, Training, Support

OVERHEADS

G+A, Corp. Adv./PR

3.0 SUMMARY OF REPORTING (per Dick Fishburn composite chart):

REPORTING OF ACTUALS AND FORECASTING

	Application Business Units	Service Business Units	Total of Customer Service, Software Services, Edu. Services CSS
ACTUALS:			
Orders	W, M, Q, FY	Service Only	Service Only
Revenue-Product	M, Q, FY	-	-
-Service	Q, FY (actual where possible, others by algorithm based on Budget)	M, Q, FY	M, Q, FY
Direct Expenses	M, Q, FY	M, Q, FY	M, Q, FY
Full P&L	Q, FY	Q, FY	Q, FY
BUDGET:			
Orders	Q, FY	Service Only	Service Only
Revenue-Product	Q, FY	-	-
-Service	See Above	Q, FY	Q, FY
Direct Expenses	Q, FY	Q, FY	Q, FY
Full P&L	Q, FY	Q, FY	Q, FY
FORECAST: by Q & FY			
Orders	Once a Quarter	?	?
Revenue-Product	No	-	-
-Service	No	BQ	BQ
Direct expenses-Week 5	No	Yes	Yes
-Week 11	No	No	Yes
Full P&L-Week 5	No	Yes	Yes
-Week 11	No	No	Yes

The 2nd forecast in the Qtr is for the TOTAL of this column, not the pieces

- - - - -

W = Weekly
M = Monthly
BQ = Twice a Quarter
Q = Quarterly
FY = Full Year

4. DEVELOPMENT & DELIVERY COSTS IN P&Ls: (Mick Prokopis)

XYZ BUSINESS UNIT P&L STATEMENT Month of:

	PRODUCTS		
NOR	$ 9M	Net Operating Revenue	Ledger
LCE)	(1)	Locally Controlled Engineering	Cost Center
LCM) minus	(0.5)	Locally Controlled Marketing	Cost Center
ICE)	(0.5)	Internally Contracted Engineering	Cost Center
LCM	$ 7M	Local Contribution Margin	Derived
Sold 6 MFs		Sold 6 Mainframes	NOR
* CREATION COST	(2)	6 x 325	Mick
* DISTRIBUTION COST	(1)	6 x 150	Dick
OP/LBT	$ 4M	Operating Profit (Loss) pre-tax	Derived

PRODUCT CREATION COSTS

DEVELOPMENT COSTS	STANDARD COSTS	
* PRODUCT SPECIFIC ENGINEERING (DIRECT + INDIRECT)	* TRANSFER COST	) Modified slightly by variances
* NPSU		

UNITS: FEB 8QVP (THRU FY92)

PRODUCT DELIVERY COSTS

* ALL OTHER MANUFACTURING
  (FY90: $1.1B)

* ALL MARKETING (OTHER THAN BPM WITHIN ENGINEERING)
  (FY90: $0.2B)

* ALL DISTRIBUTION COSTS
  (FY90: $3.3B)

* CORPORATE G&A
  (FY90: $0.3B)

* ALL OTHER ENGINEERING - FUTURE PRODUCTS, CORP. RESEARCH, ETC.

4.1 EXAMPLES OF DEVELOPMENT & DELIVERY COSTS IN P&Ls: (M. Prokopis)

	FY91 MLP	DEVELOPMENT COSTS $M COST	DEVELOPMENT COSTS #UNITS	DEVELOPMENT COSTS $K/ UNIT	TRANSFR COST $K/ UNIT	PRODUCT CREAT'N $K/ UNIT
VAX 9000 (AQUARIUS & ARIDUS)	2852	546	3512	155	138	293
CIRRUS	331	102	3534	29	29	58
VAX 62/6300 (CALYP & HYPERION)	171	138	9548	14	67	82
VAX 6000/4XX (RIGEL)	1028	136	5860	23	77	100
CMAX	254	69	1150	60	38	98
ISIS	13	21	256	82	26	108
MVX 35/36/37/38/39(MAYFR 1&III)	103	115	4639	8	19	27
PELE	843	92	10750	9	14	22
MVX 33/3400 (MAYFAIR II)	469	158	25794	6	12	18
MIPSFAIR	124	19	4101	5	19	24
VS 3100 (PVAX)	438	107	88860	1	4	5
PVAX 2	442	29	76600	0	2	2
3MAX	506	39	15335	3	13	16
3MIN	398	10	31420	0	3	4
PDP	57	107	71894	1	.1	3
PC	264	3	138667	0	2	2

4.1 EXAMPLES OF DEVELOPMENT & DELIVERY COSTS IN P&Ls (cont.):(Prokopis)

2020/DEVELOPMENT COSTS

MAJOR PRODUCTS	PRIOR TO FY88	FY88	FY89	FY90 Q2 YTD	FY90 FCST	FY91 FCST	FY92 FCST	LIFE TIME
VAX 9000 (ACQUARIUS & ARIDUS)								
TOTAL # UNITS		0	0	0	154	1354	2004	3512
TRANSFER/UNIT ($K)								138
ISBS								
SYSTEM ENG		81	58	72	41	78		289
OTHER ENG		30	63	39	74			167
NPSU		12	51	27				90
TOTAL DEVELOPMENT COSTS	81	100	186	107	152	0	0	546
DEVELOPMENT COSTS/UNIT ($K)								155
PRODUCT CREATION COST/UNIT ($K)								293
CIRRUS								
TOTAL # UNITS	0	0	0	0	300	1156	2078	3534
TRANSFER/UNIT ($K)								29
ISBS								
SYSTEM ENG	5.1	10.6	18	12	24			58
OTHER ENG			11	8	16			27
NPSU			7	10				17
TOTAL DEVELOPMENT COSTS	5.1	10.6	36	30				102
DEVELOPMENT COSTS/UNIT ($K)								29
PRODUCT CREATION COST/UNIT ($K)								58

5. BUSINESS MANAGEMENT REPORTS - OPEN ISSUES RE: BUSINESS UNIT REPORTS

a) WEEKLY CERTS - Is there a problem with order coding?

Resolution assignment: Pete Smith and Geography managers. (Make it simple)

Let's use this opportunity to push for effort rptg. for programs also — increase for PRS.

b) MONTHLY, DIRECT EXPENSE - Selling & Sales Support effort by B.U. (Model established with budget, but how will Geographies report actual effort? Quarterly study or other? Poulson, PCF and Grainger describe the process they will use. Dick Fishburn pulls it together. Fishburn understands that Geographies will get it done some how)

c) Customer Service Revenues to APPLICS. Resolved (D. Fishburn describe)

d) FORECASTING CERTS BY APPLICATIONS BUSINESS UNITS:

- do for full FY,

e) OTHER ISSUES which aren't show stoppers will be worked on by priority

f) HOW TO BUILD LINKAGES BETWEEN BUSINESS UNITS - SALES & SUPPORT PEOPLE (Affiliation relationships to Sales & Support people in Geographies)

g) APPLICATIONS BUSINESS UNIT IMPACT ON ENGINEERING INVESTMENT (say 25%)

h) APPLICATION BUSINESS UNITS INFLUENCE ON PRICING - SOLUTION LEVEL (   )

i) HOW DO WE DEAL WITH SYSTEMS INTEGRATION ~~EXPENSES~~ Investments WITHIN EIS BUSINESS?

How do we deal w. the SI business?

j) ~~e.g.~~ CSS has - Products (like PBU)
- Projects like PSS

etc kind of problem.

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