

Memo from Ken 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

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Date: 05-Dec-1989 03:38pm EST
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TO: See Below

Subject: POINTS OF FAILURE IN SEGMENT MANAGEMENT

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When we first segmented the Company into product lines twenty-five years ago, everyone was against it except General Doriot. He warned me that it always failed, but, if I insisted, he would support me. It took me many years to realize what he was talking about. Segment management almost always fails, but I don't know of any other way of running a large company, and we have to keep trying.

The three points of failure that we've observed are:

1. After some success, segment managers, all too often, delegate the budgeting, the financial review and financial management of the segment to a spreadsheet or a finance person. At which time, they lose all power and control.
2. It quickly becomes clear to most segment managers that the most significant improvement to their P&L statement can be made by straightening out other parts of the Corporation. This is obviously true if you look at the mathematics. The reason we broke the Company into segments was so that people would be motivated to straighten out their part of the Corporation, on the theory, that if each part of the Company did a good job on their part, the whole Company would be taken care of. It is always easier to straighten out another person than to straighten out oneself, particularly when the mathematics show that the return is faster in the other places.

It is even more true that if one looks at the future, the future growth of the Company comes about, not by cutting

manufacturing costs by one percent, or by cutting one percent out of European costs of sales, but by marketing, strategy, and product architecture which only the segment manager can do. But, alas, when people are taking the short term view, the effort is spent on cutting one percent somewhere else in the Corporation and not in those areas which they are responsible for that would make a several hundred percent difference three years away.

Looking back on the immediate history, it's clear that a tiny improvement in anybody else's effort would have made a significant difference in the past quarters. It is even more clear that a tiny bit of marketing and presenting a clear simple message could easily get a doubling of market share for most segments and this would save any other part of the Company.

3. The overwhelming problem that develops in time is the belief that the most important part of being a segment manager is to defend and exploit the god-given rights and prerogative of a segment manager. It is believed that the segment manager has the right to make decisions, spend money, and make commitments without answering to anyone except for the final number which is the only thing the people above them are allowed to look at. This is why there are many products that we never market because it was soon to be the prerogative of the segment manager to spend the money, develop the product, put it into production, and then decide where to spend marketing money or marketing energy.

It's clear from history that segment managers, in time, compete more internally than externally. This is why we have cabinets that are different in a customer's computer room. Each group, above all, wants to be different from other parts of Digital even more than they want to be different from the competition, and, in time, there is more competition in who has the best announcements, who has the best sales meetings, or who has the best part of DECworld, than there is competition with the outside world.

THE ANSWER

It's clear that the Executive Committee has the responsibility to make sure that the segment managers clearly maintain the main goal which is to do the planning, marketing, developing and organizing of their product. The things which only they will do and can do are the key parts of their job and all things that should be standard, that should look alike and that should be done once for the Corporation should be the responsibility of the Executive Committee.

The Executive Committee should not measure people just by the

bottom line. This encourages many bad decisions. Each group should be measured by the quality of the job they do, for how much of the market share they get, and for the return on each of the investments they make. I'd like Abbott and Willow to be sure that the questions are raised at the Executive Committee meeting which will take away from the segment managers those things which are not worth creative concentration and to make sure that common things are decided with their help, but once for the whole Corporation.

One of the first things I'd like to do is to make a commitment to a common Company cabinet. This has been designed, it's ready for proposal, and I'd like the Executive Committee to make sure that a commitment is made for all organizations using a cabinet, and that they use the same one probably with the same power supplies. They should also insist that all equipment brought into a computer room looks like it came from the same manufacturer and is equal in quality design with any of our smaller competitors.

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