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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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**From:** Ken Olsen  
          OLSEN.KEN  
**Dept:** Administration  
**Tel No:** 223-2301

*Win K O l s e n*

**TO:** See Below

**Subject:** BUSINESS MODEL FOR THE BOARD OF DIRECTORS

Everyone has a business model in their head for each part of the business. Unfortunately, some of the business models don't add up, and unfortunately, many people have a different model for each of the businesses with the result that many people insist each of the marketing units add their model on top of everything else.

**I. CATALOGUE SALES**

There are two big advantages to catalogue sales. First, it forces us to organize in a catalogue our set of products. Anything that is irrational, complicated, expensive or lacking of systems engineering will show up immediately.

We have to list all the facts in the catalogue, including cables, adapters, add on boxes and everything necessary for a complete solution, or the customers will reject us completely. Engineering normally hides these things because they claim no responsibility for anything outside the simple box.

The second big advantage of catalogue sales is that it makes possible a very simple financial model. Every penny added to the product by advertising, marketing or logistics is a measurable hit to a very small profit margin.

Now that Sun is, in effect, selling with many of the features of a catalogue operation, we have to hurry to sell our workstations that way. We have to generate a catalogue that lists all the information and the cost of all workstations, and we have to work hard to make them rational.

With a catalogue model we can then see what costs we can

incur to pay third parties to sell our product, what we can give away in quantity discounts, how many products we can afford, and so forth.

## II. THIRD PARTY SELLING MODEL

Selling through third parties is very popular with many people because they feel it is additional business and should not be charged with the same costs as direct selling. They feel that the direct selling incurred with third party selling is those hours the sales people have left over which would not be productive in their direct selling, so they should not be charged against third party selling.

In their model they also feel the cost incurred by the Systems Engineering/Marketing groups such as Frank McCabe's, Charlie Christ's and the Industry groups should be free to the third parties because it is additional business, and the other costs are already paid.

However, if these are our assumptions of third party selling, we should put them down explicitly, and we should be able to present them clearly to the Board of Directors as a business model.

Most things we sell to third parties should be part of the catalogue, with a catalogue price. The business model should demonstrate how we can make money with additional discounts with a significant use of the direct selling force, and how we can give away the expenses incurred by systems integration and marketing groups.

For example, the argument is sometimes made that any of our products can be sold to third parties at less than competitive costs with less than competitive features because we give away a lot of free service. I propose things like the Intel plastic tower, such as CALYX, should be included in our catalogue, along with other Intel products, at competitive prices and only with competitive features. If we want to sell them through third parties, the other costs have to be part of the business model which begins with the catalogue model and demonstrates that by spending more money, we can make more money. Also, it should make clear the costs other groups incur that we give away.

## III. FRANK McCABE AND CHARLIE CHRIST BUSINESS MODEL

Frank McCabe and Charlie Christ sell complete systems to do a complete job. Their price is not the sum of the catalogue price. In fact, many of their products will not be included in the catalogue.

For example, X-Windows and diskless PCs may not be sold through the catalogue, but will only be sold as a complete system with servers, as a turn-key operation. They will sell a whole mainframe system, or departmental system, or they will sell a single sub-system to be installed in a larger in-place system.

Their business model must include all the engineering they contract, the cost of tooling and setting up manufacturing, all the systems engineering work, and the marketing, selling, services, and third party contracts, as well as the costs of guaranteeing the results. (They may not like the idea of giving away these costs to third parties.)

They will have a limited number of products and applications, and therefore, will not be able to do all the jobs. It is the plan that they will, however, have enough experience to be able to guarantee results. Part of the business model should be how they expect to charge for systems integration.

#### IV. INDUSTRY GROUPS

There are many sales today, perhaps most of them, that are not included in the "more or less packaged systems" that Charlie Christ and Frank McCabe will set up to sell. We expect these packaged systems to be the major part of our business if we do well, but the other more custom selling will still be important to us. These custom jobs, many of which could be called departmental computing, are very time consuming and very expensive. They often will have a base that comes from the offerings of Frank McCabe and Charlie Christ, but the product responsibility and the responsibility for the cost above that which they incur has to be the responsibility of the Industry groups. They have to budget and justify all the products outside the catalogue and outside the lists of Frank McCabe and Charlie Christ.

For example, workstations not included in the workstations catalogue and not part of Frank McCabe's strategy, have to be paid for by one or more of the industry groups, or we have no justification for keeping the project going.

#### V. SYSTEM INTEGRATION MODEL

The Systems Integration model has to take into account the costs of the catalogue products, the cost of Frank McCabe's and Charlie Christ's products, the cost of the Industry products and, in addition, all the costs within Systems Integration. The selling cost of catalogue and Charlie Christ-type products should be small. The cost of well-defined Industry products should be the same.

Therefore, the selling cost should not be imposed equally across all products, but mainly on those things which are time consuming and special, which is usually the systems integration contribution.

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(DICTATED 3/23/92 BUT NOT READ)

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