E.C. Ken Olsen

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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: 22-May-1992 01:14pm EDT
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Wait

TO: See Below

Subject: PRESENTATION TO THE JUNE BOARD OF DIRECTORS

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Yesterday, in our presentations to the Board there were serious inconsistencies. I said our program was to simplify our presentation to the Sales department and the customer to make products easy to sell. Then, with great pride, we announced that in July we will announce more VAX computers and ALPHA computers at one time than we have ever announced before.

I suggest the June budget presentation to the Board be mailed out a week ahead of time with expected cost savings and the proposed increase in sales so they can look over the numbers and during the Board meeting just ask questions.

First of all, I propose the main part of our presentation at the Board meeting be how we are going to present things to the sales force for easy selling.

For the second part of the presentation, I suggest we make a list of all the new products displayed at DECworld, largely by the IBU's, and identifying when they will be ready for sale, how we will sell them and what market share we expect to get from them.

The new products we displayed, that we never plan to sell, should be identified too. We should go through every single product at DECworld and identify when and how it will be sold and what market share we can expect.

The theme for the State of the Company meeting should be "33% in 93".

If we make it easy to sell, we should easily sell twenty percent more equipment next year. If we charge for all services, if we add extra value because we integrate computers and guarantee the results and if the services cost less because we do them the standard way, we should easily get ten percent more for the product which should be all profit. If you take twenty percent growth with ten percent more profit it comes to a thirty two percent growth which we can round off to thirty three percent so that it rhymes with '93.

So the goal is "33% in 93".

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E.C.

QUOTES FROM THE FRONTIERS OF MANAGEMENT

By

Peter F. Drucker

Organizations therefore measure innovations not by their scientific or technological importance but by what they contribute to market and customer.

Innovative companies do not start out with a "research budget." They end with one. They start out by determining how much innovation will be needed for the business to stay even. They assume that all existing products, services, processes, and markets are becoming obsolete--and pretty fast at that. They try to assess the probable speed of decay of whatever exists and then determine the "gap" that innovation has to fill for the company not to go downhill. They know that their program for innovation must include promises several times the size of the innovation gap, for not more than a third of such promises, if that many, ever becomes reality. And then they know how much of an innovative effort--and how large an innovative budget--they need as the very minimum.

Smart companies know that money does not produce innovation; people do. They know that in innovative work, quality counts far more than quantity. They do not spend a penny unless there is a first-rate person to do the work. Successful innovations rarely require a great deal of money in the early and crucial stages. But they do require a few highly competent people, dedicated to the task, driven by it, working full time and very hard. Such companies will always back a person or a team rather than a "project" until the innovating idea has been proved out.

Typically innovative companies have two separate budgets: an operating budget and an innovation budget. The operating budget contains everything that is already being done. The innovation budget contains the things that are to be done differently and the different things to be worked on. The operating budget runs to hundreds of pages, even in a middle-size company. The innovation budget even in the giant business rarely runs to more than forty or fifty pages. But top management spends as much time and attention on the fifty pages of the innovation budget as on the five hundred of the operating budget--and usually more.

Top management asks different questions about each budget. On operations it asks, "What is the least effort needed to keep things from caving in?" And "What is the least effort needed to give the best ratio between effort and results? What, in other words, is the optimization point?" But for innovations, top management asks, "Is this the right opportunity?" And if the answer is yes, top management asks, "What is the most this opportunity can absorb by way of resources at this stage?"

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