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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: 10-Jul-1992 02:09pm EDT
From: Ken Olsen
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Dept: Administration
Tel No: 223-2301

Dick Fishburn
cc: Win et al.

TO: See Below

Subject: PRODUCT DEVELOPMENT BUDGET

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I think we made a mistake by separating our "investments" from our Product Development budget. We have maintained, in fact, have grown our investment in new product development, but at the same time, have added enormous investments in external product development, which we simply call "investments". These both aim in the same direction, in fact, people have a tendency to think that they will spend their product development budget money searching and brokering other companies who have developed products. There is even a tendency to think that we cannot develop products, we can spend the money, but we will use that money to broker other peoples' product development.

I think it is clear we should look at both investments and product development as one budget and it should be assigned to a group as their total development cost.

Will you prepare for the Product Committee and then for the Board of Directors a presentation, showing over the last few years and proposed for the next two years, the combination of our normal product development budget, our R&D budget and our "investments" budget. In order to make this rational, we probably should say we will assume we consider capital and cash the same.

This means that every group should then be held responsible for the return on their product development budget and be responsible for the investments they or their predecessors have made commitments to.

It might be wise if we, starting now, ask each group to report

at the end of every year, and when we get to the end of every half year, the results for the total new product development budgets they have invested in the last two or three years, and, in particular, the last six and 12 months. I think people have to realize they are expected to have results for their investments and one way to remind people of that is to have them report on the results of these investments.

Itemizing investments in terms of cash causes some confusion, it causes even more confusion not to count capital as part of the investment. This has caused us no end of confusion in the products we set out to develop in the last one or two years, where the capital and inventory investments have been enormous. There have been many products developed and people feel no obligation to count these as investments.

KHO:lp
KO:7447
(DICTATED ON 7/10/92, BUT NOT READ)

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