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E. C.

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: 03-Aug-1992 04:11pm EDT
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TO: *Bob Palmer*
See Below
cc: Win, EC, + Bob

Subject: PRODUCT DEVELOPMENT BUDGET

I recommend you immediately redo the product development budget.

First of all, a decision should be made on, are we going to go outside to buy applications or are we going to pay to do them inside? If we are going to buy them outside, by buying companies, parts of companies, and buying the product, let's drop all the internal development costs. Let's not spend all this money and then say we do not have the skills and go outside and buy them. The conclusion should be that going outside for applications and technology should be included in the budget.

I think the budget should be cut. We are spending much too much money for the size Company we are, and we should be doing fewer and fewer things and get much more market share for those things we do. We should never consider those things for which we will not make money or have a market share.

I do not think we should take religiously my suggestion of how we plan our product development money where I suggested we quickly get to spending no more than one-third of our budget on hardware, one-third on operating system, and one-third on applications. These numbers, of course, are arbitrary, but they should be adjusted to meet individual situations. However, it is important we face the situation straight on. We need very few new computers and, above all, we should face the fact that computers are easy to build, easy to make, and need very few people. We should then make sure our R&D budget, both in the R&D group and within the hardware group, are a small percentage of the engineering spending. We should ensure development is based on our hardware needs.

In order to survive, we have to have the best operating systems. We have changed our minds and switched back and forth. We have lost many of our people to a more stable company, and we have not finished the things we have started. When we "cut fat", we often cut the heart out of our operating systems.

When I say we should spend a third on applications, I think it is clear we cannot be a computer company if we say we spend all this money, but we will never have the competence to do applications. We should pick the most important areas, become expert, turn out the best software, and make money on it.

Most of our people are making products which are not needed, are a waste of money and time, and not desired by the customer, marketers or sales people, and it is a drastic change to suddenly cut all the leadership and engineering. It is, however, very clear this is probably the one things that is happening to our resources. We pay the price, not only in engineering, but in tooling, inventory, capital, facilities, and then, the overwhelming cost of having a complex and an impossible product line to sell.

If we go completely with the Modular Computer/Flexible Manufacturing system, and if we insist on not building anymore computers until we go through several generations of improving those that we now have in production, and if we make only those we can explain simply and sell easily, and when the sales department overwhelmingly desires, we may end up spending a lot less than one-third of our budget on hardware.

Above all, we should not start off with one-third of the engineering budget and then figure out how much engineering we can do. Instead, we should figure out the minimum number of products we have to develop and then do those thoroughly and hopefully the cost is a lot less than one-third of the total budget.

KHO:dao
KO:7558
(DICTATED ON 8/1/92, BUT NOT READ)

Distribution:

TO: BOB PALMER   (PALMER.BOB)

CC: BOARD OF DIRECTORS   (PAPER MAIL)
CC: Win Hindle   (HINDLE.WIN)