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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

Doc. No: 030300
Date: 19-Aug-1992 04:42pm EDT
From: Ken Olsen
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Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: BUDGETING OUR WAY INTO TROUBLE

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As you know, for several years, I have tried hard to institute a
budgeting system based on profit making, which is the sum of all
profit making groups. Instead, we fall back to what the Sales
department wants to sell and then try to cut expenses for the
year to make a profit. This is predetermined failure. First of
all, if you do not plan to make a profit, you will not make it.
Secondly, you cannot do it in gross numbers. Thirdly, doing a
budget for a year takes off all the pressure of people to make a
profit.

I would propose that simple logic says that if you budget for a
year, there is no pressure, except at the end of the year, to
accomplish anything. If you budget the steps to making a profit
and review them each week or month, people have to plan what they
are going to do in each short period of time and what steps they
are going to take toward the goal of being profitable.

The results in the PC business, which was fought tooth and nail
by the establishment, but now we cannot make enough, is
profitable, in a fast growing industry and has the promise of
being one of the biggest segments of the market.

We, indeed, have to give all the credit to Jim Liu. However, the
other part of the secret is the budget was made up of short-term
goals, each of which were achieved or not achieved. He also had
the freedom and the protection from the organization and the
overhead, which he did not use, to strive toward the goal of
profitability. When looked at as a simple Business Unit, it is
clear that cost is an overwhelming factor, but it was successful

because it had a short-term goal to be profitable.

KHO:lp
KO:7675
(DICTATED ON 8/19/92, BUT NOT READ)

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