

The next five years...



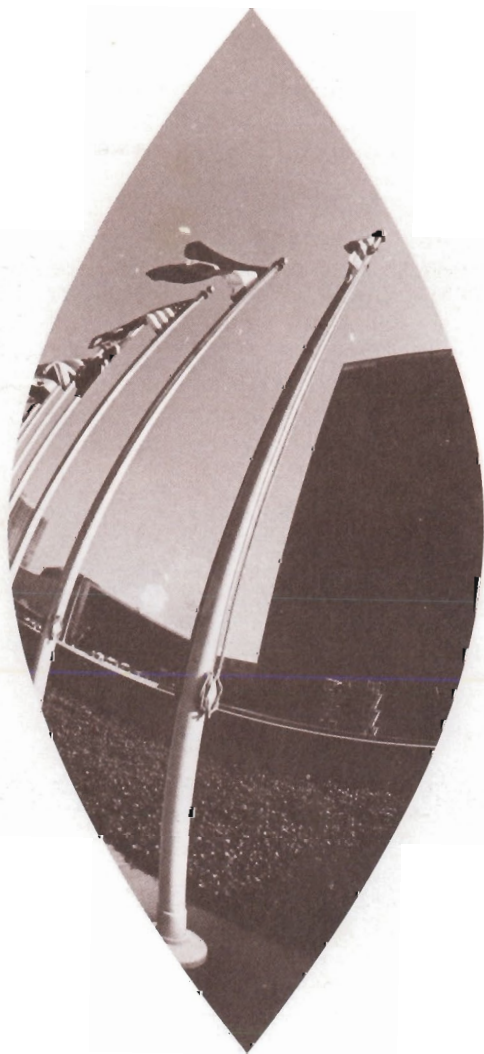
Measure

For the men and women of Hewlett-Packard/JULY 1975

The next five years . . .

The changing world

Last month 105 HP managers met for two days at Silverado near California's Napa Valley to discuss the current condition of the company's business, the plans it has developed for the years ahead, and the challenges that will come to us as we move into that future. The following is a special report summarizing those discussions:



environment

Dave Packard

Discussing the major challenges that will be faced by industry and society over the next five to ten years, Chairman Dave Packard said: "There is no doubt that we are in the midst of a period of significant changes. Someone has even called it the 'end of World War III,' comparing it to the time of crises that followed the Second World War. In any case, it appears that world developments have reached an important watershed, and that this will lead to a very different environment from the past."

He outlined several broad areas of change that we are already seeing or will likely see:

- *The end of the philosophy of "unlimited growth"* that strongly influenced America's thinking and behavior through the 1950s and into the mid-1960s. Factors that helped to moderate this philosophy included involvement in Vietnam, challenges to the business and government "establishment" by young people, balance of payments problems, environmental concern, international monetary problems, famines, political upheaval, and collapse of the U.S. military situation in Southeast Asia.
- *A shift in attitude of host countries with regard to the presence of international companies.* More and more, host countries are asking for a larger share of "the action." Compounding this problem has been public reaction to the oil industry following the fuel crisis of 1973-74.
- *Growing pressures for the redistribution of wealth* — among people and among nations. This is reflected nationally in proposed tax legislation and internationally in the actions and attitudes of oil-producing countries.

According to Packard, "As a company we have already done a pretty good job in working with legislated change in the fields of industrial safety, affirmative action, and environmental standards, and we

expect to continue doing a good job. What other things can we do?"

"All of us ought to recognize that we have the opportunity to influence the course of some of these events, particularly those brought about by legislation.

"In the past few years I've had the opportunity to observe the development of legislation, and frequently seen how a poor law is passed simply because the legislators did not understand the problem. So where our interests are involved there is no reason why we should not make the effort to get the right information to our legislators. I think this applies not only to our U.S. organization but also to our international people

"In the past HP has maintained a low profile in political and public matters, and I'm not suggesting that we become heavily involved in politics. But we should communicate as accurate and clear a picture as we can of our positions to our community leaders and legislators.

"In the long term we face the question of whether our economic system of free enterprise will survive. I think it will, but we do face a period of trial and turmoil. But I also think it is worth pointing out that if there is going to be wealth available for redistribution, then some thought should be given to the question of capital formation, that is, the creation of investment capital needed to finance economic growth. In fact, there is reason to be very concerned that the rate of capital formation may not be sufficient for many future needs of the world.

"Finally, where the company is concerned, I think the basic philosophy we have followed should continue into the future. We should continue to commit ourselves to a policy of growing consistent with our other corporate objectives — though perhaps modified by the knowledge that it will not be unlimited growth."

Bill Hewlett

"It seems evident that the world is in for a new period of concern for the individual," said President Bill Hewlett. "Call it 'consumerism' if you will, and it's happening all over the world — even in the Soviet Union to some extent.

"In any case, both singularly and in groups, men and women are attempting to have greater say and influence on their environment. Add to this the fact that

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world environment

business has never done a good job of explaining itself to the public. The result," said Hewlett, "is that the average person has an appalling lack of knowledge about the basic contribution of industry and a general belief that business is a reservoir from which infinite wealth flows."

Hewlett then reviewed some of the consequences he feels will stem from this situation, principally a continuing drift to socialism and government intervention in more and more aspects of life. Admitting to a prejudice in favor of free enterprise, he said one of socialism's major problems is its lack of a good standard for measuring the effectiveness and usefulness of decisions. Hewlett noted that free enterprise, on the other hand, has the hard yardstick of profitability, the yardstick of being able to survive.

"In a socialist system," he said, "where everyone depends on the government for its benefits, it will be difficult to find leaders able to fulfill the expectations of the people and still maintain a viable system."

Hewlett recalled that one argument frequently heard against free enterprise cites the terrible living conditions that came into being in England during the early days of the Industrial Revolution, resulting from taking people off the land and placing them in crowded slum environments of the city. These conditions were not helped by government taxation on such items as sewers, windows, bricks and so on.

"Now I don't think any of us would claim that the managers of that time were models of management. Far from it. But

they did create something new, and they did develop many of the things that make the modern world tick. They were innovative — which is one of the key characteristics of free enterprise — but their methods were unacceptable and were changed. (One may also ask if those times were any worse than our current programs — for which government is wholly responsible — which have encouraged people of the U.S. to leave the farm and move into incredibly bad living conditions of the cities.)

"Our own 'robber barons' in the U.S. built railroad empires by employing standards of business conduct that would be highly unethical in our view today. Yet they too were able to create much that did not exist before and they too were supplanted as their methods became unacceptable.

"Today, much has been done to develop a science of management. Many of our leaders today have been drawn from this source. But with the rise of the great modern corporation too often has grown an arrogance and disregard for people and government. We've seen too many headlines on this subject not to recognize this.

"What it suggests is that if the free enterprise system is going to survive, we need an additional criterion in selecting managers. These industrial leaders must have all of the technical skills that their predecessors had, but they also must have the ability of understanding people, and a quality to understand and participate in the key role that business must play in the world."

The legal environment in which the company will operate during the next five years, and HP's ability to respond to it, were outlined by the Corporate Legal managers, Jean Chognard, general counsel, and Jack Brigham, general attorney.

Chognard pointed out that HP made a decision some years ago to develop in-house patent litigation capability. This has resulted in considerable savings in legal fees compared with the common practice of relying on outside counsel. At the same time, HP has earned a reputation as a company very willing and able to defend its interests legally.

Brigham indicated that growth is going to increase the company's legal exposure. HP can expect much more attention will be paid to it with regard to various laws.



Planning: The business cycle lives!

Austin Marx, manager of Corporate Planning and Economics: "You all know we've been in a recession about a year and a half. The hard part is to know where we're going right now. Things look pretty bleak, and it's hard to get much enthusiasm about an upturn — but as worldwide inventories are used up and as consumers get back the confidence to become buyers, the stage is set for an upturn.

"Looking at the U.S. business cycle, we're forecasting a significant further decline in the gross national product this year, followed by about a six percent real GNP recovery growth next year — a presidential election year. That includes some possible overstimulation of the economy, and if so, we could expect another cyclical slowdown or possible recession about 1978 or early 1979.

"Overall, the future now is less certain than earlier futures, and the next five years will not be like the last five. Increasingly we see factors for economic instability and higher inflation becoming built in to the economic system. Indeed, we've noticed inflation is here to stay, and probably at a higher level than previously due to new demands for environmental improvement and safety — although the inflationary rise has been somewhat slowed by the recession.

"One factor that contributes to inflation is the huge waste, duplication and cost of many government regulations. We hope enough voters and representatives will wake up to this and have the courage to cut out or modify the bad programs and upgrade the productive ones. We need enough economic education to run our national economies and our companies on a sound economic basis, learn that there is nothing for free, and conserve our worldwide scarce resources — because we do live on Spaceship Earth."



Workshop on government and the public:

**“We’ve got
a good
story to tell...”**

The effects of government action and public attitudes on the conduct of HP’s business over the next five years was the subject of discussion in four of the twelve workshop sessions. The HP managers participated in groups of fifteen or less, with two leaders coordinating the discussion in each session. Comments and conclusions were then summarized at the general meeting the following morning.

Delineating the issues involved in governmental relations, Alan Bickell, director of Intercontinental Operations, noted that state and local problems differ considerably from national issues, and are more closely related to the HP divisions. At the federal level — and overseas as well — the primary concerns will be taxation, employment, equal opportunity, anti-trust, product safety and economic stability.

State and local governments — also concerned about employment and economic stability — have increasingly taken the major role in controlling pollution. Property and income taxes at those levels, and community reaction to industrial growth, are other factors that might affect

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a good story to tell...

such decisions as the location or expansion of plant facilities.

Internationally, the issues are much the same. Employment is a major concern and takes a slightly different form in countries with varying degrees of socialism and greater labor union activity. Many countries are concerned about their balance of payments, about currency control, local ownership of industry, and profitability. Policies of U.S. and foreign governments are actually in conflict at times over the profits generated by multi-national companies, and HP must take a balanced posture in that regard.

In our relations with the public at large, consumerism is an important trend, according to Bickell, and there are no pat definitions of the term. Consumerists take industry to task over product safety, labeling, and even the size of corporate profits. Boiled down, all these consumer concerns are questions of value received for the price paid, and consumers may be expected to be more and more vocal if they don't feel they're getting a fair deal.

At a time when large multi-national companies are objects of suspicion and mistrust, growth and size are other factors to be considered in maintaining HP's public image. The general public is being exposed to ideals that differ with the tradi-

tional American work ethic, concluded the workshop participants, and the goals of business are not unanimously supported by the public.

Specific suggestions in the areas of public and government relations were summarized by Lew Platt, general manager of Waltham Division. Foremost was the constantly recurring message that managers in all HP locations should get to know their legislators and express HP's position on important legislation. "People who have developed some relationship with their legislator find that he or she is very much interested in hearing our views," Platt said. "Another interesting point that was brought up is that we should offer positive reinforcement — not just communicate with lawmakers when we have an axe to grind on some issue.

"One of the difficulties in communicating with a legislator is that perhaps we don't feel as well informed in many of these issues as we should. But when we turn to Jack Beckett to represent us in Washington, we waste some of the resources of the company. If all of us also communicated HP's views on a local basis, we would have a much more powerful story to tell."

It was suggested that HP develop position papers on key items of legislation. In the case of legislation aimed at multi-national companies, Platt reported: "It was pointed out that if we can develop specific arguments, using numbers that show what the impact of the law would be on our company, what the multi-national companies have done for underdeveloped countries, and what the real impact has been on jobs here at home, this would perhaps be a more powerful story than the generalities usually used in talking to legislators."

Jack Beckett, corporate manager of government relations, asked managers to provide input regarding legislation affect-

ing HP's operations. Government controls, he explained, should be dealt with *before* they become law. "Once the law is passed, the regulations can become far more strict than the Congress intended. The freshman Congressmen have made it very clear that they want to hear from those who know—not from lobbyists, but from people on the firing line, so to speak. And, interestingly enough, the freshman Congressmen are not nearly as anti-industry as the old-timers."

Exploring various ways of reaching the public at large, the managers discussed the importance of teaching students about business. Mentioned were job fairs, work-study co-op programs, Junior Achievement; and Explorer Scouts which has recently turned its attention to more career-oriented activities.

"It was also felt that it's very important to get high school and college teachers into our plants — particularly during the summer," Platt reported. "Hire them for summer work so they can really get an understanding of what goes on in a business like HP."

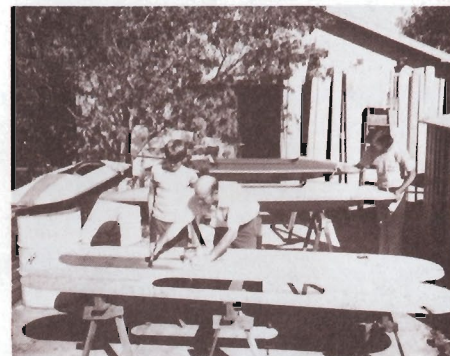
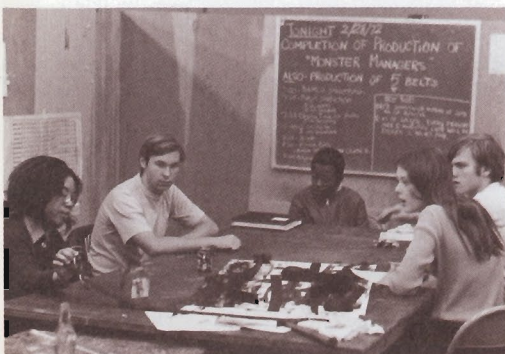
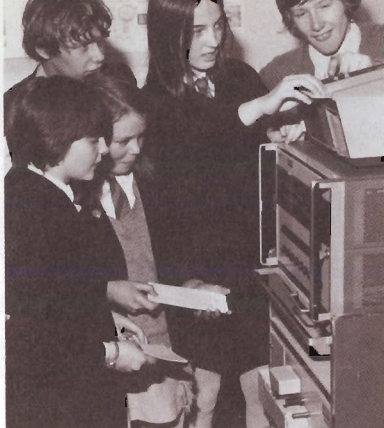
On career counseling by HP people: "High schools are always very willing to have you come and speak to students. Simply offer your services."

Another interesting suggestion brought out in one of the workshops was that perhaps HP could take the lead in establishing a "code of American business ethics" that would set standards of business conduct for companies willing to subscribe to the code.

Karl Schwarz, general manager of HP Grenoble, mentioned that his group discussed other companies that HP might emulate, and the consensus was that HP should do its own thing rather than look for models.

"We also felt the need to try to identify where the coordination of this activity ought to take place," Schwarz said. "What





should the corporate staff worry about, what should the divisions worry about, and what should be done at the group level?"

Bill Hewlett and Dave Packard also contributed to the discussion of public attitudes toward industry. "I think we sometimes tell the wrong story about profits in our annual reports," Packard said. "Some people think that the percentage increases reported represent the percentage of income." Hewlett cited a survey revealing that the average American thinks corporate profits are on the order of 28 percent rather than the more realistic 4 percent.

As to whether HP should accept a leadership role in educating the public to the realities of the business world, Jack Beckett summarized: "I think the answer is clearly yes. Our profile is higher now and will be higher still. We have a good story to tell, and if the company continues to maintain high ethical standards we can help not only ourselves but also industry in general."

Workshop on customers: Speaking with one voice...

In another workshop series, discussions of HP customer relations were led by Ben Holmes, group marketing manager of Computer Systems Group, Bob Brunner, group marketing manager of the Instrument Group, Milt Liebhaber, Components Group marketing manager, and Chuck Williams, general manager of HP Canada.

At the first level of sales supervision, according to some managers, training should be given in the philosophies, ethics, standards and attitudes that HP seeks to maintain in its customer relations. Holmes summarized: "I think that instead of teaching them these standards, we've tried to give them a set of rules to follow. And

when it would mean deviating from the rules to solve a customer's problems, it became a question of either following the rules or doing what made sense."

Dave Packard reiterated that point, and urged: "Let's try to establish the rules so that we give the person who has contact with the customer a little more authority."

"This is just another extension of management by objectives," commented Bill Hewlett. "If we have a really good training program at the first customer contact level, so those people know in general what we're trying to do, they'll feel free to make the decisions."

On a broader subject, Holmes con-
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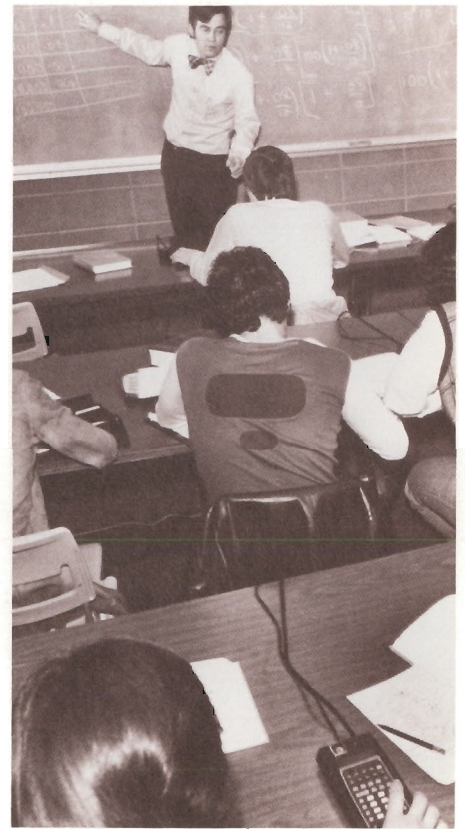
with one voice...

tinued: "The group also talked about how to continue to keep the benefits of a large company but preserve the responsiveness and dedication of a small company. We're in the horns of that dilemma right now. Specialization and verticalization represent one approach — to maintain a small business entity that can be extremely responsive to the customer's problems — but carried to its conclusion that negates the effectiveness of a large company."

It was generally felt that HP should speak to its customers as one voice rather than many. Bob Brunner put it another way: "The feeling we got out of our session is that everyone wants to be sure that HP continues to be that wonderful, organized monolithic operation that has a common mutually-agreed-to set of standards. At the same time we want to be

diversified. We want to be able to serve our customers with an organization highly oriented toward what we're doing for that customer. So the total problem is one of cross purposes — that we're trying to serve two particular objectives. How we do this is a question that has to be answered by the motivation of the people doing it. They have to cross discipline lines effectively."

Discussion was also generated both in the workshops and the general follow-up session about relations with international customers. The consensus was that HP should be as much a part of the local culture as possible. "Even though we think of ourselves as multi-national, we tend to communicate in English," Holmes said. It was agreed that more product information should be translated into other languages.



Reporting on the current financial position of Hewlett-Packard, Ed van Bronkhorst, vice president-Finance, said the company's situation has changed dramatically in the past year. All in all, he said, the company has moved from a position of severe cash shortage to a very strong net cash situation. The reversal reflects strenuous and successful company-wide efforts to reduce inventories and receivables.

"We're getting our money in a lot faster," he said in reference to receivables. "The added cost of our field collections is paying off very well and there is still room to improve."

HP's product development programs rate very high marks, according to Barney Oliver, vice president-R&D. He reported that a new review team consisting of himself, Eb Rehtin (Corporate Engineering), and Marco Negrete (Instrument Group Engineering) was highly impressed with the excellent morale and competence of the many division engineering teams they met and with the good sense of direction of their programs.

The reviewers, however, discovered a few problem areas. In particular, they felt more effort should be directed into long-term product strategy rather than quick solutions. Such "family planning" could result in considerable economies in engineering. More effort needs to be made in solving problems of systems compatibility. Some labs could make good use of specialized expertise on their staffs.

The next five years . . .

The HP environment

President Bill Hewlett drew attention to the basic theme of the meeting: Managing a profitable billion-dollar decentralized company in a changing world environment.

"Let me say first that the people of this company have done an excellent job in the past year. When you compare HP with other companies and see where we were a year ago and where we are now in such matters as inventories and receivables, you realize the tremendous progress that has been made.

"While we may not reach that billion

dollar point this fiscal year, we are well over some very big hurdles and in a strong cash position. At a time when many businesses are crying for lack of capital, we are in a singularly good position. Still, we have some tough times ahead, and changing conditions require us to keep a very flexible position.

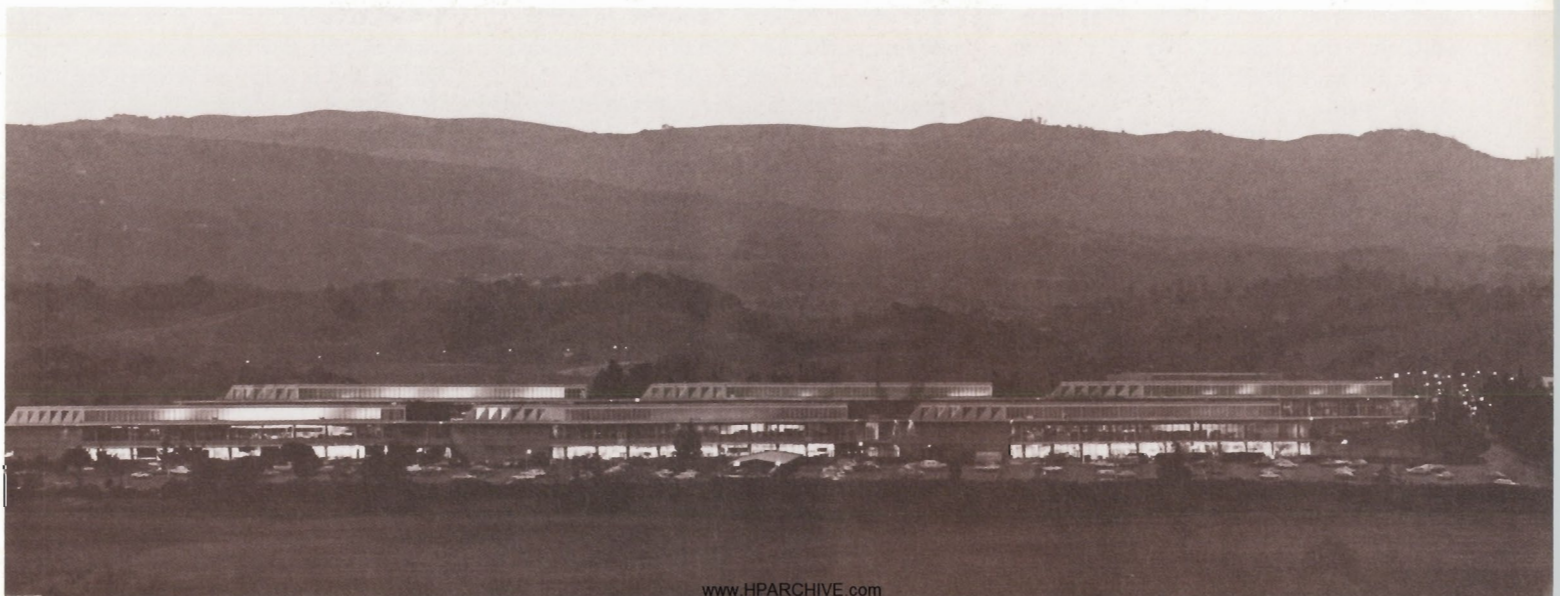
"One thing we must recognize is that it is no easy job to manage a decentralized company of 29,000 people. In fact, it is an extremely challenging job — and in meeting that challenge we have always placed a great deal of reliance on our

people. Rightly so; they are the company's greatest asset.

"To preserve the good relationships that exist among people in the company we need to recognize their participation appropriately. An organization can give more and more benefits to the individual without trying to find out what he or she really wants. Yet many studies show that it is not just increases in pay that people want but consideration of their other needs and aspirations.

"We've had some good and bad examples of this. One notable step we have

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HP environment

taken in this regard was to adopt flexible work hours. This innovation was carefully studied and tested to be sure that people really wanted it and that it actually worked to the benefit of all. It turned out to be a great benefit to many people, and there is evidence that productivity also was improved. On the other hand, we've had a few mistakes from time to time based on some false assumptions of what people wanted.

"So not only must our managers be able to communicate with people and help them understand where the company is going and how it wants to get there, but the reverse is true. Management must listen carefully to what people want, and then work to see how their needs can be fulfilled within the framework of the corporation."



Affirmative Action:

Treating people as individuals, not stereotypes...

Ray Wilbur, vice president-Personnel, discussed the question of where HP stands in regard to its attention to minorities and women. HP people in the U.S. are aware of the importance of participation in these matters which are part of our objectives for people and community responsibility. He said overseas HP people also should be interested in how we have progressed in these areas, because it is always possible that the company may have to be more active in similar programs elsewhere in the world.

Statistics for the past five years show the trend in HP's U.S. employment: In the area of supervisors, minority representation increased from 3.7 to 5.2 percent, women from 2.4 to 7.2 percent; professional employment of minority people rose from 4.6 to 9.1 percent, of women from 2.8 to 10.6 percent; among technicians minorities gained from 9.6 to 12.7 percent, and women from 8.4 to 10.4;

clerical employment of minorities doubled from 8.6 to 17 percent; and skilled craft level representation for minorities from 10.3 to 15.4 percent and for women from 14.7 to 19.6 percent. Overall, minority employment grew from 11.4 to 16.3 percent (in 1965 the figure was 6.9 percent).

"In spite of the generally very favorable trend portrayed in those figures there still are some key problems to solve," Wilbur noted. "In addition to resolving inequalities that may exist, there is a clear need for more effort in career planning for all our people — as a vital part of Affirmative Action as well as just good sense. Supervisors and managers should emphasize more counseling and planning with all of these people — regardless of race or sex — who do want to move ahead.

"We are going to have to take more notice of potential discrimination based on age. While this is not a part of affirmative action, it is prohibited by a Federal law

enforced by the Department of Labor.

"As I discussed last year, the qualified people who are physically and mentally handicapped are to receive affirmative action and not be discriminated against in any manner. This includes planning for them in new facilities and in any remodeling of our buildings.

"Leadership in affirmative action is not a responsibility of the personnel department — it is the local manager's responsibility and is achieved through the activities of local supervisors. These supervisors need management support, and their participation in goal setting, Equal Employment workshops and in exposure to a positive environment will stimulate the right actions.

"In all of this it is important that we do not set up factions within the company. Channels of communication should not be set up to represent just one group of people such as minorities or women, and



Workshop on employees:

How to keep that small-company feeling...

ignore the fact that other groups with similar problems also wish to communicate with management. Affirmative Action is a total team effort. We must consider that all our people are involved, and that if we are to solve some of our problems in these areas we must learn to avoid stereotyping individuals as part of a racial, sex, handicapped, old or young group. In tune with the HP way, each person is an individual with his or her own education, experience, personality, and above all, pride. Categorizing individuals in general terms or as a statistic is dangerous and unfair. Each can stand on his or her own merits and be treated as an individual. Let's then broaden our perspective and remove any blinders on past concepts and attitudes. Evaluate every person for what he or she has to offer us to be a successful member of the HP team."

The internal climate at HP was examined closely by managers participating in the employee relations workshops, coordinated by Doug Chance and Mason Byles, general managers of Santa Rosa and Avondale divisions, respectively; and by Karl Grund, Boeblingen Medical Division manager, and Eberhard Knoblauch, HP general manager in Germany.

How can HP maintain and enhance its human relations traditions, commonly called "the HP way," as the company grows in size and complexity? The discussions centering around that question began with a definition of the key points of "the way," including management by

objectives, belief in people, respect for the dignity and self-esteem of the individual, recognition of employees' achievements, the opportunity to learn, informality, and personal security.

Regarding belief in people, Doug Chance began: "It was generally observed that belief in people is not a natural point of view. Rather, it's a learned trait, and it becomes tougher to learn as we get larger. Managers must experience it and see it work to really believe it and take the risk of giving people this freedom. We observed that it doesn't work as well if managers lack confidence in the human relations aspects of their management skills."

Regarding Affirmative Action, Chance said, "We got into a very interesting discussion in the areas of women and minorities. It was generally agreed that we must avoid stereotyping women as suitable for only certain jobs, and increase our efforts to move women into areas that have been traditionally male roles such as manager, engineer or technician."

Recruiting and promoting women and minorities should be looked upon as an important and serious task, agreed the workshop participants. "We also rejected
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that small-company feeling...

the idea of a 'parallel ladder' for women," Chance reported. "As women move up in our organization they should come from all areas and advance in the same ways that men do."

Bill Hewlett reinforced those views and warned against letting a woman's progress be blocked by an immediate supervisor who is antagonistic toward the advancement of females. "Make sure the supervisory people understand our objectives," he suggested. "And if they have doubts about them, work with those supervisors. We're not going to solve the problem by edict, but by getting down there and working with those who can push people ahead in the company."

One workshop group recommended more emphasis on company-supported training programs — particularly to train people for such jobs as test technician, technical illustrator and production scheduler. According to Mason Byles, his group felt that more should be done to inform people of job openings at professional and supervisory levels.

Chance said one observation that came out in discussing training was that an equal amount of time should be spent

teaching the philosophy behind some of HP's methods as is spent on the method itself. "Even in teaching a new hire to load printed circuit boards, as an example, we should explain why we load from a sample rather than complicated engineering drawings." It was suggested that management development programs be expanded to include subjects such as organizational behavior as well as law, accounting and finance.

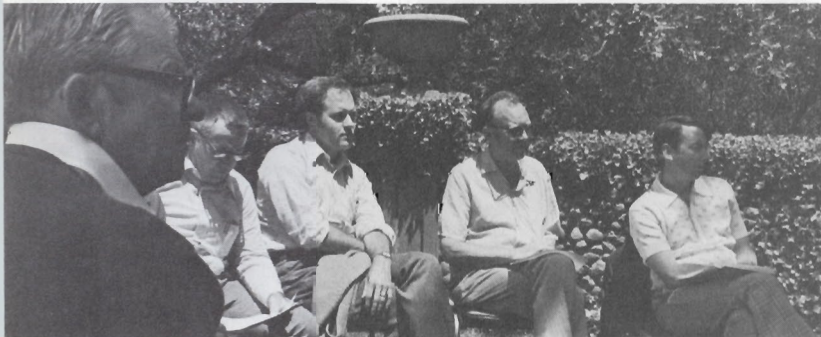
There was some disagreement among workshop participants as to whether HP people are still given the chance to learn and to risk making mistakes in the process. Even though the mistakes may be costly, all agreed that it's an important part of the HP method of developing management talent.

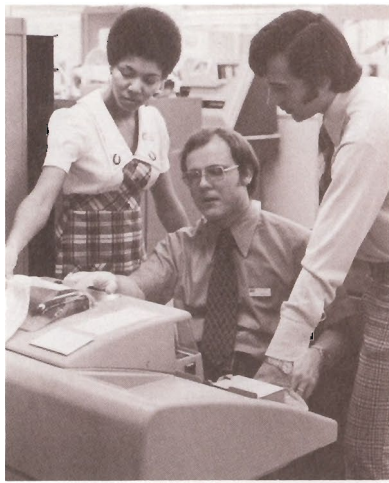
Considerable discussion was generated by the question of how large a division should become. Strong support was expressed for decentralization to maintain the human relations traditions of HP. As Chance put it: "We discussed the tradeoffs between good communication in a small division and the problems of coordinating many, many divisions. Generally, the group tended to lean toward small divi-

sions to maintain 'the HP way.' We did observe that we might be able to maintain some sizable divisions if other variables such as the rate of change and complexity of the organization is very simple. If it's a fairly mature and homogenous product line, we could support a division of up to 2500 people."

Dave Packard asked that further thought be given to this subject of division size. As to problems of communication, he re-emphasized the importance of the open-door policy at HP. "Bill and I recognize that it's impossible for us to adjudicate any matter down at a lower level, but it's very important that HP people have a chance to at least express their concerns not only to their supervisors but to their division managers or to Bill and me."

Along these same lines, Byles commented: "One of the recommendations by our workshop group was that every division manager should set aside some time to practice such fundamentals as management by walking around, holding periodic meetings with all employees or with small groups. The two key people in communication are the first-level supervisor and the division general manager."





Corporate Development:

The intermediate range plans prepared this year by the divisions and groups were described as "very realistic and professional" by John Doyle, Corporate Development director.

These projections, he said, indicate almost a doubling in employment by 1980, barring unforeseen difficulties. Along with the anticipated increases in the number of people, divisions and facilities will come a strong demand for managers and supervisors.

As the "corporate pie" grows, Doyle said, there will be some shifts in the relative size of shares of its various compo-

nents, but nothing unexpected. Overall, the international order growth rate will probably not continue at the same high level of recent years and will more nearly match that of the U.S. growth rate. All six product groups forecast good growth.

Costs of building facilities are becoming very high, and will go higher as a percentage of shipments. This is an area HP will have to watch carefully. At the same time, the building of buildings and the training of people are the kinds of activities that must be given high priority because they take a long time to do and don't lend themselves readily to makeup or catchup programs.

**The
dimensions
of doubling...**

Outlook for the product groups...

Analytical Products: Many doors to knock on...

HP's idea of giving worldwide responsibility for a product line to a factory organization was described as an important competitive advantage by Emery Rogers, Analytical Group manager. He outlined the future basic responsibilities of the Analytical organization as follows: Avondale will continue with the gas chromatograph line and analytical data systems; Scientific Instruments Division in Palo Alto will be responsible for the various spectroscopy products; Waldbronn—a new site purchased in Germany — will become home base for liquid chromatography by 1978 in place of the existing sites at Grotzingen and Boeblingen.

Rogers pointed out that getting strong new products into the hands of the field sales people had been a most important means of improving overall productivity in the past two years. He indicated the group has been investing heavily in product development, and should have good results to show over the next few years.

Regarding the effects of the recession on analytical business, Emery said that in important industries such as chemicals "Some doors close, but there are many doors still to knock on. We have to be prepared to shift emphasis."



Calculators: Lessons from the retail world...

George Newman, Calculator Products Group manager, described programs aimed at strengthening HP's position and performance in the calculator field.

He said the group has recently been investing a much larger share of the sales dollar in basic technology. This will be very important to HP's future in the calculator industry. In the past the company's calculator products have made extensive use of available technology.

"About a year ago, Newman said, "we undertook our 'dealer' program that now provides us with many hundreds of independent retail outlets for APD's hand-held calculators. This program has given us a very good base for our business, and we have developed a good relationship with these dealers who were selected because we felt they would be good representatives of HP quality.

"On the other hand, we've learned some lessons from this participation in the retail world. One is that there is a very large burden on us to be in stock, especially when we are introducing a new product. Otherwise dealers will divert their money elsewhere. It's a real challenge to our factories.

"Calculator Products Division in Loveland is finding strong acceptance in a new market area. Commercial uses of programmable calculators by banks, insurance companies and other general business applications will provide a large share of the future growth of its product line.

"Advanced Products Division is planning for very steady growth through 1980, including responsibility for some products beyond hand-held calculators. To accommodate its growth the division has acquired an excellent new site near Corvallis, Oregon, where a first building is due for completion by mid-1976.

"By 1980 we will probably be more than a two-division group, and we will continue to be very active internationally."

Bill Hewlett's **From the President's Desk** will not be published in this issue. In its place are his remarks included as parts of discussions at the general managers meeting last month.

Computer Systems: Maintaining momentum...

The introduction of a large number of new products over the past year has helped counter the effects of recession, said Paul Ely, Computer Systems Group manager, "and we expect the additional new products we have introduced will help keep up the momentum."

Ely outlined the competitive situation HP faces in the fast-growing minicomputer industry. He noted that the major competitors employ varying business approaches, including "market-share" strategy, the opening up of new markets by lowering the cost of new "mini" applications, and bold marketing style. Among such competitors, Ely said, it is becoming increasingly clear that the industry will have to recognize IBM as a major competitive factor.

In meeting this competition, Ely pointed out, HP's basic strategy will be — as it traditionally has been in other areas of the company — to keep ahead in technology and to offer better products that provide lasting value. In this regard, he noted that our minicomputer line is favorably positioned for the end-user market where considerable growth will come from; the company is investing strongly in technology that will be important in OEM markets; and HP has unusual strength in its peripheral products which are important to systems business. Moreover, peripherals are becoming a larger share of the total business.

Meanwhile, the Computer Systems team is benefitting from the unification of the sales force, from a selling program that emphasizes sharing of "answers" on a world-wide basis, and from a new strategy of concentration on major accounts.

"We've not been doing so badly," Paul concluded, "but perhaps we can do even better now that we have a unified program — if we put our act together."

Components: Two distinct businesses...

Some of the key assumptions used in planning the future of the Components Group were outlined by Dave Weindorf, group general manager: He noted that the group is now involved in two distinct business areas — microwave rf components and optoelectronic components.

Relatively heavy investments now being made in product development should assure a strong and profitable position in these markets during the coming years. In the optoelectronics field, however, the new product emphasis will be away from the more "wholesale commodity" types of products and into more differentiable, higher-profit margin lines. The group is assuming there will be fewer but stronger survivors competing in the opto market.

In terms of organization, Weindorf said the group assumes it will soon be fully divisionalized — into two divisions representing the two product lines. It also assumes continued operations in Southeast Asia in spite of the risk of some political instability there.

Instrument Group: The importance of keeping our edge...

Maintaining and improving our organizational climate — the "HP way" — is our biggest challenge in the years ahead according to Bill Terry, vice president and Instrument Group manager.

It's everybody's job to help create this environment — which can perhaps be described as a climate in which it is fun to contribute.

Looking ahead, Terry saw significant and profitable growth for the Instrument Group — providing we make the necessary effort to improve productivity, product development and product quality.

"Reducing warranty costs is going to be a major theme through 1976 in all Instrument divisions. We have to keep our edge in product quality which our customers expect and which is one of our most important assets in the marketplace.

"In the area of R&D, some people might ask 'How come — when you have such a position in a mature market — you spend so much on product development?' Well, I think we do have to 'keep up' and stay fresh. We are not a monolithic organization but rather a collection of hundreds of products in 22 different product lines.

"All along the line are competitors who could produce a better contribution, either by taking advantage of new technology or if we become complacent. Moreover, as we have seen time and time again, new products have proved they can get us moving again, and this will certainly make a big difference in the months ahead."

(continued)



Medical Products: Some basic assumptions...

Factors that will be important in shaping HP's medical business were reviewed by Dean Morton, vice president and Medical Products Group manager.

"Trends toward large systems and the use of computers continue to be a strong influence on our business," he said. "Our investment in R&D and our business strategy have taken account of these trends. The payoff has been most dramatically illustrated recently with the receipt of several very big orders based on our capability to handle multiple patient care systems requirements.

"These same trends, however, are changing the character of our business

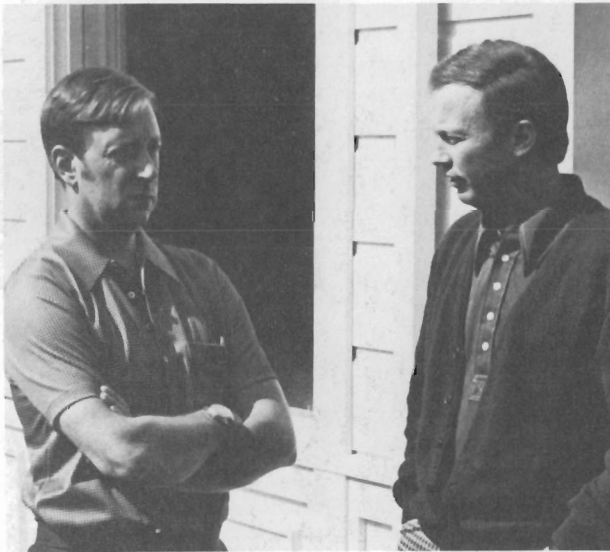
because we are more 'big deal' dependent, order levels fluctuate more widely from month to month, and large backlogs are needed to achieve a smooth shipment pattern.

"Some uncertainty exists with regard to the changing role of government in the U.S. and abroad with respect to health care and medical devices. HP's plans assume that equipment selection decisions will continue to be primarily influenced by health care professionals; that the medical industry will continue to grow under a system of National Health Insurance; and, that device controls and standards won't inhibit technical progress.

"A current problem is the cash flow situation of many hospitals, particularly in the U.S. The recent malpractice dispute has added to this problem and some postponement of orders has been observed. We expect the situation to be resolved and not be a long-term factor in our business expectations.

"Medical's intermediate range plan calls for continuous improvement in manufacturing and sales productivity, with lower factory marketing costs in relation to product development.

"HP's basic strategy," said Dean, "will be to concentrate on known areas of business and to build on our technical and marketing strengths."



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