

OFFICE SYSTEMS TO PLAY MAJOR ROLE... (Con't from page 1)

"We now have between a million and a million-and-a-half terminals on our computers doing word processing and electronic mail," he said. This is more than any other company selling office automation equipment.

"For the white collar office, we have all the functions. We've been doing them inside Digital for many years. Altogether we have 20,000 terminals in the company. We couldn't survive without the capabilities these systems provide. Now we want to sell those capabilities to the outside world.

"Already we have many thousand terminals installed in white collar offices, and many thousand of our computers doing data processing in offices. But as a company we are not well known for these products; many potential customers have no idea of the extent of our capabilities in this area.

"Now we have a program to change that. We reorganized and assigned a number of senior managers to the task. It's importance is indicated by the fact that now that group has two members who sit on the Operations Committee. So, hopefully, over the next year we will take the lead in the white collar office market as well," concluded Ken.

WHAT IS THE OPERATIONS COMMITTEE DOING TO CONTAIN EXPENSES?

The role of the Operations Committee is to establish the direction and focus of the company. In the area of expense controls, the Operations Committee sets the parameters for expense controls. Digital's managers and supervisors must implement these decisions since they are the people who sign the requisitions and establish the priorities in their departments.

"It takes quite a long time to institute an effective expense control effort because we are trying to change human spending patterns and thought processes. Digital started its expense control effort in Q4 of Fy '82. We could foresee that '83 was not going to be a great year and we started headcount curtailment and expense curtailment," explains Al Bertocchi, vice president, Finance and Administration.

"Now, we understand the human element a little better and we know that it requires peer pressure to make expense controls really work. It's been a slow process but expense controls have begun to help the company. We just have to make certain they continue and are consistent around the company.

"There have been some questions about why we still sponsored employee outings, such as Canobie Lake, and if we will still distribute turkeys at Christmas in the U.S. In order to understand why outings took place and why turkeys will still be distributed, it's important to know that financial commitments were made many, many months ago. We buy turkeys almost a year in advance of the actual distribution. Digital will honor its existing commitments to vendors, but will look closely at our future commitments.

"Speaking of commitments, it's also important for employees to understand that Digital has no intention of starting any new buildings in the near future. Certain buildings are opening this year because construction that was contracted months, even years, ago is now completed. But, we certainly aren't starting any new buildings. As a matter of fact we're giving up small leases, we're consolidating and so forth," explains Al.

INTRODUCING A SPECIAL MEMO FOR MANAGERS AND SUPERVISORS

Last spring Digital conducted a survey to identify strengths and weaknesses in the ways the company communicates with employees. From it we learned that managers and supervisors do not have enough information about the business to satisfy the needs of employees. Many employees depend on the grapevine although they overwhelmingly prefer to get news from their immediate supervisors. And managers and supervisors overwhelmingly think it is their responsibility to communicate Digital's plans, policies and decisions to their employees, if they only had the information.

As one small part of the solution to these problems, this "MGMT MEMO" is intended to help you answer questions your employees have about the company and its business.

This memo, prepared by Corporate Employee Communication on behalf of the Office of the President, will be distributed monthly to managers and supervisors around the world. It will frequently include messages from Ken Olsen and other company officers.

If you have particular questions you want addressed, you should forward them to your vice president who will either answer them directly or pass them along for inclusion in one of these memos.

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A DOLLAR A DAY CAN EQUAL \$4.3 MILLION

If every employee saved just \$1 a day, the company would save over \$4 million in just one quarter. We're not just talking about cutting back on discretionary spending such as offsite meetings, unnecessary travel and postponing optional programs. Your organizations should have already taken these actions.

What we're talking about are the "little things" that add up. Turn off the lights when you leave a room, recycle blank word processing paper as note paper, write a letter instead of making a long distance telephone call, cut down on the time you take for lunches or breaks, etc.

KEN HONORED WITH FOUNDERS AWARD

Ken Olsen was honored by the National Academy of Engineers with the Founders Award on November 3. Established in 1965, the award recognizes outstanding engineering accomplishments by one individual over a long period of time. The Academy of Engineering, an organization of distinguished engineers parallel to the National Academy of Sciences, examines questions of science and technology at the request of the federal government.

THE IMPORTANCE OF COST AND EXPENSE CONTROLS TO DIGITAL'S LONG-TERM FUTURE

By Bill Thompson, Vice President - Controller

Simply put, Digital's cost and expense controls are our way of managing a very tough business challenge. It is a natural management response to a near-term business problem and a longer-term expectation of more intensive competition in our industry. Digital is financially strong with \$760 million in cash and temporary cash investments available for our immediate use in the business.

This money came, in part, from investors who expect a return on their investment. Their money and our retained earnings is available to let us invest in new products, new plants and better equipment. This enables us to continue to make and sell leadership products and to help us protect our position as the second largest computer company in the world. In Digital's case, that is what making a profit is all about--having enough money to invest in the company's future.

Digital makes its expense control decisions based on our understanding of the future outlook of our business. As the future outlook has become less certain, we have had to take further steps to curb spending. For the last eighteen months, our expectations of business have been going down, so we have been enforcing more and more stringent cost and expense controls. This has enabled us to continue critical engineering, product and marketing investments and to keep the company in a good position to take advantage of the up-swing in the business cycle when it comes.

There are many chapters in the book of a company's expense control practices. We have done everything rational and reasonable, which we have thought necessary, given the specific business conditions at specific decision points. We initiated the salary delay measure when we realized our business was not going to turn around as quickly as we had hoped. The decision about whether or not to continue the salary action deferral will be made and communicated the first week of December.

Whether or not customer demand for certain of our products remains weak, we expect to see positive results from the revenue from Digital's personal computers starting in Q3. In other words, we expect results in Q3 and Q4 to be positively helped by shipments of personal computers. But in the meantime, every employee must be particularly flexible and creative in finding new ways to reduce expenses.

We owe it to ourselves, our investors and our employees to avoid unnecessary spending which does not clearly generate revenue today or is not critical to Digital's future interests. If we apply this rule in examining each and every spending decision then we, and I believe our investors, can accept the short-term financial results, because we have done our best. The future of DEC is very bright...indeed!

TO:

G L CONNOR	3PG 137577
TWO 00 E16	DEC 3 1059
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