Veritas

Background

- Prior to the merger:
  - Veritas was growing at approximately 60 - 70 percent per year and making 25% operating margins
  - Seagate was growing less than 30 percent per year and making 16% operating margins. In addition, during the 12 months prior to the merger, Seagate had lost market share to Computer Associates.
  - At the announcement Veritas stock plummeted by 42%.

Sales Execution

- Execute without missing numbers – from $400 M to +billions in 5 years
- Stop the market share loss at Seagate
- Maintain Seagate operational efficiency
- Completely reorganize WW field ops – reduce field management by 40%

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Veritas Sales Force

- Composition
  - 125 sales execs direct
  - 12 channel sales reps
- Market – have to earn it all over every year
  - Highly technical, competitive sale
- Compensation
  - 85K Base
  - 95 → 125K commission to OTE (on target earnings) = 180 → 220K
  - Base = 39 → 48% of total comp.
- Culture
  - Independent go-getters
  - "thoroughbreds"
  - Meat-eaters
  - "spend big to win big"
  - Veritas does not respect Seagate sales force

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Seagate Sales Force

- Composition
  - 25 disti reps (15 distributors -- more than one rep per disti?)
  - 55 reseller reps (21,000 resellers)
  - 40 direct end user reps
- Market – 70% repeat sales, 30% new business
  - Low-end sale, very operational (accept orders, don't make mistakes, deliver on time)
- Compensation
  - 65K base
  - 85 → 95K commission; OTE = 150 → 160K
  - But 70% of business was "gimme", so real numbers are
    - 125 to 132K base plus 20 to 30K commission
- Culture
  - Team oriented (no individual accountability)
  - 70% "gimmee"
  - Thinks of Veritas sales force as wild and out of control, but anxious about Sallaberry as new leader

Integration choices

1. Keep separate sales forces indefinitely
   - Opportunity
     - Allows separate comp plans, policies, etc.
     - Keeps engines running smoothly
     - Keeps Disti / reseller channel happy (no direct)
   - Risk
     - Postpones the inevitable?
     - What happens with product synergy, new products
     - If truly separate, why do the merger

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Integration choices

2. Four groups based on customer segment and channel

  - Enterprise = V only, named accounts
  - Midrange = V+ S in teams (Pod approach), mostly fulfilled through 2-tier channel
  - 2 Tier Distribution = S only
  - OEM = V only

- Opportunity
  - Sell all products to all customers
  - Allocate sales resources via customer group
  - Keep distribution sales force intact, reduce risk in that area
- Risk
  - Big Bang reorganization
  - Channel conflict between enterprise and mid and small
  - Team quotas not part of V culture

Integration choices

3. Optimize on successful Seagate integration
   - Enterprise = ¾ V + ¼ S (silent on named accounts), high comp, high risk territories
   - Midrange = ½ V + ½ S, individual territories / quotas, medium comp, medium risk territories.
   - 2 Tier Distribution = S only
   - (OEM = V + S) silent on this point

- Opportunity
  - Blends Seagate and Veritas sales forces
  - Can change more from here
- Risk
  - The hybrid portion has all the problems of big bang above
  - Channel conflict as enterprise and mid buy like a small company
  - What do the sales reps at small do? Is it economic without mid?

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Integration choices

4. Hire the best and maintain Veritas sales culture

- Opportunity
  - Cleanest cultural win
  - Cleanest structure
- Risk
  - Could destroy Seagate asset

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Integration Considerations

- What timing would you recommend and why?
  - Immediate
  - Next year
  - Never
- What are the benefits of merging sales forces?
  - Coherent presentation to customers
  - Ability to leverage sales reps selling time (multiple products)
  - More cost efficient
  - As product lines merge, single sales force is mandatory
- What are the risks?
  - Lots of unhappy reps and managers
  - Loss of good people
  - Confusion in sales force
  - Confusion at customers
  - Opportunities for competitors
  - Loss of momentum
- Do the risks / benefits change relative to the timing of the merger?

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If it were easy…

- “Merger of Equals” are always considered risky. Why?
  - Rarely able to make it seem “equal afterwards”
  - Always jockeying for positions
  - As the organization settles out, the unequalness becomes visible
  - “A collision of two garbage trucks.”
- How will competitors view this deal?
  - Competitors at high end (LegatoCA, HP, IBM) and low end (Cheyenne) will try to convince market this is bad for their segment – loss of focus, channel conflict, etc.
  - Competitors will try to poach best people (sales, engineers, etc.)
  - Competitors may try to combine to create competitive end-to-end offering
- Communication THE most significant management responsibility
  - Roles and process
  - Strategy and goals
  - Values and behaviors

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The Sallaberry Plan

- Direct: ½ Veritas direct reps to go after named accounts
- General Commercial (GC): Fulfill through the channel, with remaining Veritas and Seagate reps
- OEM: Fold Seagate reps into Veritas OEM group

Compensation before

- Expense: ($47.8M)
  - Veritas: 137 reps * 200k (OTE) = $27.4M
  - Seagate: 120 reps * 170k (OTE) = $20.4M
- Rep productivity ($410M total)
  - V: $210M (revenue) / 137 = $1.5M/rep
  - S: $199M (revenue) / 120 = $1.7M/rep
- 30 mid-level managers
  - Remove 12 -> (move from 4->7 reports)
  - Move/replace to quota carrying reps

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After (Sallaberry Plan)

- Direct: ½ 125 = 63 named account reps
- General Commercial (GC): 194
  - 194 – 12 (mid-managers) = 172

- Make OTE $200k for everyone
- Increase named account quota by 20%
  - $1.5M -> $1.8M
- Increase GC/channel quota by 30%
  - 1.66M -> $2.1M

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Expected Results

- Productivity
  - Named accts: 63 reps * $1.8M = $113M
  - GC: 194 * $2.1M = $407M
  - Total net revenue = $520M from $410 (27% increase)
- Expense
  - 63 * 200k = $12.6M
  - 194 * 200k = $39M
  - 257 * 200k = $51M
- Increase expense by $3.6M, revenue by $110M

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15.387 Entrepreneurial Sales
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