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%
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
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
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 = \( \frac{3}{4} V + \frac{1}{4} S \) (silent on named accounts), high comp, high risk territories
   - Midrange = \( \frac{1}{2} V + \frac{1}{2} S \), 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?
Integration choices

4. Hire the best and maintain Veritas sales culture

- **Opportunity**
  - Cleanest cultural win
  - Cleanest structure

- **Risk**
  - Could destroy Seagate asset
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?
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
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
After (Sallaberry Plan)

- Direct: $\frac{1}{2} \times 125 = 63$ named account reps
- General Commercial (GC): 194
  - $194 - 12$ (mid-managers) = 172

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