# Seagate Technology*

***A case (with teaching note) on the role of senior business leaders in driving work/life cultural change.***

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# Seagate Technology

## Executive Summary

Seagate Technology, Inc. designs, manufactures, and markets products for storage, retrieval, and management of data computer and data communications systems. The company has 85,000 employees located around the world. The case is centered on the Enterprise Storage group (ESP), a business segment that comprises roughly 40 percent of Seagate's total annual sales and specializes in the design, manufacturing, and the marketing of ultra high performance disc drives.

Beginning in early 1998, Seagate shifted to a team-based work environment that involved redesigning the organization into core teams. CEO Steve Luczo and CTO Tom Porter characterized the core team restructuring as necessary to ensure the company's time-to-market (TTM) leadership, continued product performance, competitive advantage, and profitability. As of January 1999, there were a total of 17 core teams in operation at Seagate sites in Minnesota, Colorado, Oklahoma, and Singapore.

With major changes underway at Seagate, John Weyandt, the senior vice president in charge of ESG, articulated his business objectives as faster time to market, and employee work/life balance.

The case looks at the core team change initiative in the context of achieving employee work/life balance. In particular, the case examines: the role of key individuals in managing the change process; initial outcomes with respect to the TTM objective; initial outcomes with respect to the work/life balance objective; and remaining challenges as Seagate continues to manage the change process.

Several players are part of the case. Key change agents are Esther Williams (manager, Corporate Benefits) and Sue Eklund (in charge of Training, Organizational Learning, and Development for Seagate's Twin Cities Operations (TCO)), who have been indispensable in their roles as champions of change. They have been the energy force that has focused TCO and the ESG on the importance of work/life issues. Their success in getting both senior leaders and grassroots employees to embrace work/life balance as an important business objective is, in part, a function of their dogged persistence in dialoguing with individuals to the point that "when they start thinking differently, they act differently."

Key players from Seagate's senior leadership include Tom Porter, who champions work/life by providing financial resources for various work/life initiatives and related programs, making himself available to speak with Esther and Sue on work/life issues, and being supportive and accommodating of his employees' needs. While an "enabler" and motivator, he views work/life balance as a byproduct of TTM rather than a means to an end.

Another key senior leader, John Weyandt, has made a visible commitment to work/life balance by stating this up-front at a meeting with the CEO and other corporate executives. As a leader of change, he demonstrates the importance of work/life balance by walking the talk.

# Seagate Technology[1]

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The Wharton Work/Life Roundtable
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It's the end of a long executive meeting. Esther Williams steps out of the conference room where the discussion has revolved around "core teams" and how they are going to help Seagate meet its objective of faster time to market, which is being pushed aggressively by the company's CEO. She has just spent three hours listening to presentations about how Seagate's work is going to be transformed, and she's wondering whether there's a place for work/life balance in the face of all this fast-paced change.

Esther Williams, Seagate's manager of Corporate Benefits, reaches for her cell phone to call Sue Eklund and discuss the meeting. Eklund is in charge of Training, Learning, and Development for Seagate's Twin Cities Operations (TCO).

Sue Eklund and Esther Williams first met in October 1997. They are the self-described "co-conspirators" who have focused TCO and the Enterprise Storage group on the importance of work/life issues.

When they met, Esther Williams was in the process of formulating her vision for work/life programs and looking to secure support from Seagate's corporate management. Sue was struggling to develop a leadership model for TCO. Sue Eklund's manager suggested that she contact Esther Williams to ask for some feedback. They've been working together ever since, against the backdrop of a highly competitive industry and a diverse and dispersed company where technology change of one kind or another can seem like an almost everyday event.

## The company and its financial performance

Seagate designs, manufactures, and markets products for storage, retrieval, and management of data on computer and data communications systems. Founded in 1979, Seagate today is an eclectic company, thanks to a host of mergers and acquisitions. From 1985 through 1997, Seagate acquired approximately fifteen businesses and invested in or

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[1] This case pertains to events at Seagate Technology up to June 1999.

merged with at least seven additional companies. In its first decade, Seagate established itself in the low-cost, high-volume market niche of disc drives, a position analogous to that of K-Mart in the discount retailing industry and was known for its production-driven mentality.

Overall, Seagate employs about 85,000 people worldwide. The company's headquarters are in Scotts Valley, California. (**Exhibit 1** presents a snapshot of Seagate's organization chart.)

For the fiscal year that ended on July 3, 1998, Seagate's revenues were $6.82 billion, a decline of approximately 23.7 percent from the previous year's $8.94 billion. The losses for FYE 7/3/98 totaled $530 million, compared to net income of $658 million for the previous year. (**Exhibit 2** presents Seagate's annual financial performance.)

Senior management attributed the decline in revenue to

> a continuing decline in the average unit sales prices of the company's products as a result of intensely competitive market conditions, a lower level of unit shipments reflecting continuing weakness in demand for the company's disc drive products and a shift in mix away from the company's higher priced products.
>
> — Seagate 1998 annual report

On June 28, 1999, Seagate Technology announced that due to weaker-than-expected demand for its disc drive products, together with price deterioration for its desktop disc drive products, it would not meet its earnings estimate for its fourth fiscal quarter ending July 2. The company was not alone in its lowered earnings expectations: the storage industry is very competitive, and dropping prices affect all disc drive manufacturers — who find they must take some action to address a changing marketplace.

For the most recent fiscal year, which ended July 2, 1999, Seagate's reported revenues were unchanged from the previous year, but net income increased to $1.176 billion.

On June 7,1999, Seagate's stock (traded on the New York Stock Exchange under the ticker symbol SEG) closed at $33. Out of 15 analysts employed by the Zacks Brokerage Research Center, the majority expressed optimism about the firm's future prospects: five gave their highest recommendation of "Strong Buy"; seven analysts recommended "Moderate Buy"; and the remaining three analysts recommended a neutral "Hold" position on the company's stock.

**The disc drive business**

Seagates's products include disc drives and related disc drive components (e.g., recording heads), tape drives, and software. The disc drives are the components on which data are stored and from which data are retrieved. Disc drives enable the storage and access of large volumes of data that cannot be economically stored in the random access memory (RAM) of the computer's central processing unit. **Exhibit 3** presents the primary components of a typical disc drive.

Disc drives are a commodity business, one that yields modest margins. There is continual, rapid technological change, the product lifecycles are relatively short, user needs change quickly, and customers are not terribly loyal. In short, competition is fierce.

Seagate's major competitors include IBM, Western Digital, Quantum, Maxtor, Fujitsu, Sun, Hitachi, and Samsung. Seagate and IBM hold the largest share of the market for high-end disc drives.

Success in the disc drive market is driven by performance and being first in line on the "Qualification Train." Performance is measured on the basis of five criteria: 1) rotation speed (measured in revolutions per minute), which affects the time it takes to access data); 2) access time speed (expressed in milliseconds), which is the time needed to position the recording heads over a selected track on the disc surface; 3) media data transfer rate (expressed in megabits per second), which is the rate at which data is transferred to and from the disc; 4) storage capacity (currently measured in gigabytes), which is the amount of data that can be stored on the disc; and 5) reliability or quality (expressed in terms of mean time between failure — MTBF — or usage hours — e.g., 300,000 hours of expected reliability). Being first in line on the Qual Train translates into getting a customer test unit (CTU) ready for your customer before your competitors are able to do so.

Seagate's largest customers — who will give the lion's share of their business to whichever company is first to produce a CTU — are Compaq, Dell, EMC, Gateway, and Hewlett-Packard. Being first on the Qual Train is also essential to continued profitability.

> If you are three months late to market on a product that has an eighteen-month lifecycle, you will lose one-third of your revenue and two-thirds of your profit. The customer isn't terribly loyal. This is a commodity market, not a performance market.
>
> — Tom Porter, Seagate's chief technology officer

A recent article in *Storage Review* — an independent trade journal that evaluates the disc drive industry (and also the leading independent storage authority on the

Internet) — stated that "traditionally, one looks to Seagate or IBM to introduce the first of the next-generation units." In fact, Seagate received the 1998 Compaq Supplier Partnership Award for its outstanding performance in "meeting Compaq's goals for technology leadership, technology alignment, quality, availability, responsiveness, and cost." However, in 1999 Western Digital was the first to introduce the next generation of SCSI drives.

> What's crucial is *what* we deliver and *when* we deliver it.
>
> — Brent King, director, Seagate Transformation Office

**Seagate's Enterprise Storage group**

Seagate's Enterprise Storage group (ESG) division specializes in the design, manufacture, and marketing of ultra-high performance disc drives. Built with a multiple interface platform and characterized by extremely high rotation speeds, storage capacity, and performance reliability, these disc drives serve a variety of high-end needs — including applications in digital video, video-on-demand, file servers, workstations, mainframes, and supercomputers. Seagate's enterprise storage disc drives make possible the electronic booking of airline flights and the myriad financial transactions conducted daily at ATM machines all over the world.

Design and production pilot centers for ESG are located in Oklahoma and Minnesota. Most of the company's products are manufactured overseas in the Far East, with limited production in the United States (Minnesota, Colorado, and Oklahoma sites). Seagate's presence in Minnesota stems from its $450 million acquisition in 1989 of Imprimus Technology, the disc drive division of Control Data Corporation.

ESG accounts for roughly 45 percent of the company's total annual sales. The division contributed 47 percent, or $846 million of revenues, to the company's overall finances for the quarter ending January 1, 1999. In the second quarter, ending April 2, 1999, ESG contributed 54 percent, or $975 million in sales. (**Exhibit 4** presents ESG's recent quarterly performance.)

The ESG division has established its reputation with two major drives: the Barracuda and the Cheetah. Both disc drives were selected by leading computer publications as the best choices based on value, storage capacity, and speed. *Computer Reseller News* picked the Barracuda 50 as the top high-capacity drive in its March 15, 1999 edition: "For those who recall when 50 Mbytes was astonishing, this drive will leave you speechless." And Hewlett-Packard announced in April 1999 that it would be integrating the fifth-generation high-performance Barracuda (Barracuda 18LP/36, 7,200-

rpm) in its award-winning HP AutoRAID Model 12H. *PC/Computing* selected the Cheetah 18LP as the "fastest hard drive on the planet.

Seagate's success with the qualification process is illustrated by what happened with one of the generations of the Cheetah 10,000-rpm disc drive. The company got to the customer first and, as a result, won 100-percent market share.

Even with the success of Cheetah and Barracuda, though, the highly developed competition in the disc drive industry has hit Seagate hard over the last few years.

**Restructuring into core teams**

From a technology standpoint, IBM had long been recognized as leading the disc-drive industry. Historically, Seagate was very good as a "fast follower" on the technology curve. In 1997, Seagate was edged out by the competition, which helped contribute to Seagate's performance downturn. Seagate executives decided it was time to change strategies. The company wanted to move from a low-cost manufacturer and fast follower to a position of low-cost manufacturer and technology leadership. Steve Luczo, Seagate's CEO, articulated seven corporate objectives to address the new strategy.

1. Improve time to market for all products.
2. Technology leadership.
3. Improve material management and develop strategic supplier relationships.
4. Develop strategic relationships with key customers.
5. Create world-class manufacturing processes.
6. Provide best-in-class product and process quality.
7. Employer of choice.

Seagate's design centers had, historically, been organized around function, with one product line manager in charge of tracking the progress of all programs and with senior management heavily involved in day-to-day decision-making as well as strategy formulation. In 1998, the firm undertook a restructuring of the design centers, including ESG, under Tom Porter's leadership, to meet the corporate objective of faster time-to-market (TTM). (**Exhibit 5** presents a summary slide from one of Tom Porter's presentations to employees during the summer of 1998.)

Guided by consultants, Tom Porter implemented various product development process-related initiatives to increase functional excellence and improve the overall efficiency of product development and materials management within the corporation. Perhaps the most visible structural change instituted to improve time to market was the organizational redesign of design centers into *core teams* organized around individual projects.

Core teams direct projects from the product planning stage through drive development. In ESG, generally speaking, it takes about eighteen months for a team to complete its work, from Phase 0 (product planning) through Phases 1-6 (design, integration, qualification, pilot, transfer, and ramp, respectively). At the end of Phase 6, the core team disbands. Members of the team either join new core teams or return to their respective functional areas.

Each core team is guided by a team leader and includes six individuals who come from each of the respective functional areas of design engineering, product line management, materials and process engineering, quality control (reliability), operations, and manufacturing/factory. The teams are physically located in one common area, aimed at promoting more direct and multi-way communication between and among core team members.

Empowering the core teams to take ownership over the operational aspects and daily decisions surrounding a particular project was intended to speed up the development process and thereby improve time to market, one of Steve Luczo's primary corporate objectives. The reorganization also had a secondary benefit: senior management would have more time available to spend on corporate visioning, strategy formulation, and employee development.

As part of the restructuring, Site Management Teams (SMT) were established in Minnesota and Oklahoma. These teams typically include senior managers from engineering, manufacturing, finance, marketing, quality, materials, human resources, product line management, and the factory. The SMTs set high-level business and technical direction, enabling the core team and functional organizations to do their jobs. They also provide development direction by setting strategies, managing resources across all projects, and ensuring the success of core teams through the phase-approval process.

The Transformation Team Office was also established, with fourteen members representing the two ESG sites. It supports, interacts, and communicates with the core teams, and the functional departments. It also works to improve the TTM-related work of the core teams by supporting process initiatives, including Functional Excellence, Pipeline Management, Functional Strategic Planning, Organizational Learning and Development, Six Sigma, and SLAM (Share Leader All Markets).

Another group that emerged is the F.O.C.U.S. (Focused on Culture and Unified Solutions), which evolved from a former group oriented around increasing total customer satisfaction. Approximately fifteen individuals from different functional areas voluntarily meet bi-weekly as a team to define and implement value-added meetings that increase organizational effectiveness and efficiency, create strategies that achieve the goal of work and life balance, and facilitate a successful cultural transition to the new Shakopee facility (described below). Sue Eklund is active member of F.O.C.U.S., and Esther Williams is actively involved as an "outside" consultant.

The core teams, as well as the SMT and FOCUS groups, were charged with the responsibility of developing their own charters to describe their missions, goals and objectives, and roles and responsibilities. (Exhibits 6, 7, 8, and 9 are excerpts from these charters.[2])

An article in Seagate's internal newsletter, Business Monday, described the role of these groups and likened the "race between companies in the storage industry to be first-to-market with leading products" to the Indy 500 automobile race:

> **The site management team**
>
> In a product development role, the site senior-management team makes strategic decisions and sets high-level business and technical direction. Back at the Indy 500 speedway, this group determines the strategy for winning the race and becoming the champion. They map the course.
>
> **The core team**
>
> Each core team focuses on developing quality products cost-effectively and on time. The team of A.J. Foyt and crew members tactically navigates the speedway, maneuvering around obstacles, refueling, and staying on course.
>
> **Functional departments and employees**
>
> Employees provide the critical knowledge and resources for successful market and financial tracking and planning, product development, customer-qualification and management, materials acquisition, and manufacturing. They work upstream of product development and also constitute the extended team members. They are the vehicle … speeding around the course and crossing the finish line.
>
> — *Business Monday*, January 25, 1999

As of January 1999, there were a total of seventeen core teams in operation at the Minnesota, Colorado, Oklahoma, and Singapore sites, five of which are at the TCO. Each core team is supported by an extended team of individuals from the various functional areas of the organization. So, although only thirty individuals are integrally involved as core team members, approximately 1,000 individuals in ESG (at TCO, Oklahoma, and overseas) are involved or are linked in some way to this new organizational initiative.

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[2] It should be noted that the SMT had not completed the chartering process at the time this case was written.