Otellini Memo: Making Intel More Efficient

July 14, 2006

Editor's Note: *Intel CEO Paul Otellini, in a memo sent to employees on July 13, outlines the company's decision to* ***lay off 1,000 managers worldwide****. The move, which comes as part of a wide-ranging internal review that has been examining Intel's inner workings since April, is designed to increase the company's efficiency by boosting productivity and speeding up decision making.*

Below is the full text of the memo that was sent by e-mail to Intel staff.

To: All Intel employees

This week we're taking an important and difficult step in our efficiency project: reducing the number of Intel managers by about 1,000 people worldwide. Only managers, ranging from senior to first-line, are affected. This step is important because it addresses a key problem we've found in our efficiency analysis—slow and ineffective decision-making, resulting, in part, from too many management layers.

It is difficult because the managers who will leave the company are our colleagues and friends, and since we have limited internal job opportunities, redeploying their skills is not a viable option.

We are notifying the majority of impacted employees on Thursday and Friday this week, and (except where a country's laws require different steps and timelines) we plan to have all affected employees informed by Monday, July 17.

In the U.S., most employees' last day of work will be July 28, and their benefits will include a minimum of about three months' separation pay (and more for lengths of service over two years). In other regions the process and benefits will differ. While we can't eliminate the impact to these employees, we're committed to offering them support during this difficult time.

This manager reduction is one of the first major actions coming out of our structure and efficiency project, and I believe it's an essential first step toward making us more competitive.

Over the last five years at Intel, the number of managers has grown faster than our overall employee population. Our efficiency analysis and industry benchmarking have shown that we have too many management layers, top to bottom, to be effective.

In addition, this finding is consistent with what our organizational health surveys have suggested: that the relative increase in management has impaired decision-making and communication, reducing the company's efficiency and productivity. Many of you have made the same point in your individual inputs to the efficiency team.

As I've said in previous Webcasts, one of the outcomes of the structure and efficiency project is that we'll be a leaner and more agile company. We'll make quicker decisions, collaborate better across the company, and enable a cost structure that allows us to continue to win in our extremely competitive industry as it evolves.

This manager action is one step along that path. Another was the decision to sell our communications and applications processor business to Marvell. We'll continue to identify other opportunities, act on each one as soon as we can, and tell you about the changes as soon as possible. I'll talk more about this and our business priorities in my employee Webcast on July 19 at 4 p.m. Pacific time.

In April I said that we had decided not to do an immediate "across the board" layoff, because that would be reactionary—focused only on the current environment rather than the long term strategic needs of our company.

Instead, we chose to undertake a longer, more comprehensive project to analyze all of our operations and make strategic, data-driven decisions. That is still our plan. This manager reduction was the result of careful assessments of the management and leadership roles we need for our future success.

We are in the process of fundamentally changing our behaviors and our structure for where our business and industry are going. You should expect that we will continue to take actions, including selective reductions, as we complete analyses and decisions about investments, expense levels and organizational structures.

You should also keep in mind that at the end of this process we will still be the largest and most profitable semiconductor company on earth. Our actions are focused on ensuring that is true well into the future.

I know this is hard for all of us to internalize and accept. We have done extremely well over the past 25 years of the "PC era." But we need to adjust now for where our industry is going.

Competition will intensify across our product lines. Pricing will be aggressive. We should not only accept that reality, but recognize that it reflects the position we have earned in the industry and the strength of our strategic direction. Weak companies pursuing low-growth markets do not attract competition. Strong companies that have commanding positions and generate strong earnings growth are the ones that attract competition.

Our objective, and our destiny, is to refashion Intel now while we have the means and the time to do so, and ensure we continue to remain number one.

Paul

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