

CHAPTER 3: HP IN THE MIDDLE EAST AND NORTH AFRICA

From The Past To The Present.....1958 - 1973

HPSA'S HISTORY IN THE MIDDLE EAST.....The "Funny Countries"

From the founding of Hewlett Packard Europe (HPSA) in 1958 and throughout the early 1960's, in response to the growing demand for HP products in Europe, HPSA had evolved from a marketing support center into a sales region headquarters operation. This evolution was coupled with the founding of company owned sales subsidiaries all over Western Europe. This effort, which was initiated by Bill Doolittle, HPSA's first managing director (formerly HP's Export Marketing Manager), and continued by his eventual successors, was accomplished by purchasing many of HP's existing "representative" companies. As a result of "going direct" HP's European sales volume began to quickly increase. On the negative side, with sales and marketing decisions now decentralized, there was less control over where the products would be delivered and over many years there were shipments into the Middle East and North Africa, an area that was viewed at that time as a "black hole". The attitude of everyone involved was to just "ship it and forget it". Until oil prices began to rise in the late 1960's, and substantially more as the result of the 1973 Oil Crisis, little thought if any had been given to actively pursuing business in the Middle East and North Africa. HP products that found their way into that area did not arrive there as the result of any organized effort to develop business in what were often referred to at that time by HPSA employees as the "funny countries".



It was quite normal for HP France to sell a gas chromatograph to a customer who would deliver it to an end-user in Algeria. HP Denmark would sell process control systems to F.L. Schmidt, who would then deliver them to cement companies in Greece, Turkey and Iran. Small portable products, such as desktop calculators, would be purchased in the U.K. with special application packages for design and engineering. Customers would hand-carry these products everywhere in the Middle East. And then there was HP's first venture into low cost consumer products (aka, personal products, advanced products) with the introduction of the HP 35 "pocket calculator". They were everywhere.

Prior to 1973 the availability of service in the Middle East was typically an afterthought and in most cases HP sales engineers would process orders with little concern for where the products might eventually wind up. Of course, there were exceptions if the customer was a large multi-national and there was the potential for future sales if everything went well. In this regard, HP France even went so far as to locate a service engineer in Algeria to support the computer products they had sold to one of their large customers. However, due to parts importation problems this approach did not work well and HP France was more than happy to pass this customer (and several others) and their problems to me after HP's Mediterranean and Middle East Operation was established in Athens. Of course, the situation in Algeria was just the tip of the iceberg. There were hundreds of unhappy customers with long memories who would eventually surface. When the petro-dollars began to flow into the Middle East the funny countries were no longer so funny and the ship it and forget it approach was no longer workable.

THE OIL CRISIS BRINGS NEW OPPORTUNITIES FOR HP

.....And Plenty Of Risks

Those of us who have been around for awhile remember the days when you could fill your car's gas tank for less than \$5. That changed in October of 1973. When the U.S. supported Israel during the October War King Faisal of Saudi Arabia declared a "jihad" against the U.S. and any country that had provided assistance to



Israel. When Saudi Arabia and the other Middle Eastern oil exporters exercised their collective economic power by cutting off our supply of oil it became evident to the U.S. and European governments that we were no longer customers, we were now dependents. We are all still reminded of this fact every time we fill up. However, while most of us were suffering at the gas pumps multinational companies and companies with multi-national aspirations viewed the flow of billions of dollars (estimated at \$500 million a day) into an untapped market (for everything) as an opportunity that could not be ignored.....and thanks to HP's large and long-time presence in Europe, the company was well positioned to take advantage of this new opportunity. Those of us in the service end of HP's business were not so enthralled about these new opportunities. Successfully providing quality service to customers in the funny countries would be a tremendous challenge, expensive, and with a high possibility of failure.

CHALLENGES FACING CUSTOMER SERVICE.....Dealing With Unrealistic Expectations

During my HP career I learned, often the hard way, that when an opportunity as large as the Middle East arises the sales force becomes overly optimistic and is often blind to the potential problems. The key common sense questions that always need to be answered are: Will the potential order volume justify the investment necessary to get the orders? Are we willing to make an upfront investment knowing that the orders will not come until later.....and shipments and profits much, much later? Are we committed to staying the course..... even through the inevitable evolutionary changes that would take place within the company, such as reorganizations and management turnover?

With their new economic power countries and customers in the Middle East and North Africa were no longer going to put up with the sell and forget approach of the past. The availability of high quality customer service would become a key purchasing consideration and it would be my job to build an organization that could deliver it. However, the investment required to develop and support these new markets would be significant and from my experiences in Taiwan and Canada I knew that the costs associated with startups were usually underestimated. I also knew that once the initial euphoria had passed management could have second thoughts if the expected orders failed to quickly materialize. When quarterly reports begin to show losses management will often reverse course and try to put the genie back in the bottle. This would be the case in the Middle East even though I had been assured that "this time it will be different."

Experienced service managers, most of whom have at one time or another been burned by unrealistic sales forecasts, naturally tend to be skeptical and cautious. If forecasts are inaccurate and/or planning is insufficient the quantity of resulting problems can be overwhelming and costly, especially in a large and diverse geographical area such as the Middle East where on-site service is performed over very long distances. HP's policy of having support in place prior to product deliveries is often not compatible with the inclination of an aggressive sales force to immediately sell everything to everybody everywhere. Practical limits on service investments and the time required to have resources in place creates the need to set priorities, which requires planning. Unfortunately, service planning is all too often viewed by the sales force as being too conservative, unnecessary, time consuming, obstructive, pessimistic and, of course, delays sales and the payment of commissions. Simply put, disagreements over the synchronization of sales and service plans and the setting of realistic sales quotas often results in on-going conflicts between sales and service management. Even though teamwork and cooperation would be the best approach to planning, those of us who have spent our careers in service management often have to take a hard line to make it happen. Poor planning will result in expensive and indefensible (stupid) mistakes that will usually not show up until after delivery and will therefore always be viewed by upper management as "service problems".

Also of concern, any new operation dedicated to developing HP's business in the Middle East and North Africa would have to clean up many lingering past problems, such as dealing with customers whose products were delivered DOA years ago, who still think they have a valid warranty. Also it would be necessary to establish service plans for all of HP's product groups in multiple countries with different languages, religions, political systems and laws.....and deliver on site service during the occasional war, revolution, and assassination that tended to occur fairly frequently (and still do) in the region. In the early 1970's this was the environment in the Middle East and North Africa and was surely the worst case

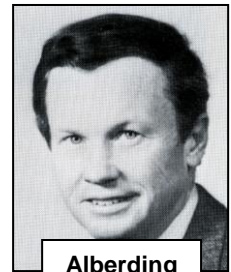
scenario that any HP service manager could ever have imagined.....but after my successes with HP in the Far East and Canada I naively thought that I was up to the challenge. I should have given my decision more thought.

THE FOUNDING OF HP ATHENS.....The Decision To Establish An HP Presence

With HP's interest in Middle Eastern and North African markets rapidly increasing, the decision was made to expand the small Middle East "coordinating office" located in Rome, Italy. Although this office was set up to handle orders originating from the funny countries most orders destined for the Middle East and North Africa were placed by major accounts and OEM's (original equipment manufacturers) at HP offices in their home countries. The Rome office order rate until 1973 was just a trickle and the employees there spent most of their time trying to survive the problems associated with operating out of Italy, which was as dysfunctional then as it is now.

At that time I remember reading a Time magazine article about mail delivery problems in Italy. Thanks to a postal carrier's strike mail was not delivered for several months. The Time article was accompanied by a photo of two postal officials standing atop a mountain of undelivered mail. More mounds of undelivered mail behind them went on as far as the eye could see. The Italian government's solution to the problem.....burn it all and start over. How could an office that relies on the mail to invoice and receive payments from international locations survive in an environment like that? Needless to say, the office was not very effective. Before finalizing plans to expand the Rome office HPSA decided to appoint an experienced manager to fill the newly created position of general manager of HP's Mediterranean and Middle East Operations. His first task would be to evaluate the Rome operation and recommend changes that would enable HP to better exploit Middle Eastern markets. The person they chose for this job was an Egyptian, Cherif Rifaat, who at that time was the Medical Sales Manager at HP Canada.

Cherif's HP experience, familiarity with the Middle East, and multiple (6) language capability made him an ideal candidate for the job, which he accepted. After departing Canada in 1973 Cherif spent a few months in Rome analyzing the situation and then, at the urging of his boss, Doug Herdt, the South-Eastern Sales Region Manager, recommended that the operation be moved to Athens, Greece. In 1967 the Greek government had passed "Law 89", which offered large tax incentives to any foreign company that would relocate there. So, HPSA's Managing Director, Dick Alberding, approved the move to Athens and the acquisition of the resources needed to develop the market for HP's products in the Middle East and North Africa. Alberding and the other HPSA managers had no idea how expensive this decision was to become.



Alberding

MY INTRODUCTION TO DOUG HERDT.....A Preview Of Coming Distractions

By the end of the summer of 1973 I had received my employment confirmation letter from HPSA, which outlined the conditions of my transfer. We sold our house in Dollard des Ormeaux, had our furniture packed up and in storage ready to ship, and had rented a small apartment. To give Joella a chance to see Nova Scotia I took her with me on my last trip to Halifax.



Herdt

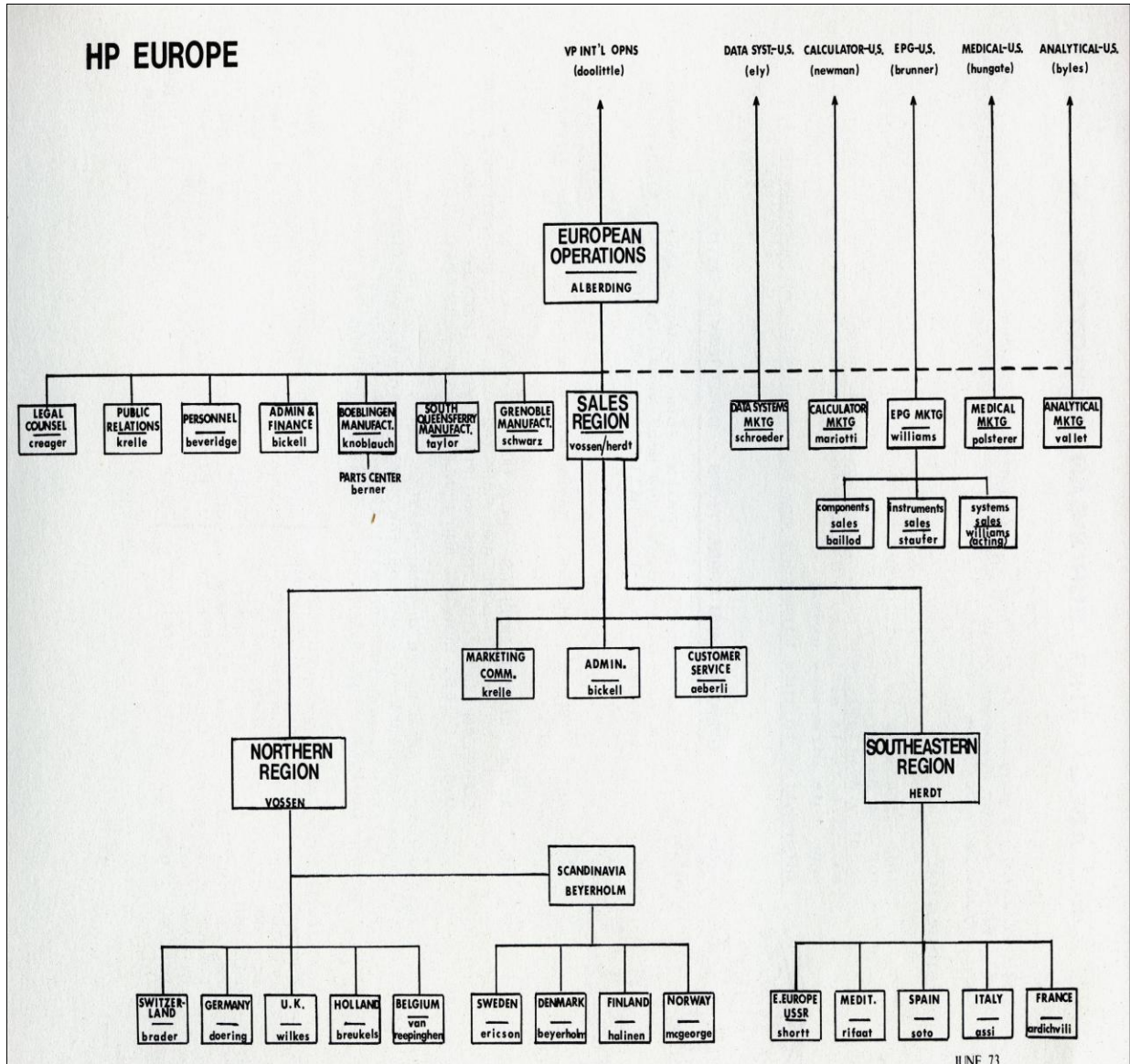
The first morning we were in Halifax I received an unexpected phone call from Cherif, who was still in Rome at the time. He explained to me that Doug Herdt wanted to interview me. I said, "interview me? I think that with our house sold and our furniture packed up that we are little beyond that". Cherif explained to me apologetically that this was just a formality and that I should not worry about it. Although Cherif tried to avoid making any derogatory comments he made it quite clear that Doug had a habit of not paying attention to details and then would throw his weight around in the 11th hour just to prove that he had the power. So, I had to make a command performance visit to see Doug in Washington D.C. on the day that he flew in from Geneva to visit his parents, who lived there. Of course, it was a complete waste of my time. He spent five minutes with me and then sent me on my way. If I had known that Doug would eventually replace Cherif as my direct

manager in Athens I might have had second thoughts about accepting the job. Doug's management style became a very big problem for me and for everyone else in Athens.

THE HPSA ORGANIZATION – 1973.....Before “Verticalization”

At the time of my transfer HPSA had a “horizontal” organizational structure. All sales and service operations reported to Dick Alberding, HPSA Managing Director, through his two Sales Region Managers, Tony Vossen for the Northern Sales Region and Doug Herdt for the South-Eastern Sales Region. Kurt Aeberli, the HPSA Customer Service Manager, my functional (dotted line) boss, reported to Vossen and Herdt.

THE HPSA “HORIZONTAL” ORGANIZATION STRUCTURE - 1973

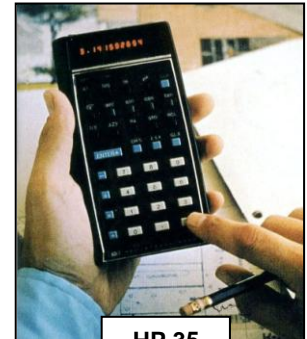


Note: In 1975 the HPSA organization was “verticalized,” which placed the product managers (upper right side of this “horizontal” organization chart) in direct control of all sales and service activities for their products lines. As a result, the positions of Vossen, Herdt and Aeberli became obsolete. The changes resulting from verticalization, which I will cover in more depth later, had a large negative impact on me personally and on my service operation.

MY PRELIMINARY VISIT TO GREECE.....“Orientation” In Geneva Along With A Dose Of Reality

In August of 1973, per HP’s relocation policy, I made an initial trip to Athens to assess living conditions, housing availability and cost and other areas of interest that would give me a head start when I finally arrived for work the following February. On this trip I had scheduled a few days in Geneva to speak with Kurt Aeberli, HPSA Customer Service Manager, and his team. I had already met most of them when I had passed through Geneva with Joella in January of 1971 on our way to Montreal from Taiwan. At this time all of the HPSA Product Type Service Managers (aka Product Group Service Managers, following verticalization), reported directly to Kurt. This made it very easy for me to get things accomplished during my short stay in Geneva while en-route to Athens.

When I met with Kurt we quickly got down to business. Having dealt with the Middle East for years Kurt was able to give me a very thorough overview of the challenges that I would be facing. As an example, he told me how he was providing service for the recently introduced “pocket calculator”, the HP 35, until a dealer network could be established in the Middle East. The HP service organization had no experience with low cost consumer products and was struggling to find a way to provide cost effective service. When an HP 35 failed it was not feasible to return it to Geneva for repair. Just the shipping and insurance charges alone approached the original cost of the product. Postal theft was also a big concern. Kurt said that without a solution, “customers might just as well throw their defective calculators into the Mediterranean and buy a new one”. His solution to the problem came in the form of Claude Gengoux, a resident of Beirut, Lebanon.



HP 35

CLAUDE GENGOUX.....My Indispensible Resource

In 1973 Lebanon was considered the “Switzerland of the Middle East”. It was a major business and banking center with a stable political environment and was also the favorite gathering and vacation spot for people living in the region. Kurt therefore concluded that it would not be too inconvenient for most customers to find a way to deliver their HP 35’s to a small repair operation in Beirut. To this end he hired a contractor, Claude Gengoux, to provide the repairs.



Gengoux

Claude was a Belgian who was born and raised in Beirut and had received an electrical engineering degree in Belgium. His brother-in-law worked for HP in Brussels and had made several inquiries on Claude’s behalf about employment. Claude’s resume eventually arrived on Kurt’s desk just at the time when he was looking for someone to fill the Beirut position. As Lebanon would be part of my territory Kurt made arrangements for Claude to meet me in Athens.



Claude At The Parthenon – Aug 73

Claude, who would eventually become my invaluable right hand man, met me in Athens as planned. I was impressed with him. He was technically current, spoke French, English and Arabic fluently and had worked in Saudi Arabia for more than 10 years. During our conversations we discovered that we shared many mutual interests, such as photography. I also learned that Claude’s father, who was also an electrical engineer, had moved to Beirut from Belgium in the early 1930’s to help electrify the city. One evening he attended a cabaret show that included a gypsy dance troupe from Hungary. One of the dancers eventually became Claude’s mother.

Like many of our employees Claude had a privileged upbringing, but in Claude's case his father's wealth wasn't sufficient to sustain the next generation. As a result, Claude was a well educated and cultured individual with a taste for Persian carpets, classical music recordings, fine art, good food and expensive consumer items (cameras, stereo equipment, cars, etc.) who could hardly afford any of these as an adult. As I got to know him better I realized that even with his privileged background Claude was still a typical engineer.....one of those people who could really get into the details. On one hand that could be a good thing, but on the other hand he could occasionally lose sight of the bigger picture. After Claude joined me in Athens in 1975 he invented a "fool proof" filing system. Using his system no document would ever be misplaced. However, the fool proof nature of Claude's system made it so complicated to implement and manage that our secretary, Anne Jaquenod, took one look at it and told Claude where he could put it. That was the end of the fool proof filing system. Nobody messed with Anne.

Getting back to that hot August day in 1973 when Claude and I first met on the steps of the Parthenon, he told me that he hoped to become a full time HP employee so that he could begin to build some pension benefits. At age 37 he had had several jobs with small companies that could barely make the payroll let alone provide a pension. I immediately recognized how valuable Claude's technical and language skills could be to me and what an important role he could play during the King Faisal Specialist Hospital (KFSH) installation in Saudi Arabia, which was scheduled for the coming year. This was a very large medical products order that was already in process. At the end of our visit together I promised Claude that I would do my best to get him on the HPSA payroll, which I eventually managed to do.

AEBERLI'S HPSA SERVICE MANAGEMENT TEAM.....The Product Type Service Managers

While visiting Kurt Aeberli in Geneva I spent time with each of his Product Type Service Managers, each of whom was responsible for a specific product category. I met with Pierre Crochard (Instruments - PT01), Hans Zumstein (Medical - PT03), Renzo Tacchi (Analytical - PT04) and Harm Van Rijn (Computer Systems PT02 / PT05). Rolf Freiden would arrive from South Africa the following year to manage Desktop Calculators (PT06). Also, Ray Woodcock would soon join Kurt to handle Consumer Products (PT12). Having attended the first HP 2000 Timesharing System service training program together in 1968, Ray and I were already very well acquainted.

Most of my time in Geneva was spent with Harm as we placed orders for service kits to support the computer system products that had already been shipped into the Middle East and that we knew would require immediate support from Athens. The remainder of my time was spent with Hans Zumstein regarding planning for the KFSH medical products installation. The KFSH installation was a very big deal.....at that time it was HP's largest ever single order. I also ordered documentation for all of the products that I could expect to find in the Middle East based on HPSA's rather sketchy order history.

Thanks to HP's decision to move to a "verticalized" structure, within 18 months my life would become more difficult as the positions of all of Kurt Aeberli's product type service managers would be absorbed by their respective product groups. Kurt's product type service managers, who had been excellent resources for me, would now become product group service managers. Most of them would soon be replaced by less helpful individuals who were more concerned with cost cutting than with improving the quality of customer service. Kurt, who was very critical of this restructuring and was often at odds with Dick Alberding, the HPSA Managing Director, regarding service policy, would leave the company the following year. Kurt's departure and the loss of my other trusted service contacts would make my job much more difficult. ■