INTRODUCTION

It is exactly one year since I last talked to you as a group. That time has been crowded with events -- large and small, good and bad -- but certainly from Control Data's point of view mostly good. "Point of view" reminds me of a little story. 

Last year and the year before I began my remarks with a review of the three basics we always deal with in running our business. There is no more appropriate way to begin today than to repeat those basics. These three fundamentals of the business are first a strategy and basic to having a strategy is a sound and comprehensive concept of the business you want to be in.

Second, a management system -- or better said, a system of management -- and basic to a sound management system, is understanding the essentials of revenue, of cost and expenses, and their relationship one to another, so that they can be given both visibility and measurement. Third is execution and execution is the matter of people.

I won't try to revisit every aspect of these fundamentals today, but let me just mention a few reminders. First, regarding --

STRATEGY AND CONCEPT -- Probably Control Data's greatest strength has been in its strategy. In fact, it might not be overstating to say that Control Data has survived mostly because of the strength of its basic strategic approach to the marketplace.
As I reflect on those three basics and those “September words” over the past three years, I feel good. Why? Well, for one thing, there is our performance thus far in 1977.

**Computer Group Status**

First, orders. At the end of August, we were 111.4% of our year-to-date orders budget. Services and Peripheral Products have become stronger and the Systems order backlog has picked up dramatically. The projection for year-end for Marketing now stands at $1,022,000,000 with better than budget performance in every segment except Education -- but even here the new PLATO subscription rate shows increasing strength.

One of the noteworthy things about this year’s orders are the number of new accounts we have -- in the first half of the year 18 in Systems, 88 in Peripheral Products and 90 in Data Services. So it would appear that we would have our second, good, new base-building year in a row. The lease-to-purchase mix in our incoming orders is heavily skewed to lease. This is true most significantly in Systems but also is a discernible pattern when comparing End User and Data Systems to budget.

Revenues thru August are 925 million which is 10% ahead of last year and 3% over budget. Our execution with regard to costs and expenses as well as assets has been good, so that after tax profit of 34.5% is almost equal to budget for the whole year. On the other hand,
IT IS WELL TO REMIND OURSELVES THAT $3.5$ MILLION REPRESENTS A RETURN ON SALES OF ONLY less than $4\%$ so if you were about to become euphoric — forget it. We have a long way to go.

Total debt is down $49$ million from year-end (which by the way is almost exactly the same as last year's first eight months' performance), and assets stand at $1,232$ million which is down only $4$ million from year-end. A word or two further with regard to assets. In the last two months, assets have climbed $35$ million dollars from the low point of the year which occurred in June. As our business volume grows we are going to have to redouble our efforts in attacking inventory and receivable assets to root out the problem areas.

Time doesn't permit me to cover every product family in detail but I will give you a few highlights from some of them.

DATA SERVICES -- Again, the previously stated pattern of strengths is repeated. For the first two months of the third quarter, revenues exceeded budget by $5\%$ with CYBERNET leading performance at $13\%$ better than budgeted revenues. Profits have exceeded last year's total year performance. As I have previously discussed, however, the questions of importance deal with fixing old problems and developing new applications and territories. On that note, we have at last received permission to begin timesharing service in Japan from our Cleveland Center. The approval came 12 months later than originally planned -- but anyway it is here. Marketing efforts have started as of September 1, 1977, and the last four months of the year will see a considerable start-up investment in Japan. This will carry over, of course, into 1978.
Another new area for Data Services is Venezuela. For 1977, the start-up costs will be minimal but we expect an operating expense investment of some 700 thousand dollars in 1978. West Europe remains at an operational loss and is probably the biggest challenge for 1978.

Another item of particular note is Mexico. In 1972, the Government passed a law giving total control of remote data processing services to the Ministry of Communications. The initial implementation of this charter was for the Ministry to authorize only Mexican-controlled, but private, companies to operate. Last month, we were told that the new administration was dissatisfied with progress and intended to operate directly network data services in Mexico. We and several other companies — basically the major mainframe manufacturers, GE and CSC — have been invited to discuss with them ways and means of cooperation and support. In fact, Mexican representatives were here in Minneapolis for the last week for these discussions.

Systems — Our Systems business is an area in which revenues are significantly under budget and the majority of this is in computer systems which is nearly 17 million behind plan. This is contrasted by a 3.0 million favorable situation in net profit. This simple contrast just about says it all. Operationally, Systems is tightly controlled. Gross margins continue to improve. The short-fall in revenue is entirely in outright sales. The difference from past experience is that the plan is not dependent on purchase business to pay current bills.
As previously remarked, orders are good -- in fact will exceed budget. Lease business is strong so overall we are happy even in the face of the purchase short-fall. Over the course of the last 4 months all but about 5 million of the revenue short-fall should be made up and as a consequence, the profit outlook for the remainder of the year is favorable to plan.

The results of our strategic plan process and beginning budgeting process for 1978 have reaffirmed the basic soundness of both our product strategy and market area strategy for Systems. The degree to which this is true is illustrated amongst other things by the product enhancements and improvements which are beginning to flow. Only 2 or 3 years ago these would have been undertakings of great magnitude. Today they are almost routine.

OEM, BY ANY MEASURE, IS HAVING ITS BEST YEAR EVER. HERE ARE some of the dimensions of that success:

Orders -- 134 million thru Aug 14 million > Total 1976

   Disk of course strong
   $10 M 4 year contract for fast-train Tely

Revenue -- 167 million almost 20% over budget

Profit -- More than double 7-1-0 budget of 16 million

Most $ of profit of any product family
END USER -- Probably no other product family took on as big a burden as End User in the way of developmental programs. This year not only saw the first significant business for the Mass Storage System but on top of that there is the OMEGA System. Progress is encouraging in both regards.

3 Heavy MSS orders have been received in last two months
IBM & is fighting MSS land - that's good and bad

*omega sales are on schedule 5 accepted and 5 more in contract negotiation - Performance of the system continues

End User in total is ahead of plan year-to-date with the following performance:

Orders -- 18 million ahead of last year 76 total year but full year quota in desk business

Revenue -- 45 million about 80 for the full year

Profit --- 1.3 ahead of budget and profitable year to date
Big hockey sticks in 4th quarter

ENGINEERING SERVICES - As I said, I won't take the time to cover every product family and certainly there is no need for me to recite Engineering Services numbers to this group. But, I can't resist taking a moment on just one aspect of Engineering Services' performance because I'm so proud of your accomplishments in that regard.
I mean, of course, assets. Until last year, for the preceding four years every incremental dollar of Engineering Services' revenue required a dollar of assets. The asset level in Engineering Services at the end of August was lower than at the end of 1974 yet revenues this year will be 40% higher than in 1974. The asset-to-revenue ratio in Engineering Services has improved from .79 in 1974 to .63 this year. Still, there is much to be done and I'll come back to that in a few minutes.

Challenges Ahead

Let me go back to the three fundamentals -- Strategy, Management System and Execution. The more time passes, the more I am struck by the dependence of success on those things and the interdependence among them. One common factor is planning. Let's take that as an example. "Planning" and "Strategy" seem obviously linked. In fact, we tend to use "Plans" and "strategy" almost as synonymous terms.

The process by which we do planning is, of course, part of the total system of management. The content of the plan, the outline, if you will, the measures of the plan -- all of these must be carefully linked to the real operating world, for finally our execution must be measured. We must be held accountable and if we are not accountable to the plan there is no point in having done it in the first place. Also, of course, just the process of planning itself is one element of managerial execution.
The most common failing of our total process is right on this point -- the direct linkage of strategic plans to performance. The hierarchy is as follows: Strategic Plan, Operational Plan and Performance. Unless plans are translated into specific programs and programs into specific action items and individuals held accountable for those action items, there can be no predictable or consistent performance. Throwing numbers around in long-range or short-range plans (budgets) is a waste of time without quantifiable programs.

An analogy would be to say to a man off the street. Here is an oscilloscope -- go make that machine run at 90% up time. Obviously ludicrous.

Yet time after time, we write down 2, 3, 4, 5-year plans which have numeric goals (always growing, of course) with no substance behind them. Nothing happens until some individual does something. For that to happen, the person has to have some inkling, at least, of what is expected to be done. So, just maintaining a system must be defined as a set of procedures, measures and tools for improving performance.

Nor am I just talking financial results. The same applies to quality or customer satisfaction.
Engineering Services has a reputation for performance in Control Data. The road ahead will test your abilities to improve that performance particularly with regard to individual productivity, asset efficiency and quality of service. In no part of the organization will that challenge be greater than in International Field Engineering. I'm confident of your response,