FIRST, I WANT TO EMPHASIZE SOME OF THE OBSERVATIONS CHUCK HAD WITH REGARD TO FINANCIAL PERFORMANCE IN 1980.

THE SINGLE DOMINATING CHARACTERISTIC IS EXPENSES. I'LL SAY IT AS SIMPLY AS POSSIBLE: WE ARE SPENDING TOO MUCH! EXPENSES HAVE INCREASED THIS YEAR FASTER THAN ANY TIME IN THE PAST SIX YEARS. AT THE MOMENT, IT IS ONLY MILDLY DISCOMFORTING BECAUSE REVENUES ARE UP MORE THAN 30 PERCENT -- BUT A LITTLE DIP IN THAT REVENUE AND WE'RE HUNG OUT TO DRY. WE SIMPLY ARE NOT FOLLOWING A PRUDENT COURSE.

WHAT'S WORSE IS THE PROJECTION FOR THE YEAR. WE ARE ACTUALLY PROJECTING TO EXCEED BUDGETED EXPENSES -- IN THE FACE OF WHAT WE KNOW ABOUT THE YEAR AND THE FACT THAT CONTROL DATA OPERATES FINANCIALLY ON THE RAGGED EDGE ANYWAY -- THAT IS SIMPLY IRRESPONSIBLE. AND THE FOCUS OF RESPONSIBILITY -- OR LACK OF IT -- ARE THOSE OF YOU HERE IN THIS ROOM. IT IS YOU WHO MUST SET THE EXPENSE TARGETS AND HOLD THE ORGANIZATION TO THEM -- AT ANY LOWER LEVEL THERE SIMPLY ISN'T THIS VISIBILITY TO DO MUCH EXCEPT OPERATE TO THE BUDGET. I'LL COME BACK TO THIS IN A FEW MINUTES.
COMMERCIAL CREDIT
- NPAT IS 53.7 -- BELOW BUDGET OF 54.6 PERCENT (?)
- TIGHTER MONEY -- HIGHER INTEREST -- MORE AND MORE
  BUSINESS BECOMES UNPROFITABLE.
- PRESIDENT'S FORUM

STAYWELL
- KUDOS
- PARTICIPATION

MINORITY ATTRITION
THERE ARE MANY MATTERS THAT WE HAVE TO DEAL WITH THAT JUST
PLAIN REQUIRE CONSTANT ATTENTION. MAKE UP OUR MINDS TO IT.
- COMMUNICATIONS IS ONE
- TRAVEL IS ANOTHER
- SALARY ADMINISTRATION
- MINORITY ATTRITION
MINORITY ATTRITION REACHED 4.3 PERCENT IN FEBRUARY. ONLY
I&ES/MARKETING ARE SIGNIFICANTLY BELOW THAT -- AT 2.8/2.6
PERCENT. DATA SERVICES IS 4.1 PERCENT. EVERYBODY ELSE IS
WAY UP.

IT IS A MATTER OF ATTENTION!
QUARTERLY FINANCIAL MEETINGS - 03/26/80
R. M. Price
Page - 3 -

o STRATEGIC PLAN

o WELL, WE ARE COMING UP ON PLAN TIME AND PRODUCTIVITY IMPROVEMENT HAS GOT TO BE A KEY ELEMENT OF OUR PLAN. REMIND EVERYBODY AGAIN -- STRATEGY STARTS TODAY -- NOT NEXT YEAR.

o (1) IT BEGINS WITH EXPLICIT PROJECTS, INTENSIVE PROJECTS, STOP-GAP MEASURES, ETC., ETC. WE ARE NOT BUILDING FROM SCRATCH -- WE ARE REMODELING. THOSE ARE DIFFERENT ACTIVITIES.

o ANALOGY

o (2) IN PARALLEL -- MUST BE LONG-TERM PROGRAMS.

o TO HYPOTHESIZE, FOR EXAMPLE A 1 PERCENT IMPROVEMENT IN EXPENSE TO REVENUE NEXT YEAR -- WHILE FORECASTING BUDGET FOR THIS YEAR IS JUST WISHFUL THINKING.

o TO SLAP TEMPORARY EXPENSE CONTROLS ON AND EXTRAPOLATE THE RESULTING IMPROVEMENT INTO A FIVE-YEAR PLAN IS EQUALLY NAIVE.

o TWO AREAS OF TECHNOLOGY -- TALK ABOUT:
  - MICRO-ELECTRONICS
  - OPTICAL RECORDING
  - TECHNOLOGY IS THE UNDERPINNING OF ALL WE DO -- TIME CYCLES VARY (PPCO THIN FILM HEADS EXAMPLE.)
PLANNING MECHANICS

(1) PLANNING PROCESS IS GETTING INTO FULL GEAR WITH GEOGRAPHIES HAVING THEIR ASSESSMENTS WELL UNDERWAY. THE NEXT MAJOR ACTIVITIES FOR YOU ARE:
(a) April 8-9 RECEIVE STRATEGIES AND OBJECTIVES.
(b) April 23-28 RECEIVE BUSINESS ASSESSMENTS.
(c) May 16 COMPLETE STRATEGIC ANALYSES, PROTFOLIO ANALYSIS AND STRATEGY UPDATES BY BUSINESS UNIT.

THE PLANNING MANUAL WILL BE SENT TO YOU BY APRIL 18, 1980.

(2) THE BASIC OBJECTIVES IN THE 1980 STRATEGIC PLAN ARE UNCHANGED FROM THE 1979 PLAN.

(3) EACH OPERATING UNIT SHOULD DEVELOP A LONG-TERM INVESTMENT STRATEGY. THE STRATEGY SHOULD NOT BE CONSTRAINED BY A LACK OF INVESTMENT FUNDS. CDC WILL GENERATE SUBSTANTIAL FUNDS AVAILABLE OVER THE PLAN HORIZON. REINVESTING THESE FUNDS WISELY IS THE MAJOR STRATEGIC ISSUE. TO QUALITY AS A CANDIDATE FOR THESE FUNDS A STRATEGY SHOULD:
(a) DESCRIBE THE LONG-TERM STRATEGIC POSITION.
(b) SCOPE HOW TO GET THERE INCLUDING THE RESOURCES REQUIRED.
(c) IDENTIFY THE RISKS AND REWARDS.
(d) DESCRIBE THE DECISIONS REQUIRED OF MANAGEMENT.
o (4) The current marketing strategy of finding niches in the marketplace appears to be a solid base for planning in the 1980's. New ways of marketing have to be developed as CDC moves its market focus towards dealing directly with the consumer. The target industry list should be reviewed and new target industries considered. A program of building consumer images should be considered in the context of the strategic plan.

o (5) Pricing must be reconsidered in light of increasing material costs and an apparent decline in the rate of cost reductions in producing chips. We no longer can assume a continuing decline in the price of electronic components. Greater emphasis has to be placed on our products having more "value added". This means products must be tailored to high-value applications in which customer needs are met through the use of CDC's software capabilities. Plans for affecting this must be included in the 1980 strategic plan. (More attention than in the past.)

o (6) The overall economic slowdown projected to occur in the 1980's will affect our various businesses differently. This means our basic long-term directions have to be re-thought with the impact of the economy factored into
OUR BUSINESS PROJECTIONS. EACH BUSINESS UNIT'S PLAN LEADERS SHOULD INVESTIGATE THE IMPACT OF THE ECONOMY ON THEIR BUSINESS AND INCLUDE AN ASSESSMENT OF VARIOUS ECONOMIC SCENARIOS ON THE BUSINESS.

(7) SPECIFIC DETAILED STRATEGIC PLANS AND ANALYSES WILL BE REQUIRED OF INVESTMENT AND LOSS BUSINESSES. THIS ANALYSIS WILL INCLUDE A PORTFOLIO EVALUATION AND THE DEVELOPING OF STRATEGIC PROGRAMS TO MEET THE BUSINESS UNIT'S OBJECTIVES.

AS I LOOK AT THE RESULTS COMING IN OVER RECENT MONTHS -- THE LAST EIGHT OR TEN MONTHS -- I PERCEIVE MOSTLY THAT THERE IS A LOT OF COASTING GOING ON. I REALIZE NONE OF YOU PROBABLY FEEL YOUR ORGANIZATIONS ARE COASTING -- BUT I'M OFFERING YOU THAT OBSERVATION FROM A SOMEWHAT MORE REMOVED PERSPECTIVE.

- COST OUTPUT PER EMPLOYEE -- 7 PERCENT
- REVENUE PER EMPLOYEE -- INCREASED 7 PERCENT LESS THE INFLATION -- THIS YEAR FLAT.
- EMPLOYEE GROWTH -- 165 PERCENT GROWTH.
- AND, OF COURSE, THE SINGLE MOST TELLING INDICATOR -- THE DEBT CHART CHUCK SHOWED.
HEADCOUNT CONTROL -- NOBODY LIKES PROGRAMS CENTRALLY
CONTROLLED. I HAVE AS YET FOUND NO ALTERNATIVE. PRETTY
MUCH IN 1978, AND LAST YEAR TOTALLY, WE LEFT HEADCOUNT TO
THE OPERATING GROUPS -- THE RESULT: PRODUCTIVITY DECLINE --
THE GROWTH RATE IN PEOPLE JUMPED BY MORE THAN 50 PERCENT --
AS I SAY 16.5 PERCENT LAST YEAR -- ABOUT THE SAME AS THE
YEAR BEFORE -- IN THE PRECEEDING TWO YEARS IT WAS LESS THAN
10 PERCENT. THE BUDGETS ARE SO UNREALISTIC AND SO
INCREDIBLE WE DON'T EVEN USE THEM -- AND EVEN IF THEY WERE
RELIABLE, THEY ARE PRECEIVED MOSTLY AS SOMETHING FROM WHICH
TO DEVIAE. LAST YEAR, WE HIRED MORE THAN 500 PEOPLE IN
EXCESS OF BUDGET. THIS YEAR, WE ARE 1,000 (2,300).

BY MID-YEAR, IF THE RATE OF PRODUCTIVITY DOES NOT IMPROVE,
THEN WE WILL HAVE TO REVERT TO MORE REGOROUS CENTRAL
CONTROL OF REQUISITIONS AND HIRING.

A GOOD BIT OF ALL THIS COMES DOWN TO PRODUCTIVITY
PROGRAMS. WE SIMPLY ARE NOT BEING AGGRESSIVE ENOUGH -- OR
ALTERNATIVELY WE ARE BEING TOO THEORETICAL IN OUR APPROACH.

THE SYMBOL OF NON-PRODUCTIVITY OUGHT TO BE THE
OSCILLOSCOPE. IN AN AGE OF LSI, VLSI, SELF-CHECKING
CIRCUITS, THE DEMAND FOR REMOTE AND ON-LINE MAINTENANCE,
ETC., ETC. WE SPENT ABOUT ONE MILLION DOLLARS FOR
OSCILLOSOPES LAST YEAR -- AND PLAN TO SPEND ABOUT THE SAME THIS YEAR. INDEED, IN MY WORST MOMENTS, THE SYMBOL BECOMES EVEN MORE VIVID -- AS A GRADUATE ENGINEER -- DIPLOMA IN ONE HAND -- PUSHING AN OSCILLOSCOPE CART WITH THE OTHER SUPERIMPOSED ON A FIELD OF RED.

TRAVEL -- I FIND THE ORGANIZATION IS HEAVING A GREAT SIGH OF RELIEF THAT WE FINALLY PUT THE CLAMPS ON. PEOPLE DON'T EVEN WANT TO SPEND ALL THE MONEY ON TRAVEL THEY ARE SPENDING -- THEY JUST DON'T KNOW HOW TO STOP WITHOUT YOUR HELP.

WE ARE GOING TO SET A TARGET FOR THE COMPUTER COMPANY TO COME IN $50 MILLION (AT MIXED RATES) UNDER EXPENSE BUDGET. THAT SOUNDS LIKE A LOT DOESN'T IT? BUT IT IS LESS THAN 2 PERCENT OF PLANNED REVENUE. ASK YOUR PEOPLE -- ASK YOURSELVES -- DO WE KNOW THAT REVENUE WILL BE WITHIN TWO PERCENT OF BUDGET?

$50 MILLION IS ALSO JUST A LITTLE OVER 5 PERCENT OF BUDGETED EXPENSES. THE 10 PERCENT REDUCTION IN TRAVEL EXPENSES ALONE WILL YIELD OVER FIVE MILLION DOLLARS OF THAT SAVINGS.