I think most of you are aware of the things we have been doing in this area, but as background, first let me go back and give an overview as to what has been done thus far.

I. Background

(Chart 1)

For a long time, small business has been an important market area for CCC and the DPS Division of SBC. More recently, with the advent of PLATO CBE, education for small business was seen as a major opportunity. As far as CCC is concerned, CBE is particularly well suited to offer a unique value-added distinction for both consumer and small business financial
services. And, of course, CBE is a significant non-cash service in its own right. And so this is right at the heart of the CCC strategy problem.

The Learning Centers which were first opened in 1976-1978 were to develop market presence for Control Data. This market presence is important to all CBE market areas: large industry, government, and individuals, but it is particularly important for the small business market.

SBC also started very early to add PLATO to its DPS offices -- not as Learning Centers per se -- but as a selling aid both in training employees and customers and as a direct sales support device.

In late 1978 and early 1979, the Learning Center network was expanded with new locations and Learning Centers were incorporated into the CDI's. PLATO vocational courseware became the basis for expanding CDI's curriculum. At the same time, an aggressive consumer mass marketing program was begun to sell the basic skills learning system CBE product. This required licensing of all locations with each state's education authorities so that they could function as retail outlets serving consumers. This gave us experience in managing a distributed network of retail outlets. We built and trained a field organization to manage our growing number of retail outlets.
During 1979, and continuing today, emphasis on additional CBE courses directed at small business started.

II. Market Needs and Experience to Date

As far as the original intent is concerned, the Learning Centers have been very successful in support of our broad CBE effort in subscription and systems sales. In the consumer area, the BSLS has proved to be intrinsically unique as a consumer-oriented mass marketing product. But much more will ultimately be needed if we are to have a truly viable consumer product line. Small business marketing has been far less successful. For one thing, many small businessmen do not readily perceive their need for education/training and, even if they do, in a marketplace where multiple, traditional forms of education and training are generally conveniently obtained and are lower price, small business people are not easily convinced that they should come to our place of business and spend hours in front of a PLATO terminal. If you can get them to try it, that's a different story. It's the basic attraction that must be overcome first.

A few words about competition. There is a lot -- of sorts -- but the large existing retailers, office supply houses, office equipment sellers and suppliers of minis and micros (DEC,
Apple, etc.) do not yet have education/training, software, or maintenance capability as a total product offering. They may have some software or services to offer with their hardware, but lack an integrated approach overall to match products and services to a complete understanding of customer needs. No single company has the product/services capability that can match CDC.

As you can no doubt tell, I am both enthusiastic and optimistic about the potential this offers for both our computer and financial businesses. But, I also want to emphasize that we are talking about a long-term program that has many hidden problems and pitfalls. Although, as I say, we have some unique strengths, we also have considerable ignorance — so there will be troubles certainly. So I am not about to describe for you some short-term strategic "hype". What I'm going to discuss will be a long-term program.

III. The Basic Strategy

(Chart 2)

The strategy is to create a total set of products and services that meet small business needs. We can capitalize on the attraction of the micro computer market and the momentum of the
SBA loan program to sell by mass merchandising through retail outlets which will be built up from the existing network of Learning Centers, SBC offices and CCC offices. Further, the addition of education/training as a constant theme in all applications and services directed at solution selling will create CDC's competitive advantage.

IV. Why Now?

The most important thing, however, is the need to move now, to move hard, and to move fast. The reasons for this are compelling. First and foremost is the urgency for CCC to establish a strategic direction based on non-cash services. As Mr. Norris has commented "time is running out". The negative implications of a hesitant or half-hearted effort may be less profound for the computer business than CCC but the advantages to be gained from an aggressive move now are no less important. For one thing, the market for micro-computers for small business is forming rapidly. By the mid-80's, it will be a multi-billion dollar market and basic market shares will be established.
V. A Strategy to Penetrate the Small Business Market

That is the overall approach. Now let me go back and give you a few more details -- particularly as they affect the organizations involved. First of all, though, let's look briefly at the total product st:

(Chart 3)

- SBA guaranteed loan program
- Standard CCC financial and insurance services
- PLATO computer-based education (Learning Centers)
- Micro-computer hardware (we buy and re-sell)
- Control Data peripherals
- Applications - software
- Applications - lessonware
- Maintenance services
- Marketing and management consulting services
- Technical consulting services
- Control Data magnetic media products

Not all outlets will be staffed to offer the entire product line immediately. Many of the services and products can be handled initially on a referral basis. This will allow us to build-up from the existing network of Learning Centers, CCC and SBC offices more rapidly.
During 1979, CCC developed the concept of the BRC to accelerate their strategic move into the non-cash services area. Based on the SBA guaranteed loan program as a "magnet" program, it is believed sufficient small business leads can be developed to sell substantial quantities of non-cash services, including education/training via PLATO CBE. The plan is in effect with seven locations operational in Baltimore, Atlanta, Denver, Chicago, Los Angeles, Minneapolis, and Cleveland. Five more locations will be added before the end of 1980.

The proposal now is to expand this approach and have two types of BRC's -- both using retail selling methods -- to reach the small business marketplace.

- Full service BRC's (like those now open) will offer a full line of CDC/SBC/CCC services.

- Mini-BRC's, serving as satellite delivery points of full BRC's, will minimally offer financial services and selected non-cash services. Needs for other services will be satisfied through referrals. Twenty-nine of these locations will exist by December 1980.
The selling efforts of the BRC's will support, but not be redundant to, the selling efforts of computer business outlets which I will describe in a moment.

- In those geographic areas where BRC and computer business retail stores both exist, the BRC will display computer business micro-computer capabilities and refer prospects to the appropriate operating units.

- Conversely, in those geographic areas where computer business does not have a presence, the BRC will sell micro-computers and related software.

Existing facilities will be used to the maximum extent possible for the location of mini BRC's with initial emphasis being placed on consumer group offices which are proposed to be closed.

(Chart 4)

The accelerated plan also shows that CCC will open twelve more full-service BRC's during 1981.
In the computer business, the approach is to build on the Learning Center network and the SBC DPS offices. The first part of the program is to enlarge the Learning Centers both as to number and product offerings. At the present time, 71 Learning Centers (not counting those at CDI's) are in operation with five more planned. The plan now would be to open nine more rather than five and to make eight of the locations full product line centers.

Customer awareness for CDC as a retail supplier would be built via a marketing plan which emphasizes on-site selling brought about by awareness and lead generation advertising, tele-marketing, and direct mail techniques. (By the way, these techniques have proven very successful for BSLS. Lead generation in 1980 has created over 20,000 leads, nearly 5,000 new customers, and has resulted in $1.6 million in CBE sales through Leaning Centers through July 3.)

We will sell education/training via PLATO on-site, and through software on micro-computers sold or leased to the customer. Advertising of CDC as the supplier marrying business solutions with education/training will be pursued. Over time, an enormous market for CDC software/lessonware products will develop leading to both retail and mail-order opportunities for sale of packages which we design, produce, and distribute.
Also, the Learning Center identity as a consumer service outlet will be maintained through advertising, so we can continue to exploit both BSLS and the new product, GED, which will be marketed in Learning Centers as "high school skills". These will be multi-million dollar courseware products by 1982.

The third major part of the program is with SBC. SBC's traditionally strong position in the small business DP services marketplace gives them a special opportunity to broaden their approach. Although they have used a dedicated sales force in the past, they have also employed seminar selling techniques which have a distinct retail flavor. Incorporation of micro-computers and micro-software/lessonware in their locations provides a new vehicle to both create new customer interest in SBC and to solve customer problems. Further, and most important, offering these new products will allow SBC to penetrate the next layer of smaller firms, which to date have been unreachable.

SBC will open five stores in 1980, most probably in conjunction with existing SBC offices. By December of 1981, they propose to add ten additional locations. Both SBC outlets and the regular retail network outlets will provide referrals to CCC's services.
"Other" refers to some locations that will be drawn from our other marketing and field locations -- they will function in the same manner as the SBC offices I have just described.

One final aspect of the plan has to do with software products for small business computers. We have been developing for the last year and a half an organization which specializes in developing software for micro-computers. MCS, as it is called, delivered their first products to Atari in May. We are in a position now to accelerate the production of qualify software for micro-computers.

VI. Financial Impact

(Chart 5)

This last chart, then, summarizes the proposed plan....the 134 outlets for this year, the 253 for next year with an objective of having 950 locations by the end of 1985.

The revenue generated is, of course, modest this year and next year. But we are looking overall to have in place a $1.1 billion business by 1985 with a ten percent after-tax return on revenues. The profitability of any given year between now and 1985 is highly dependent on people -- hiring and training them.
Not on the chart is the net cash effect of the plan -- that amounts to $21 million (negative) this year and $49 million (negative) next.

The $1.1 billion in revenue, of course, consists of both income from financial services and non-financial services. CCC would participate in both -- in fact, revenues from non-financial services would approximately equal financial services revenues -- so in terms of strategic diversification, this is a tremendous opportunity. Also, I should remark that although $1.1 billion is a big number, if you recall that it includes income from not only financial services but non-financial ones such as insurance, SBA fees, and consulting, then the revenues from micro-computer hardware, software, education and supplies, in effect, are less than a four percent penetration of the projected micro-computer market for small business in 1985.

I am not saying that it is easy or that the numbers will just happen -- all we know is the potential is there and we have an opportunity, an approach, and quite a few strengths. The rest we have to learn -- and to make happen.
What I have outlined can be accomplished and still meet 1980's budget. However, it will mean that the incentive plan targets which were set significantly higher than budget will have to be revised; so will the five-year EPARP targets. If you concur that we should proceed, that can be taken up with the compensation committee in September.

Questions?