Good morning. It's a pleasure to be back in Baltimore to talk with you again -- and to report that Control Data's business is moving along well despite a troubled world environment. Much of that progress is the result of strategies implemented years ago to take advantage of new opportunities created by changes in the financial and technological environment. As the slide presentation you have just seen reminds us, change is everywhere - and not just in high technology businesses like computers. And nowhere is change more rapid than it is in financial services. My subject today is change -- and what it means to Control Data and Commercial Credit's future. Change means carefully monitoring the environment -- constantly evaluating strategy implementation and making new investments to assure the achievement of long-term objectives.

Fortunately, Control Data's basic business strategy laid down many years ago anticipated many of today's changes. So, let me begin by reviewing the objectives for the next five years. After that I'll cover the components of the basic strategy and how they interact with and are supported by current trends and changes in the computer and financial industries. As a preface to looking at the objectives for the future, it's interesting to go back to 1976 and to compare our forecasts then and now.
We predicted in 1976 that by the end of 1981 combined computer and financial revenues would be around $3 billion. In point of fact, that goal was reached in four years instead of five. And, by the end of 1981, combined revenues had reached $4.2 billion – divided as follows among the four principal business components:

- Computer Services 28 Percent
- Financial Services 25 Percent
- Peripheral Products 33 Percent
- Computer Systems 15 Percent

The major change in that profile from the one projected six years ago is in Peripherals, which has experienced very rapid growth since 1978 due to the growth of the micro- and mini-computer markets where our magnetic disk memory devices are extensively used.

Looking ahead – to 1986 – total revenues should be double what they are today -- or more than $8 billion -- and should be divided something like this:

- Computer Services 30 percent...
- Financial Services about 25 percent...
- Peripheral Products about 30 percent...
- and Computer Systems would make up the balance -- 15 percent
But whether the Company achieves more or less revenue, the overriding objective is to continue growth in profitability. During the next five years, Control Data will be more a profitable company than it is today. How? By sharpening operational effectiveness and by continuing to emphasize the profit improvements inherent in several maturing business segments.

There are five strategies for achieving these growth and profitability objectives. The first strategy is the emphasis on computer services. In that regard, it is also useful to go back to 1976 and a speech Bill Norris, Chairman of our Company, gave at that time. He said then that the Computer Services strategy "is based on the trend to put data processing out into the user's hands -- out where the work is being done and where the problems need to be solved. This trend has been making the hardware building blocks less and less important...while the applications of computer technology to solve the users' problems are becoming more and more important. This is where the new markets are coming from...this is what the computer services thrust is all about."

And this is a good opportunity to point out that the long-term commitment is key to understanding Control Data -- we have taken and we will continue to take a long-term view of business opportunities.
So, while the computer services strategy was not all that appreciated six years ago when Mr. Norris gave that speech, and the Company could easily have bolstered short-term profits by curtailing services expenditures in difficult periods such as 1974-75, we did not take that easy path. Now the services sector has proven to be a stable and fast growing part of the computer industry. And, today, Control Data is in a leadership position, having grown from 600 million dollars in computer services revenues five years ago to over 1.2 billion dollars last year.

A recent Business Week article about the information processing industry carried the following headline: "moving away from mainframes - the large computer makers' strategy for survival". Business Week reported that many mainframe manufacturers were lulled into complacency -- they believed their customers were locked into their hardware by a high investment in software. It went on to point out that among traditional mainframe manufacturers, other than IBM, only Control Data initiated a timely strategy of diversification into every facet of the information processing industry.

Growth in computer services will continue. We expect revenues to more than double during the next five years. We will develop new services, increase the cost-effectiveness of our
data services network, expand the use of micro- and mini-computers, and increase the number of business centers delivering services to small business.

Building the education market, the second strategy, is also an important part of the overall services thrust. We are pursuing three quite different areas: training for business and industry; academic education; and vocational skills training, and progress is good in all of them.

Development of PLATO computer-based education began some nineteen years ago. In the beginning it was a research cooperation between Control Data, the National Science Foundation, and the University of Illinois. However, most of the costs of commercialization which started some seven years ago have been borne by Control Data. All this has involved large expenditures and dictated investment in a variety of technologies, the most important of which have been in courseware and improved learning methodology. Today Control Data has a very large catalog of courseware products covering education and training in all three target markets -- and delivery mechanisms range from micro-computers to large, time-shared central mainframes. By 1983, PLATO computer-based education will come into its own as a major product line.
The third strategy: Last year, Peripheral Products passed the billion dollar level in revenues for the first time. We expect that growth to continue -- Peripheral Products should almost double in revenues during the next five years.

Technology is the key to Peripheral's leadership -- but covering all the technical bases is expensive. The answer has been a strategy of technological cooperation, something we started doing more than a decade ago. We intend to pursue that strategy as vigorously as ever. Increased research and development are essential to Peripheral's future success, and cooperation makes that possible on a much broader scale than any one company could individually afford. For example, we recently announced an extensive cooperative program with Philips N.V. in optical recording systems and media. As a result of programs such as this, we can expect continued rapid growth in the peripherals part of the business.

The fourth strategy focuses on the area of Control Data's origin 25 years ago -- computer mainframes. We've concentrated on large-scale scientific computers and that will continue. The industry growth rate for large general purpose computers has dropped in recent years and is expected to be about 6%
annually through 1985. However, the market for large scientific processors has remained relatively strong, so we've enjoyed an above-average growth rate. That trend will also continue.

Eighteen months ago we announced the Cyber 205 super computer and recently installed the first two systems. The outlook for Cyber 200's during the next five years continues to be very promising and we continue to make the necessary investments. Japanese competition in large mainframes will become very real during the next five years -- by 1990, unless U.S. companies adopt a different course, the Japanese will be dominating. I'll come back to that point in a few minutes.

The fifth strategy is to develop the vast potential of the small business market. Thirteen million small businesses form the backbone of today's U.S. economy. They employ more than half the labor force...they provide the livelihood for a hundred million Americans...they create most of the new jobs -- and they are in deep trouble. Interest rates, inflation and associated ills are placing small businesses in more jeopardy than ever before -- and it wasn't ever easy.
Four out of five small businesses fail, but the survivors frequently grow to be the most successful large firms, providing thousands of jobs as well as useful new products and services. The dynamic environment of success and failure is an opportunity for us...an opportunity to improve the odds of success for small business by offering a wide array of services, including financial services, management and marketing assistance, data processing, and education-related knowledge services.

Small business has been the largest market for Commercial Credit since its founding 70 years ago: expanding its range of services to include information services and management assistance is a natural and powerful strategy...and the Business Centers we've been opening for the past two years are a new and effective means of distributing that expanded range of services. Combining Commercial Credit's customers with the well-established small business accounts of the Service Bureau Company adds up to a large, national customer base that knows us -- and knows we can provide them with additional products and services.

These, then are the major strategies which will guide us during the next five years. And again, these are an extension of the way we've been approaching the business for many years.
Now let me turn to the general economic environment in which we will be pursuing these strategies. To put it bluntly -- it looks tough. The only realistic outlook for the 1980's continues to be one of economic doldrums. Specific factors change from year to year. There will be victories declared when inflation drops out of double digits for a while -- when the real GNP growth rate is positive rather than negative -- and so on and so on. Every two years or so things will be "better". Never mind that they all fall back in the interval. In short, we expect no great boost from the business cycle.

But beyond the broad economic picture, it is worth looking at some specific trends that affect Control Data. The first is the continuing growth of the services sector. Not long ago, Business Week noted that "the services sector will shine during the 1980's." The trend towards services -- and a particular need for knowledge-enhancing services -- has been the foundation of our major business strategy since before the trend surfaced generally.

The second trend of importance to us is the general economic restructuring currently taking place -- the mismatch of available jobs and available skills -- and the resulting need for education and re-education. The degree of employment dislocation in the economy can be appreciated when you contrast
16% unemployment in Detroit with 2,500 some firms in Houston pay employees to stay on the job at least six months. High rates of unemployment among minorities, especially in the 18-24 age group, is something of which we are all well aware. Looked at more generally, it has been estimated that bringing all the 20 to 29-year-old people in the United States up to high school equivalency by traditional educational methods, would cost $96 billion.

If I am belaboring the point a bit, it's because the connection between widespread social and economic dislocation in the labor force and the opportunity for PLATO computer-based education is so obvious that it's hard to do otherwise. Control Data is uniquely positioned to capitalize on these opportunities.

Another trend -- or group of trends -- has to do with technology. To begin with, the pace of technological change in the computer industry continues unabated. Advances in microelectronics have had an interesting result: the very largest and very smallest applications -- super computers and micro-computers -- are enjoying the most rapid growth. Both play important roles at Control Data, super computers always have, and micro-computers are key delivery vehicles for education and data processing services. With regard to micro-computers, by the way, we concentrate on software and courseware -- for the micro-hardware, we depend primarily on OEM or distributor arrangements.
But the pace of technological change is not just rapid -- it is also taking place across a broad spectrum of technologies built up during the past 40 years. Add to that the increasing capital intensity of semi-conductor technology and you have an urgent need for greater technological cooperation. In particular, this is true in the face of the technological threat posed by the Japanese.

A quote from a recent article should suffice to dramatize that threat: "So great is the Japanese lead in electronics that its challenge will...preclude industry that might have been. Protectionist lobbies will disappear -- there will be no industries to protect." Hopefully, all of the alarm will bring about the cooperation we need in the U.S. semi-conductor and computer industries.

Control Data has taken the initiative in this regard and proposed formation of a research company called Microelectronic and Computer Technology Enterprises, MCE. You may have seen some of the recent press coverage regarding MCE. It would engage in basic and applied research for its parent owners - it would not involve manufacturing end products or engage in
marketing. But by eliminating needless duplication of R & D efforts, it would free valuable resources in each company to apply toward value-added innovations and enhance overall competitiveness of our industry. The response to MCE has been encouraging.

The fourth and final trend has to do with government regulation and deregulation -- more deregulation in the financial and communication industries domestically, and more regulation in transborder data flows internationally. Transborder data flow regulation is simply economic nationalism in privacy clothing. Coupled with the communication monopolies of foreign governments, restrictions on data flow hinder the development of needed knowledge services in those countries.

Deregulation in the U.S. will provide greater opportunities for both financial and data services. It also provides threats. The legislation to de-regulate the communications industry proposed in Congress last year is being re-vamped in light of the AT & T settlement. Hopefully the final outcome will be soundly conceived legislation that brings the benefits of de-regulation along with adequate competitive safeguards vis-a-vis AT & T. I should add, however, there are no assurances in that regard.
But beyond that problem there is a tremendous opportunity in the United States today -- as government lowers its profile -- for business to provide the leadership in developing products and services to meet major societal needs. The most important component in addressing unmet needs is knowledge services. We have been engaged in that business for quite a while now -- the opportunities for us are greater than ever...and will be for a long time to come.

And so, in spite of a truly tough economic situation, we face the future with confidence -- confidence based on the strengths of our financial and computer services, and the opportunities we have to apply them.

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