I. INTRODUCTION

Hello everyone. As you can see, Direction '83 is taking a new direction. Rather than holding one meeting in Minneapolis for a few hundred people, we're using this medium of television. We'll be able to reach more managers and do it more efficiently. It's another small but important example of an improvement in our process, and I'll be talking more about that later on.

The theme for this year's Direction Meeting -- "Shaping Tomorrow Together" -- is a continuation of the basic theme that we established last year. That theme is this: Control Data's principal challenge is that of developing the full potential of its strategic position -- a position 25 years in the making. In each major business of the company, Information Services, Financial Services, Peripheral Products and Computer Systems, we are well positioned relative to market potential and our own
capabilities. In each major segment we have new product or service opportunities which result from that position. In each major segment we likewise have operating inefficiencies and products or services not performing up to expectation.

It will take all the creativity and innovation we possess -- as a management team -- to make reality of the potential before us. In short, the elements of success are there and it is up to us to shape it.

Before outlining that task for you, let me summarize our major objectives as we move ahead into 1983. In qualitative terms, the objective is to regain the momentum we lost in 1982 toward our goal of superior financial performance. In quantitative terms, the objective remains the same as before: a 10% or greater pre-tax ROR for Information Services and Products and a 16% for the company in total. In spite of progress in many regards, 1982 is the first time in seven years we will not have improved ROIC for the computer business -- and total company ROE will likewise be down from 1981. On the other hand, in the face of market softness in OEM peripherals and certain segments of data services, and in view of the increase in casualty insurance claims in CCC, the actual results for 1982 will represent a considerable achievement. We have maintained a good solid platform from which to renew our move toward superior performance.
II. STRATEGIC PRIORITIES FOR SUCCESS

As we've examined the business this year -- both through analysis of this year's budget shortfall and through the longer range look of the strategic planning process -- many problems and issues have surfaced. These have been boiled down to seven statements which I have called "strategic priorities for success." The first six of these have to do with businesses, products, or services on which future financial performance is particularly dependent. The seventh has to do with the ever-growing need for technical expenditures.

My comments today will only highlight these seven strategic priorities. The presentations that follow will provide more detail as well as other important strategies and issues that pertain to each major business unit.

(1) Commercial Credit's Thrift and Banking Strategy

Our financial services business is going through a period of change fully as extensive and as rapid as that of computer technology. Many of you have heard the phrase "non-cash services" used with regard to financial services strategy. Just as we seek value-added characteristics to give uniqueness to computer products and services, these non-cash services
bring a value-added dimension to basic financial services. But beyond that, just as rapid change is occurring in the fundamental source of computer technology -- i.e. micro-electronics -- so also is rapid and fundamental change taking place in the sourcing -- that's the funding mechanisms of financial institutions.

Commercial Credit moves into 1983 with a crucial effort underway to adapt to this change -- namely less reliance on its traditional sources of public debt and more on the thrift and banking opportunities offered by deregulation legislation enacted in 1980. The extent of this change is easily illustrated by a few simple statistics. Total liabilities at Commercial Credit is currently $4 billion and is planned to increase to over $13 billion by 1987. During this time, thrift deposits will increase from $1 billion to $10 billion, while traditional debt remains essentially constant.

(2) Data Services and Micro-computer Opportunities for Greater Growth

Many times in the past I have emphasized the point that in a strategic construct data services must be viewed in terms of application strategies. This may seem obvious enough, but in fact most people have historically viewed data services in
terms of the computers, communication lines, and terminals which are the means of delivering applications. Ironically, one consequence of this misplaced emphasis on the delivery vehicle is that we have lagged in incorporating crucial new delivery vehicles -- mini and micro-computers -- into data services applications. As a result, some of our data services businesses are not growing as rapidly as they should. Others, however, are still enjoying good growth so that overall, data services revenues will grow 13% in 1982. That's not bad -- but it's not good enough either. And -- it's below the projected industry average of 21%. We can't make up all the lost ground in a year or two, but moving more aggressively in the right direction is a top priority for us as we move into 1983.

(3) International Services

In the course of the past 18 months, we have made great progress in incorporating services as part of the strategic thinking in International Operations. But we have yet to turn that thinking into results. We are now at the "moment of truth." In the next couple years it's vital for International to achieve significant results in services. As noted a moment ago, mini and micro-computers are critical delivery vehicles for services. In International Operations this is even more important, for in addition to the factors which apply in the U.S., they also give us a vehicle for cooperation with local manufacturers, and a more meaningful local presence.
The long '81-'82 recession has marked the end of an era in the peripheral products industry. The mini-computer industry has matured to the point where for the first time it has been seriously impacted by overall economic conditions. At the same time, the micro-computer industry spawned in the late 70's is surging ahead. What these events have done is emphasize a trend already developing in disk memory technology -- namely the need for smaller -- in terms of physical size -- and greater capacity rigid disks. 1982 and 1983 are catch-up years in that regard for our peripherals business. The products introduced at the 1982 National Computer Conference will come into full production in 1983. Next year will also see the introduction of new 3" and 5" disk products. At the same time, the peripherals business faces unprecedented challenges to improve quality and reduce manufacturing costs. Increased demand for technical spending, faster response time to the market, reduced costs and improved quality -- to say the very least -- that's a very full agenda. But 1982 has helped clear the decks -- to set the stage -- for a new thrust in peripherals that is enormously important to our future. The challenge of 1983 is to get on with that thrust.
(5) Small Business Services

At Direction '82 and in other messages during the past year, I have emphasized the tremendous importance of the small business strategy to Control Data. So I won't dwell on that today. Suffice to say that the Business Centers -- the centerpiece of the strategy -- have made excellent progress in 1982. Incidentally, the correctness of this strategy is emphasized by the number of companies who have announced in recent months "full service" programs for the small business sector. None of them have a range of products and services equal to that offered by Control Data.

(6) Unsatisfactory/Slowly Developing Businesses

We have a number of businesses which are behind schedule in reaching profit generating status. Included in this category are the international services which I just discussed. It also includes major elements of data services, systems, peripherals, education, and financial services. These businesses represent the principal opportunity for Control Data to improve its financial performance. We are not dealing here with new businesses but those five years or more in development. Taking a long-term view -- a necessity I have hammered at in many talks with management -- is not the issue. The issue here is a
critical review of what must be done differently to achieve the strategic objective. Rather than reinforcing a determination to achieve success, all too often I find a management attitude of "I don't need that turkey." Rather than the creativity and the daring to try new approaches to problem businesses, all too often I find simple-minded plodding -- a hang-dog, uninspired acceptance of continuing losses. There is no place in Control Data for either attitude.

(7) **Technological Cooperation or Leveraging Technical Effort**

No executive who has been through the problem of technical resource allocation can fail to understand this issue. In short, we have more opportunities and more needs than we have technical resources. And resource is not just money. There is likewise a critical people shortage. As I've discussed with many of you before, the only answer is more widespread and broadly-based technological cooperation. During 1982, we launched 11 new cooperative efforts. In 1983, the most significant effort will be directed toward the successful launch of MCC.

Fifteen microelectronics and computer companies are planning MCC. It will undertake long-range advanced tools and technology development programs in which all member companies
will share the results and the costs. Four initial programs have been planned: in advanced computer architecture and artificial intelligence, in electronic CAD, software productivity, and system and chip level packaging. We will start work on these projects early in the new year. By sharing human and capital resources, each company can expect to get superior results for approximately an order of magnitude smaller investment.

In 1983 and the years beyond the impact of MCC will touch every operation in Control Data. Or rather it will do so if we make it happen. Doing that means overcoming that common disease known as NIH. In any event, preparing ourselves so as to take advantage of this opportunity will be a major responsibility next year and will directly involve many of you.

III. IMPROVING PERFORMANCE

Let me turn to improving our performance. Last year at Direction '82 my remarks in this regard were very straightforward. I said "we are poised for great achievement." Well -- in 1982 we made a lot of progress in many areas -- the successful launch of the 170-800, the growing thrift business in CCC, seven new peripheral products announced at the NCC, tough hard expense control when orders and revenues
turned down — yes, we have done all those things. But the potential — realizing the potential — no — we haven't done that yet. We have not reached the effectivity — the profitability -- of which we are capable. The answer as before, is PPC -- people, process, and capital -- let's look at that and the challenges of 1983.

There is no need to review in any great detail the people or capital elements of that formula. In both regards, our progress during 1982 and prospects for the future are outstanding. Here are just a few example. The inauguration of the peer review system in three pilot locations, continued improvement in employee education, the employment protection strategies -- all of these and more demonstrate not only effectiveness but greater creativity than ever with regard to "people". Likewise, our asset management continues to improve. For example, six years ago we consumed almost a dollar of assets for every dollar of revenue. It has steadily improved to 62 cents last year. Improvements over this time have been made in all major areas including inventory, receivables, utilization of facilities, cash, and so on. This year, due to lower than planned revenue growth, the ratio will go up a cent or two. But asset utilization is still improving in many areas. Receivables performance has, however, been the most dramatic. In spite of a very difficult economic climate,
days outstanding in the U.S. have improved from 44 days last year to 35 days this year, while the electronic industry average has deteriorated from 46 days to 48 days. We are now 28% ahead of the industry average.

This time last year we initiated a comprehensive effort to improve the third element of our formula for success -- process. 1982 has seen a lot of progress in that regard but in truth, we're just getting started. Process flow analysis is a major tool being introduced to help managers improve the processes of their work groups.

The intent is to make each organization self-sufficient in terms of the use of process flow analysis. In 1982 we made a good start toward this goal. Across the company, we have some 120 well-trained PFA facilitators, who in turn have trained over 2,000 people, flowed 465 processes, 150 of which are completed and now being analyzed for improvement. Here are a few examples:

The OEM Spares Group flowed their Order Entry System, specifically OEM Spares International. The objective was to improve order accuracy and through-put, reduce inventory levels, and increase productivity. To date, order accuracy increased from 88%-89% range to 95%-97% range; two weeks have been eliminated from the order shipment process; assets reduced by $800k; and administrative staff reduction from 18 to 8.
Focus One and Focus Distributed data processing -- two financial information services products -- are major PFA projects. The installation process for both products has been flowed and analyzed. So far, flowing the process has resulted in a 21-day reduction in the installation cycle for Focus Distributed data processing.

Relocation Realty's PFA effort started last June. Thirty employees developed the first formal documentation of their home buying system which is virtually their entire business now. Fifty additional employees reviewed the documentation. They suggested changes to improve the process which will be implemented before year end. While they're still in the analysis phase, the projected savings should be substantial.

U.S. Marketing Administration is pursuing a strategy of standardization and automation in its processes. Each region has made significant contributions to this effort by doing the
process flow charting and description of current processes. For example, the Western region did the work for Professional Services administrative functions, the Midwest did the order fulfillment functions, and the Southeast order processing. As a result, each of the sixteen identified key processes in Marketing Administration is now being revised and standardized. The results will be truly significant. For example, the standard order processing time will be reduced 80%.

And I could name many more examples across the company. This emphasis on process will help us achieve improved levels of effectiveness -- and profitability -- that's hard to conceive today. In 1983 we will pursue this even harder.

What it amounts to is changing our thinking from "that's the way we've always done it" to "why?"

What all this nets out to is this: Our basic strategic direction that has evolved over 25 years has been proven sound. Enormous opportunity is ours. The question for 1983 is how much progress will we make along our chosen course. And the answer will come down to management effectivity -- to how well we deal with the basic strategic priorities I have outlined, to improved PPC management -- and in particular to improving process. I'm looking forward to sharing a lot of progress with you.