OEM SALES MEETING

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INTRODUCTION

Thank you, Jim. I must have had the pleasure of having you introduce me to lots of different sales groups over the years -- many of those groups had assigned quotas that would fit in the round off of the OEM business. So it's truly a pleasure to have a chance to talk the Control Data sales organization that's sure to be the first in the billion dollar club. And certainly your performance last year -- $842 million -- was a great accomplishment. I assume that's final unless, of course, _____ is still working on December 31. Seriously, that's truly outstanding performance -- particularly in the face of the kind of year we had in the Peripherals Company last year -- and I thank each and every one of you for your contribution.
Anyway, it's good to be with you and I didn't even have to fly
to Florida or California or any other of those sunny places in
which Jim and Roger sometime force you to meet to do it.

CORPORATE POSITION AND OUTLOOK

Control Data, whatever our problems might be, is a fascinating
company. I know -- and I'm glad -- that you're so focused on
OEM and your problems and opportunities, there is not much time
left over for knowing about those of your colleagues in other
groups. So, I'll talk about that for a bit before we get down
to the business at hand for you.

First of all, as I said in my letter to employees back in
December, in the somewhat gloomy light cast over us all by our
collective financial performance in 1984, it's difficult for
many people to see the strengths we have and the significant
steps we have taken to get us back on track. Not the least of
those strengths is to face up to problems and fix them --
whether they happen to be in the category of strategy,
products, processes, or people. Strategy decisions, by the
way, are far and away the most painful -- they involve the most
dislocation and affect everything else -- employees, products
and customers. The decision with regard to "plugs" for example
or with regard to the financial services business -- Commercial
Credit. Fixing people problems probably requires the most skill. Control Data, believe me, is in a league far above most. I talked to Dick Seaberg, for example, a week or so after he was fired from Univac. A really incredible story.

The thing that seems to be hardest for us is "process."

We have to eliminate needless steps. Frederick the Great once asked a banquet gathering why his revenues continued to diminish despite income tax increases. An old Prussian general said, "Your Majesty, let me show you." Asking for a piece of ice, he lifted it for inspection, then handed it to his neighbor and requested that it be passed on hand to hand to the king. By the time the ice reached Frederick, it was about the size of a pea. The king got the idea.

That weakness lies behind many of your field frustrations such as delivery schedules -- incidentally, I've added that and its brother -- production schedule -- to my list of oxymorons.

[explain oxymorons -- jumbo shrimp, old news, airline food, (something appropriate to the meeting)]

Anyway -- process. We have had beginning efforts to shore up that weakness -- especially in Peripherals -- for three years or so now. But with the TQMP approach initiated in 1984, we have taken a truly important step. To be sure, it will take time to get the total benefit but the initiation of TQMP -- obscured though it was in the other more dramatic news of 1984, may be the most important event of the year in the long term.
I mentioned Commercial Credit so let me cover that part of the business first. First of all, having started two years ago in their part of the business to get at this question of process -- of effective operation -- Commercial Credit made great progress in 1984 in improving their performance -- by far the best of any of the four businesses -- i.e. Systems, Peripherals, Services, and Financial Services. And 1985 looks even better for them.

The decision to offer Commercial Credit for sale is a matter of strategy, not of operating problems. We have dug into the critical corporate strategic issues over the past two years using teams of top executives and in some cases outside consultants. In both 1983 and 1984, various parts of Commercial Credit were among the strategic issues being studied. In a somewhat oversimplified way, this is what it comes down to:

**CDC:** good at applying microelectronics and computer technology

**CCC:** finance for business, finance for consumers (banking), insurance -- some of both

Investment in non-synergetic businesses
Options:

(1) do nothing
(2) retrench
(3) sell it all.

Emphasize it is not absolutely necessary to sell CCC. It is necessary to free management and financial resources to invest in parts of the business with greater potential -- e.g. Peripherals. Management -- L. Perlman plus seven other key staff and line executives -- were assigned to CCC in 1982-83 to address the problems. That's a lot of resource, almost all of which will be freed to attack other problems.

SYSTEMS

Computer Systems is where it all started in Control Data. Although the scientific and engineering segment of the commercial market is and has been our particular niche, special purpose military computers have always played an important role. This latter business has experienced particularly solid growth in the last year. It will have record revenue and profits this year. And the outlook for 1985 is more of the same. We have an excellent mix of long term production programs and advanced technology development contracts. That's what you need in the military business. The two major production programs are the standard airborne computer for the Navy, called the AYK-14, and an on-board ballistic computer system for the M1 tank. Both are yielding good results. The
Navy has also given us a product improvement contract that will extend production life of the AYK-14 well into the 1990s, and production on the tank program is also expected to continue through that period.

On the more familiar side of the business, let me talk about super computers. Applications for this high performance segment of the mainframe business are increasing rapidly as a result compared to a growth limp rate of zero to 15 percent over the past ten years in terms of numbers of units. The market will grow by a factor of five between now and 1990. One important rising application area is computer-aided engineering design, especially advanced electronic circuit design.

The successor machine to the 205 is, of course, being designed by ETA Systems. There continues to be speculation that because ETA is designing super computers Control Data is no longer in the business. That's about the same as saying that because MPI builds peripherals Control Data is out of the OEM business.

In order to get ETA started, the architecture, VLSI technology, and software that Control Data had been developing were transferred to them. So the technology today flows from Control Data to ETA. Later on, of course, the flow will reverse.
One of the major benefits of super computer development at Control Data over the years has been the ultimate flow of technology from those developments to the main computer product line. Through cross-licensing arrangements with ETA, we will continue to enjoy such benefits while fostering the very special environment needed for super computer development. Ultimately, the beneficiaries of ETA will be all of Control Data's customers, present and future, from super computers on down.

Control Data's newest computer product family, introduced last year, is the CYBER 180 series 800 ranging in power and memory from supermini to just below super computer. These systems are enjoying good marketplace acceptance. In total, some 280 systems were shipped in 1984 -- approximately 30 percent more than the number of units shipped in 1983.

I should add that although we shipped about 30 percent more in terms of units, revenues actually remained the same, so you will recognize some familiar aspects of the computer systems business with your own in terms of the price erosion taking place in the market.
Between Systems and Peripherals, however, there are more differences than similarities. The absolute key difference is the size of the technical investment required. For Peripherals in total, that investment is 7.2 percent of revenue. Systems on the other hand requires 3.3 times as much. Nearly one-fourth of every revenue dollar must be spent for technical effort. Secondly, as opposed to the significant market share OEM enjoys -- nearly 25 percent -- Systems must deal in a competitive world where they have one to two percent or 16 times less. So when we talk about the need to seek special market niches in Systems, you know that is not just idle talk. It also means the international market is critical to Systems -- even more so than for OEM because in some countries we have a better market position.

COMPUTER SERVICES

By the middle-sixties, our strategic limitations due to IBM's dominance on the computer systems business were clear. And so if we wanted to have over the long term a true value-added business in which market and applications knowledge could be combined with basic computer and peripheral products technology, then we should move into services. This was done and it was a time consuming and expensive long term move, but by the mid-seventies, Computer Services was a relatively mature and solid business.
During the last half of the 70s, rapid growth in revenues and profitability in services continued. As opposed to the previous ten years, however, there was little in the way of brand new services start ups other than CBE. To some extent, this was because we were holding the reins fairly tight on Services in order to fund the renewed growth in Peripherals spawned by the mini-computer boom.

Although by 1981 some more serious looks at renewed investment in Services began to be taken, by that time the wave of distributed computing had hit and the basic network services found themselves behind the power curve, even though the full force of that wave didn't hit until 1983 and 1984. Now through all this, large parts of the Services business -- in particular the industry/application specific services such as Arbitron and Ticketron -- continued their steady growth.

Meanwhile, new market focused groups, such as Healthcare Services, the CIM division, and Small Business Services, have made good progress during 1984. In 1985 and 1986, these businesses should grow significantly in size as well as profitability.

Just as in Peripherals -- although with longer time cycles -- the Services business must prepare for the next wave of
technology. One critical strategic issue in that regard is to prepare to utilize to advantage artificial intelligence technology and the special subset of that technology known as expert systems.

Computer Services, in many people's minds, is equated to one special niche of that business known as time-sharing. Time-sharing did not amount to more than 20 percent of Control Data's total Computer Services revenues. This portion of the business was the most vulnerable to the individual personal computer -- in particular where the time-sharing application amounted to essentially a spread sheet calculation. But contrary to what most people would guess, this is still a significant source of revenue. It's sort of like the SMD has been in the OEM business. Better things may be available technologically but customers change slowly -- especially if you have creative sales people!

PERIPHERALS

As you look back at Control Data's history, it is clear that one of the key factors in our growth and success was the development of the OEM peripherals business and like many such things -- it was pure serendipity. No one envisioned a billion-and-a-half-dollar business back there at the
beginning. Really, when you get down to it, it was just plain common sense that started us in OEM. Control Data needed high performance peripherals for high performance computers. Those peripherals were hard to come by and they were very expensive. On the other hand, Control Data, as a $40 million a year company, wasn't exactly a huge customer for the products either -- much less could it justify the R&D investment. So selling OEM -- the computer folks said you mean "selling to our competitors?" -- was, as I say, a common sense way of attacking the problem.

But what we got was a source of stability -- another leg, if you will, in the stool to support the business and its everlasting struggle in the face of IBM's dominance.

So OEM and the peripherals business in total rapidly became and is today an integral part of our strategy. And it is vital to corporate performance. I'll give you a few numbers to illustrate that.

From 1976 to 1981, the total Peripherals business increased its profitability from an ROIC of 2.8 to 16.2. Total corporate performance (including CCC) went from 3.1 to 8.3. In 1982, 1983, and 1984, Peripherals declined in performance and, as you are well aware, so has Control Data.
Now those few facts don't say that Control Data's performance is equated exactly to that of Peripherals. But they surely tell you it is damned important. Actually some parts of the business, such as Services, improved even more rapidly in the late 1970s. Mature service businesses are more profitable than hardware businesses, such as Peripherals, because of the lower capital investments required. In 1985, the service businesses -- which are about the same size as Peripherals -- are budgeted to improve pre-tax profits by $100 million, Peripherals by about one-third that much; and so on. But the point is how you perform -- and I really mean each of you -- is an integral part of and fundamental to how Control Data performs.

CONCERNS

"Fine," a whole bunch of you are saying right about now, "if somebody will just build and deliver the stuff, I'll sure as hell sell it." I heard that a few times as I recall in 1984. And there is no doubt that as we moved into the new technologies of the XMD, FSD, and WREN, the underlying weaknesses were exposed of a peripherals organization ill-prepared to be a billion dollar company, much less one
capable of producing the yields and therefore costs essential to competing in that higher technology/performance arena. Creativity and market response never have been lacking in Peripherals. Operations is another story.

We are fixing that. We have been fixing that. It isn't going to get done in a day or even a year. But it is going to improve. I believe Al Netten and others have talked to you about their plans and expectations. There's no need for me to repeat that. But I can tell you that Control Data intends to do whatever we feel we can to help bolster our Peripherals business. Some people would like things to be as beautifully simple as they were ten years ago. Unfortunately, that's not the way the world works.

It's like one of my favorite stories about Marlene Dietrich. Once, when she saw the first week's takes of a new picture, she complained that they really didn't suit her. As it happened, the cameraman had also done the photography for "Garden of Allah" -- one of her great favorites. So, she took him to the projection room and had "Garden of Allah" shown. When it was over, she said: "Now see, I looked great in that picture. Why can't we get the same results in this one?"

"Well, you see, Miss Dietrich," said the cameraman, "I'm ten years older now."

No doubt in many of your minds it would make life -- if not you -- beautiful to give you the eight inch 300MB drive or the Laser 1200 or the WREN III -- or, bless us, all three of
them -- to sell and deliver next week when you go back to work. We're not -- and one more new product isn't the answer to the fundamentals of your future growth anyway -- but those products, in fact, are going to be available in 1985. And I know that will help.

CONCLUSION

Thinking back to the Management Committee meeting a couple weeks ago, when we were examining the critical issues to be assigned for top level study in the next four to five months, three of the six pertained to Peripherals. Those issues are not problems I want to add. But they are questions -- a combination of opportunity, problems, and unknowns -- that must be answered as best we can if we are to achieve corporate success. That gives you some idea of just how important what you do is to the future. The issues, by the way, had to do with achieving differentiation over the long term in the peripherals business; as it becomes more commodity-like, acting as a marketing/distributor for commodity peripherals -- such as the floppy already has become; and the long term outlook for end user media sales.

The question of truly becoming a low cost producer of quality peripherals has long since passed any stage of being a question
or something to be studied. It's the driving purpose behind everything we do. It also requires a quality marketing organization -- one that can not only execute to plan, but help to smooth the inevitable bumps in the road as well. TQMP is to become a way of life in Peripherals over the next few years. That's more than a manufacturing program. It's a way of life for every person in administration, development, manufacturing, and not least of all marketing.

1984 was not a very fun year for the Peripherals Company (not as bad though as it was for J. Awieda and STC). 1984 was a good year though for you here in this room and that's a hell of a compliment to you. 1984 was a lousy year for me and though I've had them before, I never get used to it. 1985 is going to be better for all of us but it is going to take dedication and some tough decisions to make it that way. We can do that, we will do that. Thanks in advance for your part!

Thank you.