I. Intro

For the next few minutes I'm going to talk to you about the challenge that lies before us, and in particular the job we have to do in 1985. To do that it's not really necessary to spend much time on the position from which we face that challenge. For one thing my letter to all people in December dealt with the subject, and in any event I believe most employees sense that as a group we are performing significantly below reasonable expectations. No doubt there is much of the usual "it's them other guys, I know I'm O.K." thinking around, but if each of you truly thinks about it dispassionately the question isn't "Are you doing poorly?", it's "How much more effective could you really be?" I'll come back to that thought in a moment.

Control Data by many standards is big. And I think that's a problem for us. From the perspective of any one individual -- inside or outside the company -- here's an organization which takes in and spends over 5 billion dollars a year -- well over $1/2 million every hour of every day of the year. Most of us
can't even conceive of spending 1/2 million dollars -- much less every hour. Anyway, those are certainly big numbers.

But from another perspective Control Data is miniscule -- not just little -- miniscule. IBM -- not the biggest U.S. company by the way, is nearly 10 times as large in terms of revenue -- 35 times as big in terms of profits. Again it's difficult to even imagine the power implicit in that difference in size.

In any event the budget submitters in Control Data think mostly about that great big hunk of money (the $5 billion) and how much of it they need. The competitive analysts drive themselves (and others) crazy at the mere thought of how small Control Data is. But for you and me all that "big" or "little" thinking is wasted energy. The challenge we have is to perform better. What we must think about if we're serious and professional people, is are we doing the best we can or more realistically to ask could we not do better? Of course we can. How much? Lots.

This is not just simplistic stating of the obvious. Our goals this year are very challenging and every organization will be stretched. And yet even if we achieve the earnings goals for the year we still will be less than half as profitable as a reasonably good performance norm. The world looks at us too.
And we are judged. And the verdict is one of two: either, those guys are O.K., or they don't deserve the opportunity to use all that money. Somebody else could do better with it.

Control Data is viewed by many of the best minds in the financial community as having one of the best, most creative and far reaching business strategies in our industry. You know what else they think? It's: "Well, with all that going for them, how come they don't do better?"

They have thoughts like this:

- Computers -- while the rest of the mainframe industry in the 70's scoffed, Control Data saw and concentrated on the scientific engineering market which is now one of the most important.

- Peripherals -- Control Data became the dominant force in the OEM market while others still fruitlessly clutched at a dream of vertical integration.

- Innovative Services which leverage off the power of computers? For example, who else ever even thought of using computers in a job creation process -- to do that through helping small business start up and stay alive -- much less who went out and did it?
And the more they think about things like that the more they come back to the first question: How come they don't do better?

And the message for direction '85 is: we're gonna answer it for them -- the right way. Let me now go through the major segments of the business, and outline the major tasks and challenges for the coming year. I won't do that by each individual -- just by major type of business.

II. Computer Systems -- commercial and military

First, Computer Mainframes. Overall, 1984 was a good year. Some 28% more systems shipped than in 1983. This year we expect that increase in unit shipments to be 51 percent.

The key to continuing success in this part of the business is the same as it has been for many years. Technical effort. The price of staying in the race is very high. For Control Data nearly 25% of systems revenue must be reinvested in technical expenditures in order to have the hardware and software we need to compete. This in turn means to generate sufficient margins it's necessary to have maximum creativity and efficiency in how we produce, market and deliver our systems. Control Data's continuing success in this market is a great tribute to many people over many years.
But though we have done a good job we have by no means exhausted our ability to improve. Aggressive implementation of TQMP is the critical need in that regard.

I could make similar comments about our government systems business and the on-going success of engineering and professional services, both of which are vital elements to success in the systems market. However, having just mentioned these services, let me move on to that category of our business.

**Services**

It will be useful to divide our service businesses into categories which are a bit different from the usual way of looking at them. Rather than type of service or market focus we'll take a look at services in four categories which represent the kind of challenge they face in 1985. Think of the four categories as four people. We ask these people to describe their situations in one sentence:

1st Person: "Everybody calls me a has been"

2nd Person: "Nobody understands me"

3rd Person: "I am the best -- nobody can touch me"
4th Person: (with a slight accent): "Things are different in my world"

I don't have to identify who is which or which is who.

1) Take the "Has Been:" A service business which has known excellent growth, profitability and which maybe until recently could only envision an unlimited golden future. And now it has fallen in revenue and profits -- perhaps because of slow reaction to change, an unforeseen competitor or because growth itself may have extended the business to where it must compete on new ground which requires more development of new software than time, money or competition seems to allow. In some cases the fallen state may be the result of just plain poor execution.

I have a message for all of you who fall in this category. Control Data believes in you. I believe in you. Redirecting market focus, catching up in distributed processing, acing out that bigger competitor -- whatever your particular problem -- 1985 will be the first big step back to success. The plans we have for each business in this category are well founded. They'll be tough to execute but they'll work.
I'll share just one such effort that is already well underway. Our network services for years pretended distributed computing would never exist, then they tried to accommodate to it, but now finally they have embraced it. There is a lot to do in improving our distributed service offerings and in perfecting the marketing of them. But 1985 is the year we must in fact do that.

(2) "Nobody understands me." When you're trying novel things -- solving problems others haven't tried -- or have tried and failed, you're bound to get a certain amount of put down. After all when you succeed you will have proved some superiority. People are afraid of that. For you all the word is be humble now -- and after you succeed as well.

No one can predict the exact form the successful model will take so don't be afraid to keep searching. Be opportunistic. The key is always to find the right marketing approach. It is not technological or product superiority -- although you need that too. For us the technology part is very straightforward. If the use of computer technology does not provide your service with an important advantage -- either figure out how you can do that or forget it. We're computer people and that's what we know best how to use -- in very novel ways, I should add.
3) "Doing super." You are the best. But you also have the hardest job of all. In an environment of "if everybody would just do as well as we are the company would have no problems," it's easy to get blind-sided by a new competitor, much less concentrate on the every day, grind-it-out task of improving operations and marketing. The question for you above all is not "How well am I doing?", but "What are all the things I have to do to stay that way?!"

Just remember the person in category one. When you start your day -- remember category one.

4) International. "I'm different." Things are indeed different in International -- I personally learned many of those differences and subtleties the hard way. But I also learned (to paraphrase Alice in Wonderland) that the more different they grow, the samer they get.

Control Data's Services business internationally is for the most part newly developing. Hardware -- both computer and OEM peripherals -- have been the mainstays of our International business. Of course, Cybernet Services have been offered for many years. We also have operated Control Data Institutes. But it has only been in the last three years that we have begun to move aggressively in Applications Services, Consulting Products, PLATO, and so on.
In order to quickly gain expertise and local market orientation, a large part of this move has been through acquisition or joint venture. Given the underlying strategic considerations, some of these acquisitions were made knowing they needed investment to grow them. But whether de novo or by acquisition, shaping and building the International Services business country by country, has been both time consuming and has required considerable expenditure and investment. 1985 is the year in which you in International are expected to turn the corner and set the stage to realize the pay-off from those investments.

**Peripherals**

In Peripherals, we will continue to see rapid, dramatic changes across the industry. The price erosion in floppy disk drives and the turmoil in plug compatible disks are just two examples.

At the low end of the line, the Peripherals business is now truly a pure commodity market with price, not technology, being the difference between products.

Fortunately, Control Data has achieved a volume of OEM business which allows us to compete in this market. Still we must exert every effort to improve manufacturing and marketing so as to
achieve the necessary efficiencies. Operations -- operational effectiveness in everything we do -- manufacturing, marketing, procurement, logistics -- everything -- that's the emphasis in peripherals.

Creativity and market response never have been lacking in Peripherals. Operational effectivity 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 I can tell you that Control Data intends to do whatever we can to 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.

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 necessarily 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 success. That gives you some idea of just how important what you in Peripherals do is to future.
Finally, a word about the potential sale of Commercial Credit. First of all, having started two years ago in their part of the business to get at this question of effective operation, Commercial Credit made great progress in 1984 in improving their performance -- by far the best of any of the four businesses -- Systems, Peripherals, Services, and Financial Services. And 1985 looks even better.

The decision to explore the possible sale of Commercial Credit, 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 the final analysis one of the things we determined that the financial services business, the people in Commercial Credit, and the customers of Commercial Credit would best be served if a buyer could be found with a closer fit to that business. I want to emphasize that that is not our only option but we felt it is the best one if it can be done on a reasonable basis. Now whether it occurs or not, the challenge for all of you in Commercial Credit is to make that business the best it has ever been. You have a shot at record profits in 1985. Go for it!
I have tried to briefly summarize our many and varied challenges. We have new and creative business strategies, we have creative policies and programs for those who must do the work. We have an abiding concern for those people. And I should add that cooperation is a cornerstone of Control Data's business philosophy.

VTC for example, or ETA, United School Services of America, MCC, the BIS joint marketing agreement with AT & T -- these and dozens of other examples are all answers to the question, if it fits our strategy, how can it be organized, funded and managed most effectively?

This approach of course, is not new. As far back as the decision to manufacture peripherals, Control Data was asking itself what had to be done to secure the necessary technology or to market the products in sufficient volume. That led to the then controversial creation of an OEM Peripherals business. More recently, it's the creation of an ETA Systems. But at their core all of these approaches represent some form of sharing -- of a cooperative approach to being able to assemble needed resources.

But the thing that overrides all of this is the matter of execution. The areas needing special emphasis -- marketing,
manufacturing and so on, vary from organization to organization, but it is all execution, attention to detail and a dedication to be a quality leader. And that brings me back to where I started. The question is not whether you are doing poorly or well — the question is how much more effective can you really be?

III. Quality

Everyone professes to be concerned about quality, but all too often that's just talk.

Well, quality is the key to survival in this industry. Companies that are willing to meet the quality challenge will survive and we intend to be one of them.

Our name must be synonymous with quality. We intend to pursue that goal relentlessly. The process we'll use is called TQMP. Over the years we have developed a variety of tools and techniques that will fall within the TQMP umbrella and will help with its implementation — things such as Involvement Teams, SPQC and PFA. All of these give us a headstart. TQMP is built on three fundamental concepts: everyone has a customer, quality must be managed, and by improving processes we improve product quality — not the other way around.
Your customer is anyone who utilizes your output. It is essential to learn their requirements and do your very best to provide them with a defect-free work product whether they are outside or inside the Company. We have no other choice if we are to survive and grow.

IV. Conclusion

So challenge, our Direction, for 1985 is to be the best we can be -- to be the quality performer of a strategy at once both uncommon in its conception and powerful in its potential. We have a tough job ahead and it cannot be fully completed in this year. But we can and must, if it is ever come true, take a big step in that direction.