Thank you, __________.

It's good to be here with you today. And I'd like to begin by bending the lyrics of an old and popular ballad: What a difference a year makes!

Just twelve months ago, it seemed the business was collapsing around us.

In August, however, for the first time in 16 months, the computer business was profitable. I like that. I know you like that. The enormity of the trial and dislocation through which Control Data has suffered in those months is almost impossible for anyone who was not involved to comprehend. Just the task of setting aright the derailed peripherals business has been Herculean. And by no means has that been the only task. To some I know the whole thing has seemed overwhelming.

However, Control Data's underlying corporate strengths are very, very great. We have technology, products and people that have assured, and can continue to assure, we can overcome any difficulties that beset us, and they should be a source of pride, a source of determination for each of us as we build a corporation of excellence. But there are no "automatics."
That should certainly be clear enough from any serious reflection of the state of things this time last year versus where we had been only a short time before. Size, past success, technology -- none of those is any guarantee of survival much less success; continued survival and success is a matter of management -- quality management. It is management that empowers and enables people to achieve their full potential -- that makes it possible for them to feel the glow of pride in individual and collective achievement. It's the MP -- management process -- that assures the TQ -- total quality -- of TQMP. It is management and management process that assure we know and feel our markets, the competition, product and the specifications which yield customer satisfaction.

In many regards the Data Storage Products Group has made a lot of progress in a short period of time and I am personally very proud of what you've done....but you must know as well as I that, if you're going to survive, the change has only just begun. If you really are "In It to Win It" it's going to make the change of the past year look easy. Moreover, it is certainly a lot easier to talk about change than to make it happen. For one thing change can only occur after you as an individual have the determination to change your own way of thinking about the problem or challenge facing you. Most people simply don't develop that determination.
The 9/29 issue of BUSINESS WEEK had its lead article on "Management Discovers the Human Side of Automation." There was a lot of "old way"/"new way" discussion in that article. It seemed to me, though, that the article wasn't explicit enough regarding the thing that is absolutely fundamental to being competitive in today's world. That thing is changing processes -- including management processes.

Anybody associated with computers knows that computerization never really pays off until the process in which the computers are employed changes. With very few exceptions just speeding up the old method simply does not pay off for the user. (Ironically, perhaps, computer suppliers, on the other hand, have made millions of dollars from the sale of their poorly employed machines).

That same basic truth is true of the change U.S. manufacturers face with regard to automation. And for certain it is true of the change DSPG faces in the product cost battle it faces with its international competition. Without process change people just get chewed up in a never ending attempt to "squeeze blood from a turnip." Without the right approach to managing people and process change automation is a waste of time.
We have a tremendous opportunity before us as we take the kinds of corrective actions that need to be taken. We also have an opportunity to learn from our past mistakes. A good example is what happened over 1984 and 1985 with regard to the 5 1/4" disk line. It's too easy to blame market softness or competitive change. The fact is that delivery of the WREN I according to the timing of the original plan, would have made an enormous difference in our market position -- and even more in the cash flow problems that built up over 1984 and 1985.

And that was not a matter of strategy or level of expenditure -- it was a matter of execution.

Why do such things happen? Is it complacency? Arrogance? Ignorance and ineptness? Well, those are certainly common enough human frailties. They are with us all the time, even now as we build a new day for Control Data. How do we keep them from undermining our efforts? There is only one answer: continuous and rigorously demanded accountability -- individual accountability for quality (and the processes which assure it), for marketing (and responsiveness to market requirements), and for the degree to which each manager adheres to Control Data's basic principles of managing people.
What accountability in these three areas comes down to is simple integrity: to make a solid connection between what we say...and what we actually do.

As a group Control Data management hasn't made that connection very well over the past few years and as a result our credibility has suffered in the marketplace...among customers, competitors, among ourselves.

The events of the past year, however, are a clear indication that management can respond and can change. It is being summoned to the task. We are proving that we can move from a half-billion dollar loss to profitability. And we will prove that we can go on to profits as big as those losses. The measure of management remains constant: accountability! Accountability for quality, for marketing and for people.

I believe that every one of us deeply and sincerely wants Control Data to be a respected and successful company. Moreover, recent surveys have shown that 99 percent of Control Data employees feel a personal responsibility to help it succeed. So, how do we as managers release the enormous potential of that support?
Well, I think there are several aspects which could serve to the answer to that question, but clearly one of the most important is the work environment--the "culture" as it most frequently is called these days--the corporate culture that we as managers build and maintain. It means a work environment in which people feel accountable—in which creativity and initiative are supported. A work environment built on individual pride...where the products and services are market-proven and known for quality.

It can be summed up a phrase that I've been using for many years: the work environment we seek is one in which each person truly feels that what they think and do really matters. And if people feel that, they will also feel responsible and accountable for their actions.

So it's a two-way street. The company and each manager are responsible for developing the processes and creating an environment which fosters individual initiative, pride and responsibility. And in turn, then, each subordinate knows that he or she will be held accountable and will be expected to aggressively pursue their own individual self-development.
Some years ago we distilled the myriad policies, actions, and processes involved in building such a work environment into a statement of five principles. Recognizing the mutual responsibility between manager and subordinate, we labeled those principles a "Fair Exchange." If you read the BUSINESS WEEK article carefully you will find that those principles which we adopted formally over five years ago are exactly the ones called essential to success in today's manufacturing world.

These are the five principles: We said we would

- Place a high value on reward for performance...
- Create an environment for continued self-growth and achievement...
- Foster management practices that ensure fair and just treatment of all employees...
- Provide corporate benefits and services which recognize that personal quality of life affects performance on the job...
- And provide an increasing level of job security for the greatest number of employees.
But those five management principles can only work if the responsibility/accountability dimension implicit in them is aggressively enforced. And in this respect management has done poorly.

Thus we should indeed expect and give reward for performance AND ALSO explain the consequences of non-performance.

As individual employees, we have the right to expect that our boss -- and the company -- create an environment for our own self-growth and achievement, AND we have the corresponding responsibility to stretch ourselves to the limit of our full potential.

We should expect fair and just treatment, AND at the same time we have the responsibility to act with personal integrity.

Everyone clearly wants benefits and services that improve individual quality of life, but we have the equal responsibility to work as individuals for the benefit of our co-workers, our families and our communities.
It is reassuring to know that the company has job security as a goal; but we must also work each day knowing there are no guarantees in life -- only opportunities. In the final analysis, it is the economic success of a company which best provides individual security.

Of those five principles, it is this last one -- the one relating to job security -- that is the most misunderstood in its interpretation. The general feeling arose that Fair Exchange was synonymous with the principle of enhanced job security, which in turn was synonymous with "a guaranteed job," And then, with the large layoffs of 1985 and 1986, some began to think that Fair Exchange had died.

It did not. Let me read you the full policy statement in that regard. This is the job security policy, written in 1981:

"Control Data is committed to pursue means that will reduce the necessity of layoffs or terminations caused by economic conditions.

If economic conditions become so extreme that layoffs or terminations can no longer be avoided, the company is equally committed to reduce the impact on individual employees.

A corporate-wide strategy will be maintained as part of the company's business planning process."
That policy was never more vigorously enforced than in the last two years.

I also want to emphasize that those five people management principles are the foundation of quality. James Joyner is one of the nation's leading quality experts and an associate of Phil Crosby, the author of "Quality Is Free." Joyner put it this way in a recent article:

"A quality-minded organization is one where everyone understands exactly what they are to do, has the resources and knowledge necessary to do it and then has management's help [in doing] it right."

Quality, then, is not just a product characteristic. It isn't a task force, or a program. It is a total way of doing business...a way of daily existence for each individual. It is the mindset that holds true quality as "standard operating procedure."

What we're really talking about is developing new and better ways to manage Control Data's business. It involves people and how we manage them and it involves process -- TQMP.
If we define quality as exacting conformance to customer requirements, one of Phil Crosby's observations helps us better understand the process of quality. "Yes," he says, "quality is defined as conformance to requirements, but customer's requirements are defined by marketing. Therefore, quality begins in the marketing department."

...begins in the marketing department...

With that simple expression of logic, Crosby demonstrates that quality and marketing are inextricably linked -- that one gives strength and meaning to the other. Total quality and effective marketing are twin forces that combine to propel us toward the recognized competitive advantage we must develop if we are to succeed in the marketplace.

Now let me turn know from these more general thoughts on the nature of the management task to some specifics. Several of you have given me questions you'd like to have answered and by answering them I think I can best cover my thoughts with regard to current status, what's going on in the rest of the company and what is being done to return us to sustained profitability.
Q - WHAT IS CONTROL DATA'S CASH OUTLOOK AND FINANCIAL STATUS?

A - First and foremost though losses have steadily decreased, we have managed the business day by day, week by week; and we have managed that liquidity problem. Our current forecast for the fourth quarter [of 1986] is that the cash flow from operations will be a large negative number. The trend line for the past 13 months is strikingly negative. We've got to reverse that trend.

Obviously we can improve cash flow by increasing profit. That's fundamental. You can't really improve cash flow in the long-term without improving profits. But we must also work on the invested capital part of the equation. Operating profits are still poor, but they are at least improving. So, if you look at the cash forecast and the cash forecast is deteriorating, it must be because more cash is being consumed by asset investment.

Our net asset turn is eroding, so we simply must -- particularly in this next quarter and coming months -- give extraordinary attention to inventory, receivables and the other things that make up the asset base. So, be stingy with inventories and aggressive with regard to receivables.
Q - HOW ARE OTHER GROUPS IN THE COMPANY--OTHER THAN DSPG--DOING?

A - As you look across the company some organizations are doing well and some are not, some are improving and some are not, so there's an uneven situation across the company. We have only one corporate dictum to the SBU's, and that is to meet or improve on the 1986 budget and to put together budgets for 1987 that will yield a profitable year for the computer business, and not just marginally so -- whatever it takes to do it. Those organizations that are not doing well are going to be more affected in terms of cost and employment reductions than those who are. I guess that's no great or profound statement; but it is, in fact, the truth.
Q - WHAT ACTIONS ARE BEING TAKEN TO TURN THE SYSTEMS BUSINESS AROUND?

A - Computer Systems revenue for 1985, 1986 and 1987 will essentially be flat. Also, in each of those years we are going to ship more units than we did the previous year; profits have declined, however. We made a profit last year; we will lose money this year. Well, if revenue is the same and profits are down, then there's a fairly obvious answer to that simple arithmetic equation: it means that costs and expenses have grown large enough to cause a significant swing in profitability.

Clearly, Computer Systems and Services has an expense problem. Solving that expense problem is going to mean fewer projects and fewer people.

At the same time I want you to understand that we have a good product line and it is getting better. The international market has been stronger this year than ever. The new S. product will begin shipments in a few months. The ETA 10 is also about to become a reality after these years of intense effort. Through all the problems of the past year or two we have continued to fund these developments which will give us new and exciting systems.
Control Data's computer systems business has a very small share of the overall market. That has been true for years. That also means, however, that it must be much more intensely and narrowly focused than our disk drive business. So in a way you have the comfort of knowing you have an easier job -- and the challenge of knowing you have less excuse for not returning healthy profits.
Q - WHERE DOES CONTROL DATA GO FROM HERE?

A - There are three core businesses of Control Data: computer systems and related services, Data Storage Products and the business-related computer services. Those are the three basic pieces. The SBU structure is a refinement of business definition within those three. That is, the strategic business units, as we define them in our strategic planning process, represent the first level refinement below the basic three: systems, peripherals (to use the old term) and services.

More than 20 years ago, Bill Norris decided that Control Data could not succeed solely as a main line, mainframe supplier. We began developing the components of a diversified strategy almost from the beginning of the company. The peripherals business, the services business, were begun early on. So, value-added services addressing specific markets is a strategy that was put in place a long, long time ago to assure long-term survival.
We have been in the mainframe part of what we do for well over 15 years—and will continue to do so, but as a very narrowly focused business. From time to time we have had these moments of wild aberration in which we felt that in order to be in the business we must compete across the board in our computer line. We couldn't do it in 1969. We couldn't do it in 1974. We can't do it in 1986. We have been, and our whole product and technical strategy must be, geared toward this narrow focus.

We are not IBM. We are not DEC. We never have been and won't be. I personally helped fashion the details of that strategy when Bill first put it in place. I've helped implement it for over a quarter of a century now, and I'm still working at it.

We have a goal to exceed a 15% ROE. The businesses we have are well positioned to achieve that goal. We have an excellent market position in OEM. We are among the top three competitors in each of our Business Services -- in fact #1 or strong #2 positions in many of them. In total Business Services will have an ROIC of 71% this year. It will be better next year.

In short we have the technology, the market and the people to be highly successful. It is a matter of execution and that is a matter of management -- quality management.
Q - HOW DOES DSPG FIT INTO THAT PLAN?

A - Where does DSPG fit in? Again, it is one of the three core businesses of Control Data. At this point I know of no reason why Data Storage Products cannot produce the kind of returns we seek.

Success will depend amongst other things, on head and media technologies. We also have exciting possibilities in optical storage. We've made the investment necessary to be a leader in that market.
Q – WHAT IS BEING DONE TO ELIMINATE LEVELS OF MANAGEMENT AND RED TAPE?

A – The answer to red tape is TQMP. It's as straightforward as that. Fewer levels of management are inherent in the new approach to our business. The BUSINESS WEEK article I referenced earlier brings that out in several ways. In Control Data that is already occurring -- in your own group for one -- and others such as engineering services as well.
Q - HOW IS THE CONTROL DATA ORGANIZATION STRUCTURE EVOLVING?

A - Over the past year or two, the definition of the business in terms of SBU's has given us a much better perspective on our business. It's beginning to lead us in a much more positive way toward the market-driven strategy that we've been talking about. It was the first, if you will, step in that direction. We've still got a long way to go, but the basic path is there. To the degree possible, we have set the organizational structure in line with the SBU structure. However that SBU does not necessarily equal organization....or more precisely, an organization is not necessarily an SBU.

We have had, and still do today, several organization units which may be regarded as one strategic business unit. For example, the International components of the Systems or Engineering Services SBU's. But fundamentally, we try to make the organization structure also reflect the strategic business unit structure. It's not perfect and never will be.

Another basic characteristic of our organization evolution is decentralization, and someone had a question on that.
Q - WHAT ARE PLANS FOR DECENTRALIZATION?

The plans for decentralization were first presented to the Executive Management Meeting at Red Wing earlier this year, and were later summarized at the July 17 Executive Briefing session. I don't have time to go through all that tonight, but let me give you some of the high points. First, the motivation is to make the organization function more efficient. "Decentralization" is not magic. [explain]

Decentralization then is not some knee-jerk reaction. it is a natural evolution of TQMP. The decisions we make will be based on thorough research and evaluation. The single strongest aspect of the process will be to move business decision-making closer to the action. Along with that, of course, will also come much greater individual accountability.

There will always be a certain number of corporate or staff functions that can be best and most efficiently handled at a corporate level. But wherever possible or practical, we will be trying to move the primary responsibilities --- and ACCOUNTABILITY ---to the business units. It will take some time, but we will be moving in a logical and rational manner.
Q - WHAT IS CONTROL DATA DOING TO BECOME MORE MARKET-FOCUSED?

A - It starts with the business plan, but you can't do that if you don't have a process for understanding what is going on out there in the marketplace. That means a process throughout the company by which there is in each individual—and particularly the individual executives—a sensitivity to customer needs, an awareness of market changes, of the competition. That doesn't occur because I give a talk, or because some sales people come in to attend a meeting. It comes because there is a process in your organization -- in each organization -- for making it happen.

The definition of the company's business in terms of SBU's was a first step at becoming more market-focused. The most crucial part of this market-driven process is strategic planning and how it is done. Simple things such as the mkt. orientation of the strategic plan format. How well does it analyze market characteristics, competition -- indirect as well as direct competitors. [explain indirect]

Incidentally, I've been asked about a replacement for RWD. There will be one. A priority for Larry in his duties as a corporate staff executive. This person's main duties will be to see that all of the business organizations develop those processes that we need to become a market-driven company.
Q - WHAT ARE CONTROL DATA'S CUSTOMERS SAYING ABOUT US?

A - Similar to how many employees feel. Concern. Belief that we are a good company. Leaders in many regards. They want us to get our act together.

Our survey group in Business Advisors has done Customer Satisfaction Surveys for the past several years in various organizations. The general results show that the majority of our customers surveyed believe that we are a good company to work with and are generally satisfied both with our products and with our service.

The specific criticism that we received across organizations is customers service responsiveness -- it's hard to find the right person to solve the problem -- and it takes too long to solve the problem.

More organizations in Control Data are committing funds to doing Customer Satisfaction Surveys demonstrating our increased interest in what customers think of us.
Q - HOW ARE WE IMPROVING OUR INTERNATIONAL COMPETITIVENESS?

A - Technology -- leading technology underpins everything we do. Head/media technology in magnetic drives. Media is the crucial element in optical disks -- relationship with Philips (and now Philips/duPont) has given us a great boost in that regard.

- 20K CMOS technology is the most advanced semi-conductor being applied to a commercial computer.

- It is even technology in the broader sense -- know how -- that makes it possible to develop a service such as SCAN AMERICA.

Market knowledge -- strategic planning more market-driven as to market requirements, knowledge of competition both direct and indirect. Ex. indirect concerns optical storage.

Product focus -- doing fewer things better. Not as easy as it sounds. 8"/9"

Product Cost

TQMP sums it all up
Q - DO YOU PLAN TO TAKE LARRY PERLMAN AWAY FROM DSPG?

A - If I had plans I wouldn't tell you, would I? But what I can tell you is you've got a real dilemma. If you screw up the operation I can assure you he'll be gone. On the other hand if you achieve the success that you should -- and that both he and I expect -- then he'll certainly go on to greater things!