Intro

The other day I noticed on the program that there was no title listed for my remarks. So I spoke to John Buckner and suggested that he provide for that shortfall. In his usual provident manner John ended up with a little in reserve. He came up with two titles in addition to his own designated "The Financial Edge": "Customer Focus -- the Key to Financial Leadership"; and "Customer Focus -- the Key to Technological Leadership -- both of which he used for his talk." But, anyway, so far John and I are averaging 1 1/2 titles per talk and we are still in good shape in case you have yet one more "untitled" speaker. So you can readily see what a good CFO can really mean to you.

Even so, today I too want to talk about customer focus because it is with you that marketing really begins.

Let me underscore this thought with a definition of what I mean by marketing:
"Marketing means first, strategy. Winning strategy results from a thorough understanding of and creative response to customer needs. Innovation is what we call the creative response to customer needs and it results from understanding the needs themselves, understanding the competition, and, as well, other socio-economic forces impacting the customer.

"Second, marketing means selling and servicing the customer. Excellence in selling and servicing starts with appropriate packaging of the solutions conceived by the strategy.

"Marketing encompasses superior performance in all aspects of communication, education, sales and service--internally and externally."

"There are then three dimensions of marketing: 1) Customers; 2) External factors--competitive and socio-economic; 3) Internal capability--technological, production, sales and service."

I recently sent this definition of marketing to every member of the management committee. It clearly spells out the meaning of marketing and what's involved in making Control Data a marketing company.
If marketing at its root means the creative response to customer needs, that is, innovation, then it's going to take everybody in this room thinking, talking and practicing marketing for Control Data to succeed.

Marketing is the key to success in today's global marketplace. It is the key to sustained competitive advantage. It's the key to profitability and to being a profitable company quarter after quarter, year after year.

As you know, we posted a first-quarter profit of $7.2 million. That's a truly noteworthy improvement over the loss of $21.2 million in the first quarter of 1986. I'm proud of the great progress we've made in a short period of time and I'm personally grateful to each of you for helping Control Data to get back on the right track.

But if we are to remain profitable and continue to be a viable force in the computer industry, it means that we must sustain a rate of innovation greater than ever before. A company cannot simply cost cut its way into sustained financial success.

Moreover, innovation -- creative response to customer need -- does not simply mean gee whiz product performance. It means products of cost, quality, availability, distribution,
and service which in turn will result in helping customers gain competitive advantage for their own product or service.

The ability to be a certified JIT vendor to our OEM disk drive customers is equally as important as the areal density or transfer rate specifications of those products. A deep understanding of customer need and a creative response as a result of that understanding are the essential prerequisites of being a certified vendor.

The servicableilty of our products as I noted is yet another dimension of marketing.

I had an experience last fall. [Combine story]

In a market-driven company, the creative response to customer need involves everyone. Put another way, in a market-driven company, strategic direction comes from all levels. It can be distilled, coordinated and shaped at the top. But like quality, it must be pervasive throughout the company. Innovation is not the province of an isolated genius in some small secluded lab. It is the essence of marketing, it is the essential fact of life of all of us in manufacturing, engineering, finance, or whatever our function.
Quality

Quality is another ingredient of creative response to customer need — that is, quality is one more element of marketing.

So the emphasis on TQMP is in reality just another way of emphasizing marketing. It has been neither easy nor quick to introduce TQMP into the company. A year of planning and development preceded the actual introduction of TQMP in the Fall of 1984. Fundamental to TQMP is the concept of "process." You know yesterday at the Executive Briefing, a committee meeting which I hold periodically for Control Data VP's, I was asked the question: "How can senior management be taught more quickly that only processes can be improved and the focus on isolated results and data points is fruitless?" I answered that the only way I've seen for people to learn is to actually become involved in defining a process, to get involved in seeing the power of spelling out the details of a fish bone chart or a process flow analysis. (elaborate — exhortation, training, experience the power). Other basic concepts of TQMP such as: "Continuous improvement" and "quality can be managed." All derive from the concept of process. TQMP also embodies many terms which now have everyday meaning to us: "prevention rather than rework" ... "statistical tools" ... "data management."
It's not my purpose today to elaborate on each of these elements of TQMP. You've heard much about them already. I simply want to observe that (a) we have made in these past four years a good start at TQMP and (b) we have a long way to go.

Incidentally, Bob Romfo told me that if he had to grade an organization on TQMP, he'd give Manufacturing a B plus. The design areas? Well, let's just say that if you were a football player we'd be concerned about your eligibility.

But in Design, as elsewhere overall, there's increasing evidence that employees are responding to TQMP and that it's working its way through the company.

Here are just a few examples that have been brought to my attention:

SYSTEM CHECKOUT ERRORS CYBER 990 SYSTEM
700/SYSTEM---- 200/SYSTEM IN 6 MONTHS

SYSTEM CHECKOUT ERRORS CYBER 840/850/860 SYSTEMS
96/SYSTEM---- 48/SYSTEM IN 12 MONTHS

DISK MEDIA YIELDS
26%---- 59% 12 MONTHS
DISK MEDIA SCRAP
REDUCED 60% 12 MONTHS $1M ONE PRODUCT

FSD II DISK
YIELDS 51.5%——- 83% 18 MONTHS

PRINTED CIRCUIT OPERATIONS SCRAP RATE
35%——- 10% 12 MONTHS

PRINTED CIRCUIT OPERATIONS THRU-PUT TIME
7 DAYS——- 2 DAYS 4 MONTHS

CARD SHOP SOLDER DEFECTS
REDUCED 75% 12 MONTHS $100K/YR.

EMERGENCY SPARES SHIPMENTS
90% IN 4 HOURS——- 90% IN 2 HOURS 6 MONTHS

CUSTOMER EQUIPMENT MOVE AUTHORIZATION (CEMA) PAPERWORK ERRORS
15% OF LINES——- 2% 12 MONTHS

In my mind, there's no doubt that TQMP is one vehicle that will enable us to hasten the day when Control Data becomes a marketing company.
That won't happen, however, until TQMP is deeply embedded in the development processes of the engineering and design areas throughout the organization.

Let me return to that third dimension of marketing that I mentioned -- that internal capability that must be matched with the other two dimensions of customer need and competitive forces. I said that internal capability includes things such as technology, the ability to produce at competitive cost and quality levels, and superior sales and service.

With regard to the technology part, all too often people feel technical excellence would result if only there were unlimited R&D budgets -- well maybe not "unlimited," but at least a heck of a lot larger than the seemingly paltry sums available at any given time. I'm reminded of a Winston Churchill story ["so much to do -- so little time to do it"].

Now, "so much to do, so little money with which to do it" might well be the slogan of those charged with technical excellence.

Well, the real world is not characterized by unlimited resources so creativity is required to leverage what is available -- just as surely as leverage is a crucial factor in excellent financial management or selling or any other business
activity. The greatest source of technical leverage is technological cooperation, and in MCC, Control Data has available to it one of the most creative technological cooperations in history. We have access to \$75M of advanced research annually -- all at 10 to 20 cents on the dollar. Now whether that turns out to be a bargain or simply a wasted opportunity depends not on MCC but on you. The first of this month I took several of Control Data's board members to MCC for a full day's briefing. They saw some of the most impressive advanced research in computer technology in the world -- advanced research that is 100% available to Control Data; that we would never accomplish on our own.

And yet, all too often, I find the attitude that MCC is not "us" but "them" or "it," the feeling that it doesn't coincide with directions we are taking, or whatever. Of course it doesn't exactly fit, but that's our challenge.

Effective use of MCC technology is a challenge I have laid before the technical management of Control Data. Sustained competitive advantage -- the financial edge -- may well rest on how well you respond to that challenge.
Technical excellence, like competitive advantage or quality, is not some disembodied characteristic of a company. Technical excellence is people. Marketing, quality, people -- these three basic values that I have established as the essence of the Control Data we seek to be -- are in fact congruent. Each subsumes the other, each derives from the other, each is integral to the other.

If through technical excellence and innovation we wish to gain superior marketing ability and quality then a prerequisite is that skilled and trained people. Training is not a sometime thing. Like process improvement it must be continuous -- yet nothing tends to be more sporadic.

As many of you know, I spend a lot of time talking to small groups of employees. I haven't met with a group of employees yet where the subject of training has not come up. The lack of training is the single most common complaint I hear.

One employee recently said to me something like this: "Mr. Price, the first damn thing to go in a crunch is training. Hell, the surest way to get in trouble with your boss is to ask him for training. With the budget squeeze, you either get laughed at or thrown out."
I understood where the employee was coming from and I understand the widespread concern about training.

But training in a technology company, where there's never enough money to do all of the things that need to be done, comes down to strategic selection. Strategic selection in turn depends on our ability to factually assess cost-benefit relationships. [Read excerpts from memo]

We must ask ourselves:

"What skills are necessary to execute a job today, to prepare for the job as it will be five years from now?"

The answer to those questions are strategic because the cost of training is something that has to be planned just like other costs.

Training, like quality, must be managed. You know it's not as if we don't spend money on training. In the old days we also spent money on quality -- on quality assurance departments, on quality measurement, on rework -- but only under the discipline of process management has expenditure become effective.

The same is true with effective training expenditure.
If you are a manager, you have the responsibility to sit down individually with each person that reports to you and discuss his or her present skills, the ones that need to be developed, and the training program that will provide these skills. You have the responsibility to define the total process in your organization which specifies, measures and improves the quality of training.

What if your manager doesn't do what I'm asking?

Then you should go to your manager and say, "Bob Price said you should sit down with me and talk about my development and training and also the training process for our group." On the other hand I don't guarantee the net outcome of that tactic, but it's worth a try!

The point I'm making is that planning for training is part of strategic planning and it's critical that every manager gets involved in the process.

Technical training in particular is so crucial to Control Data that I asked Walt Bruning to take on the task of helping us define a process and a plan that will make it a truly integral part of strategy and operations in every business unit of the company.
Customer focus and the creative response to customer need. It begins here with you in this room, and your marketing skill. It encompasses quality in each daily process and the skill of the trained people who perform each design, development, and production step of those processes. It ends with sustained competitive advantage and sustained financial performance for Control Data.

I think that's a good idea! Let's make it happen.

Thank you.