Thank you, Tracy (Pearson). Good afternoon, ladies and gentlemen.

The title of my remarks today is: Where Do We Go From Here?

[Moose hunters story]

Anyway, my question has nothing to do with the stock market which has had its own crash. I'm not even going to conjecture as to who is finally confirmed by Congress to fill the vacancy on the U.S. Supreme Court...or whether there is life for Minnesotans after this year's World Series.

My purpose in asking the question -- "Where do we go from here?" -- pertains to the subject of U.S. competitiveness and, more precisely, what my own company, Control Data, is doing to be more competitive in today's global marketplace after passing through the most turbulent three years in its history.

Let me begin with an excerpt from an article I read recently:

"Rising foreign competition presented...manufacturers with three choices: to make higher-quality products (enhancing profits); to reduce costs (through labor-saving devices); or to send traditional products to new markets. Mostly they took the third option."
I intentionally omitted one term in that quote -- the first sentence actually read "rising foreign competition presented [19th Century] British manufacturers with three choices .......
But I suspect there's little question of whom you thought I was speaking..

Indeed, the article I quoted from, Why England Slipped by Richard Rosecrance, cites several parallels between what Americans face today and the seeds of decline that were sown in the British economy during the 50 years prior to World War I. A time, I should add, when by any measure Britain was the mightiest nation on earth and in the full glory of world empire.

Three of those similarities are especially relevant here.
One, Britain's growth in worker productivity slipped well below one percent a year. By comparison, U.S. productivity growth has fallen from nearly three percent in the 1960s to one percent today.

Two, British exporters turned away from the toughest export markets and toward less-developed agricultural countries. Americans are now trying to expand industrial markets in the Third World because of difficulties selling much more than farm products in Japan and Western Europe.
Three, British innovation lagged in chemicals, the electric industry, and low-cost automobiles. U.S. companies virtually have abandoned consumer electronics. They are suffering in steel, cars, construction, machine tools, shipbuilding and semiconductors.

Behind that decline in productivity in Britain, the chasing of easy solution to exports and failure to foster innovation in emerging technologies was a fatal flaw. Having saved, invested and worked hard to build the world's greatest industrial economy the 19th Century British began thinking short-term, chasing easy solutions to financial gain. In short, they became preoccupied with realizing wealth as opposed to creating wealth, investing in/building new products and services. Building a business. Real wealth -- managing/manipulating a portfolio of business or assets to realize maximum market value of those assets.

If there is one basic factor behind the incredible rise and fall of the stock market over the past year it is the pervasiveness of that characteristic in our own economy. To a large degree, it is also why American corporations have been slow to respond to the challenge of international competition.

After World War II, there was enormous pent-up demand in the world for goods and services. The U.S. was the only country that could satisfy this demand. So, the management task was primarily one of expanding to meet an almost insatiable appetite.
During this same period of time, the U.S. helped rebuild industry in Europe and Japan. Eventually, we built up countries with that became formidable international competitors. I don't mean to say that that was wrong. Quite the contrary, it was the correct economic strategy for the U.S., and we have prospered from it. The point is, it also made change inevitable for U.S. business and this was made evident as the new competition gathered strength in the late 70's and early 80's.

Unfortunately by this time, the culture and strategies of U.S. companies, shaped in the 1950s and 1960s, were deeply embedded and extremely difficult to change.

Of course, the change came whether we wanted it or not, whether we were ready or not. And there are significant implications for the way we think and work.

Consider business strategy. Clearly the increased number of players in a global arena makes a competitive advantage harder to find, although it is no less important than it ever was. So, generally speaking, companies cannot handle the array of things that they once did. They have to concentrate on doing fewer things better.

A simple case in point is the bicycle and the technology it represents.
Not too many years ago, buying a bicycle was a relatively simple matter. The biggest decision was the color of the bike and whether you wanted to buy a Schwinn or not.

Now, the metal that is in the frame is different than the metal that is in the wheels. There are different kinds of spokes, and myriad gearboxes. Some bicycles are designed particularly for touring. Some for racing. Others combine qualities that make them suitable for touring or back country riding. In other words, the number and variety of refinements the manufacturer must pursue in seeking competitive advantage just in a bicycle is incredible. And if you really need an example of the evolution of sophisticated marketing and intense product focus, take what has happened to the good old "sneakers."

Imagine then bigger, more complex products like computers.

In fact, computers are a perfect example of how the rate of technological change is creating rapidly changing scenarios and providing opportunity for new competitors.

But let me back up and talk for a moment about Control Data and some recent history. By the early 80's Control Data had become the most diversified company in the computer industry. After years of success at doing things conventional wisdom held
impossible, the company had developed an almost insatiable
appetite for new challenges. In short by five years ago we had
more on our plate than we could manage -- more than any company
could manage -- in the face of rising competition. The business
scope ranged from supercomputers to financial services to business
incubators. And three years ago it caught us.

My task on becoming CEO was to change that. Over the course of
1985-86 we sold or shut down some 13 businesses. We focused on
three things, large computers for engineers, magnetic disk memory
devices and computer based services to commercial business. But
we didn't just hunker down and hope for the storm to pass. We
were determined to build for the future. So, for example even
though we had huge loses in 1985 and 1986, we continued to invest
more than $50M a year in a new supercomputer being developed by
our subsidiary, ETA.

Now we are just beginning to realize some of the fruits. Earlier
this year we delivered the world's fastest supercomputer, the
ETA 10 to Florida State University. And last month we introduced
the ETA-10/Model P. It is the first air-cooled machine that can
provide supercomputer performance for less than $1 million.

In the last two months we have introduced a whole new range of
magnetic disk drives. Three particular models lead the industry in performance.
So focus is paying off. But that is only one part of the story. The other is the culture of the organization.

Let's face it: the corporate culture of the '50s and '60s is an anachronism, not just for Control Data but for all U.S. companies. To survive in today's highly-competitive marketplace demands a responsiveness to customer need not common in large companies.

This responsiveness requires decentralization to get decisions closer to the market and empowerment of people to achieve their full potential. At Control Data, for example, we are decentralizing the organization and shaping a new corporate culture built on three core values concerning Marketing, Quality and People.

The word "marketing" means many things to many people. We have defined it very simply. It is to understand what you can do to make your customers successful. By focusing on their success -- their needs and requirements to achieve success -- you, yourself, can gain competitive advantage and success.

Quality is closely related. Indeed, it is best defined, as "conformance to customer expectation." Quality is too often thought of as elegance. But quality is as essential to, and as
achievable in, a Chevrolet as in a Cadillac, in a Volkswagen as in a Mercedes. Quality is the driving force of competitiveness. It is in fact the secret to sustained profitability. It has been estimated that the cost of quality -- or more accurately the cost of poor quality in the typical American business is between 25 and 30 cents on the dollar. That is for every dollar we spend, 25 to 30 cents is wasted on rework, scrap and lost time -- all of which are traceable to poor processes and procedures.

At Control Data we have embodied the drive for quality in what we call TQMP -- Total Quality Management Process. We've been spreading TQMP through the company for four years now. The process of converting a large organization to a quality culture, to TQMP in our case, is estimated to be a 7-10 year process. I can certainly vouch for that, but the benefits are already beginning to show and we are genuinely excited by the change it is bringing to our company.

The core value of People is integral to both Quality and Marketing. At its heart, we want to build a company built on empowerment -- enabling individuals to achieve their full potential and, at the same time, accept accountability. I have put this to Control Data people in these simple words: Each person should truly be able to say to themselves, "What I think and do matters."
Empowerment and enablement is behind everything we are doing at Control Data. It's at the root of TQMP. It's the whole thought of decentralization. And it's really closely linked to the application of technology and business development strategy.

As a matter of fact, the concept of people empowerment is the management challenge of the 1990s. The future competitiveness of U.S. industry depends largely on the ability of management to empower people and, in the process, reduce layers of management.

Go back to the three similarities between Empire Britain and modern-day America that I mentioned earlier: decreased productivity, inability to compete in tough export markets and lagging innovation.

People empowerment is the solution to each of those problems. Once people see and believe that what they do really matters, the management job becomes a heck of a lot easier.

Empowered people will increase productivity, improve quality and innovation and give America the competitive muscle to compete in any market, including Japan.

In a nutshell, people empowerment is the answer to the question, "Where do we go from here?"
It is at the root of quality. And quality is the driving force of competitiveness.

I might add here that the MN legislature and Governor Perpich understand that quality is critical to being world competitive. In the last legislative session there was a little noticed but important Bill which established a MN Council on Quality and Productivity with representatives from government, business and academia. Roger Hale of Tennant Company and Bob Killen of the UAW will be the co-chairs of this group of nine people of which I'm pleased to be one. (2nd meeting yesterday. CEO's of Mn. business must provide key leadership. Intend to provide info. and direction for interested people as to sources of help, training and assistance in implementing quality concepts in business).

Now, let's return to the question, "Where do we go from here?" As it relates to Control Data, I want to divide the question into two parts: What actions have we taken to become more competitive? Where are we going?

I have already discussed how we are decentralizing the organization and shaping a new corporate culture through empowerment and heavy emphasis on the core values of Quality, Marketing and People.
In addition, we have narrowed the focus of the Company to three basic businesses: Computer Systems, computer related services for business and disk drives.

We are concentrating on these businesses because they possess, or potentially possess, competitive advantage in their marketplace. And they are the kind of businesses that Control Data needs to be consistently profitable.

People tend to think of Control Data only as a manufacturer of mainframe computers. Because of the origins of the Company, that's understandable. But it's only part of the story.

The full story, in the simplest of terms, is this: Control Data is a value-added solution supplier ... we just happen to make some of our own hardware. In fact our customer solutions involve the use of computers and computer products from dozens of other companies.

Actually the way I like to think of that in different terms. We're in the business of using computers and computer related services to help our customers achieve success. Quality is our driving force. Superior financial performance is our goal.
We have made a lot of progress. Through the first nine months of 1987, we are profitable — a far cry from the financial morass of the past few years. Recent events, such as the introduction of the ETA-10-P supercomputer, give us considerable momentum going into 1988.

The English mathematician and author, Lewis Carroll, once said, "When you don't know where you are going, any direction will get you there." And, of course, in business if you don't know where you're going, one place you will get to very quickly is out of business altogether.

It's a lot more fun the other way around — having a goal, striving toward quality in performance and results, and seeing progress -- even a little progress toward it.

But at Control Data, we are not satisfied with a little progress.

To quote another Englishman, Winston Churchill: "It is no use saying, 'We are doing our best.' You have got to succeed in doing what is necessary."

More than anything else, Control Data will do what is necessary to succeed in today's highly-competitive world.

Thank you.