

CONFIDENTIAL

TO ALL CUC EMPLOYEES

REMARKS FROM CARL H. REYNOLDS'

TALK AT MANAGERS' MEETING FEBRUARY 9-10, 1968

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February 9-10, 1968

C. H. REYNOLDS

I would like to take a few minutes to state what I believe our task is and how well we are to do it. CUDC, in the form of CUC, was founded to provide professional service in the application of computers to the problems of society. It was founded as, and continues to be, a profit oriented company for three reasons:

First, capital is required to run any business and the people who provide that capital require that a reasonable return be earned.

Secondly, profit gives us the mechanism to reward and give incentive to energetic, creative, responsible people.

Third, and not the least, profit making ability in our society is a measure of excellence. The management in this company are individuals who want to be the best. They want to be a part of the best company. Profit is at least one measure of our excellence.

The services that CUDC renders are based on the intellectual capabilities of people. Fundamentally, there are three kinds. First, is problem definition in computer solvable terms; second, computer system design and implementation; and third, the economic management of those two skills. These three -- Applications, Programming and Management -- are fundamental to the operation of the company. It is my firm belief that CUC and CUDC will only achieve continued success through excellence in all three of these areas. Each area is as much a profession as the

others. Each area requires its own skills, its own experience, and its own integrity. The three are brought together by the underlying need in all these areas for computer competence. But we cannot have people with mediocre capability in all these areas. We must have individuals outstanding in each area, who are better than mediocre in the other two.

This is not a new idea. While it may only have been stated implicitly in the recent past, it clearly is the foundation of the company. There is an article in the 10th Anniversary CU-BITS called "How It All Began", and I would like to repeat it here.

John Sheldon, one of the founders, came to see Elmer Kubie. He stated that, "The difficulty he was having as an independent consultant was that he lacked programming capability to implement the applications that he was concerned with." Clearly, here are the first two elements about which I have spoken. John's suggestion to Elmer was, "Start our own company right now. I'll work in science -- you manage the firm." There was the third element.

Think of the failures and unsatisfactory contracts that you know about. They all resulted from weakness in two of the three areas. Great designs are poorly implemented and poorly managed. Look at the contracting jobs which are outstanding successes. You will find behind them a person who really knows what is to be done, a person who really knows how to do it, and a person who really keeps track of both of those things in terms which make sense to the client.

To summarize again, CUDC is in the profit making business of providing service to the users of computer power. We must map a client's problem to an economic, computer solution by Management, Applications, and Programming know-how.

The above is a general statement of what we do -- let's try to be more specific. First, each year we set very specific financial goals. We strive for a profit, before taxes, for personnel services of 12 per cent of sales. Secondly, we strive for a revenue growth of between 30 and 40 per cent. How do I pick those numbers? First, profit as a per cent of sales, is a measure of the quality of our work. Experience has shown that when things are run well, it is relatively easy to achieve 12 per cent. To achieve more than 12 per cent probably would restrict growth, and would prevent our responding to unusual opportunities. To achieve less would probably be mortgaging our future in terms of doing poor work. While that might not be the best way to derive an objective, it is my objective for the next few years.

Why grow? One reason is that all of you want to grow. Another reason is that the industry has shown that businesses which do not grow, shrink. Since businesses are made up of people, that is not surprising. Unless a man is challenged increasingly each year, his capabilities decline. If an athlete doesn't run against harder and harder competition, he doesn't progress. The same is true of business.

Thirdly, we want to do the things that growth provides the capability of doing -- for example: increased training

programs, company sponsored research and development projects, increased salaries, more opportunities for individual growth.

I set the range of goals and growth at 30 - 40 per cent. More than 40 per cent usually leads to quality loss. Less than 30 per cent shows a fundamental break with our historical capability. As a matter of fact, anything less than 40 per cent is less than we have been able to accomplish over the last few years.

Our MAP business has grown 42 per cent between 1965 and 1966, 47 per cent between 1966 and 1967, and it is budgeted to grow 37 per cent between 1967 and 1968. While the previous charts on our fixed quarter performance showed that we might not meet that, I would like to make two comments.

First, the reason we won't meet it is not that we did not get the business, it is that we executed it poorly. Secondly, I am not yet convinced that we cannot meet it for this year.

Our CTS business has grown 73, 45 and 108 per cent over the same time period. Processing grew 35 per cent between 1965 and 1966, 12 per cent between 1966 and 1967, and it actually is budgeted to shrink in 1968. As you will see later, we are taking steps to improve the spread of our processing capability to offices outside New York. The goal for 1968 was set low because of some pending conflicts with our competitors. Programs are actively under way in New York to provide extension of that growth figure next year. Other offices are doing similar things by obtaining processing contracts for the MAP work they

produce. Finally, CUFM is scheduled to increase 135 per cent between 1967 and 1968.

Summarize: Our goals are to develop MAP at a figure of approximately 40 per cent a year. Variations from year-to-year will be based on prospects as we see them at that time. These prospects are always a result of the individual projections of your individual managers. Secondly, we will achieve a profit margin on that business of at least 12 per cent. Thirdly, we will initiate and expand other services such as CUFM, processing and CTS to increase the growth rate and to increase the profit margin above 12 per cent for the company as a whole.

These financial goals are tied to the fundamental service concept of the company. These goals are not only compatible with the service we provide, they are only achievable if, in fact, we do provide all three of these services. Providing only one service is a different business than we are in. Every project, every office, every man who is in trouble today, has clearly failed to recognize this truth. It is the foundation on which our business is based.

For example, body shopping is clearly not our business. One or two years ago, this kind of business happened to be profitable, but I wonder if the people who sold that yesterday can survive on it today.

How are we going to achieve these goals? We have, today, the capability to achieve these goals over the next three to five years through MAP (formerly known as A&P), our Information Services, our Machine Operations Services, and by Installation

Management. MAP by itself can meet the growth and profit objectives mentioned above. How do I know? Those objectives are less than what has been achieved in the past. The computer industry continues to grow. Every quarter more business is reported in EDP Weekly in the MAP area than is needed for us to achieve our yearly growth objective; business that we don't even bid on.

Secondly, Information Services such as QUIP, CUCU, and Computer Letters are from now on going to be judged by the same goals. We are going to give New York credit for the use of QUIP in offices other than its own to some extent. Any office which develops a service and proves its worth, will get the same treatment. We will have to find ways to make them grow and be profitable in support of our objectives.

Machine Services are different. They are meant to subsidize MAP and Information Services by giving us the opportunity to have machines in the house. Thus, they are going to be judged first on the extent to which they strengthen our ability to achieve our other goals. In addition, they will be judged on their direct contribution to those goals.

The second reason that we need to provide machine services is to emphasize and reward the importance of professional operations of large scale digital computers.

A combination of MAP and machine operation is installation management, commonly referred to as CUFM. The efforts in the last 18 to 20 months have been outstanding compared to what

we did in the past in CUC. They are terrible compared to what we should do. Steps are going to be taken immediately to improve this situation.

Branch offices are a fundamental instrument through which CUDC offers service to its clients. We use this approach for two reasons. First, we believe the clients must be served where they are - not where we are. Secondly, for a man who has ability and a desire to take responsibility, the branch office concept gives him the chance. Sure, there are many problems with this approach. It is inefficient in the use of scarce talent. It makes people face up to, and resolve, hard problems. All of these are details, however, and can be solved. Yes, there will have to be changes in how we handle inter-office billing, but it will be carefully worked out to make certain that the result of any change will increase our capability to meet our goals, not hurt it.

To summarize, we will grow by about 40 per cent a year. We will achieve a profit margin of at least 12 per cent in MAP, and we will do this by being outstanding in the definition, implementation and management of information systems. Every new application of the fundamental capabilities which go into our present services will meet the test outlined above.

I think you ought to understand that you have many resources at your command, limited only by yourself. Even the smallest office in CUC is financially stronger and has greater personnel numbers than the entire company did six years ago. The trick is to use them. You have to know who your clients



are. You have to know who your prospects are. You have to be able to listen to what they want, and you have to find a way to provide what they want, and you have to provide it at a profit. No client expects to get something for nothing, even though he will try. Don't be ashamed to bill your senior people, and don't be ashamed to make your senior people billable. You are, after all, selling a very scarce commodity in the advice and counsel of a staff analyst or senior staff analyst or principal analyst.

Again, I would like to summarize. This has been, and is, and is going to continue to be, the best company in the world for the application of machines to real problems. Our role is to define the applications, implement good systems, and to manage our capabilities to the clients and to the company's advantage.

We are not only going to provide the best service, we are going to provide the best continuous growth in those areas where we work. Some day we may branch out and buy paper mills, insurance companies, and wholesale grocers. That day will come only when it is to the advantage of the people like you and your technical people who make this company great. Growth for growth's sake seems useless to us. I leave it to you to MAP your own future.