W J Fryer

Burroughs Corporation

BURROUGHS PLACE • DETROIT, MICHIGAN 48232
INTERNATIONAL GROUP

August 20, 1976

TO: Messrs.	A. Borner	E. D. Gay
	J. R. Cameron	E. Garza
	F. Cruchley	D. Hunter
	C. Davidsen	K. Koyama
	F. de la Cruz	A. T. Marshall
	D. B. Dengate	N. Martinez
	J. Errea	D. Miles
	A. Fairclough	V. Romero
	H. Ferro	P. Solis
	A. Flaquer	V. Vanegas

The attached comments from the Chairman of N.C.R. - W. S. Anderson were made at a N.C.R. management meeting earlier this year.

The comparing of the timing of management action by Burroughs and N.C.R. will be of interest to you.

The comments on Human Obsolescence are an important aspect of good management to all companies in all industries, particularly the point about a new hire and the question, "What is this man's future". This is a point in Burroughs we have stressed for over two decades. We must never lose this important factor in employing high calibre people.

H. W. Dixon

Copy to

H. W. Dixon
Field Engineering Manager
Americas-Pacific Division

E. Beck
W. Fryer
P. Malfra
All Branch F.E managers

HWD/kw

Burroughs Business Machines Ltd.

INTER-OFFICE CORRESPONDENCE

Copy

TO: All Field and Head Office	FROM: Palle Smidt , President
LOCATION: Management E & S and BF & SD	LOCATION: Head Office
	DATE: July 13th, 1976

SUBJECT:

Enclosed are comments made by NCR Chairman, W.S. Anderson, during an NCR management meeting held earlier this year.

It is interesting to note that, contrary to Burroughs, NCR has been late in addressing themselves to the key issues of management which turn in outstanding performance.

Anderson's remarks should also be noted in relation to the fact that NCR results in 1975, compared to 1974, showed an increase of 9% in revenue and a decrease of 17% in profits. This compares to Burroughs performance of 11% and 25% increase respectively.

Where we continued our advance in both revenue and profit in the first quarter of 1976, NCR had a decline of 2% in revenue and a decline of 47% in profit, compared to the first quarter of 1975.

Palle Smidt

P.S. Please note that the underlining of parts of Anderson's remarks was not done by this office.

Encs:

Cy Chadwick -

[illegible] for John Holl[illegible]

FORM CAN-41 (8-70)

NCR

NCR Corporation
Dayton, Ohio 45479

March 19, 1976

INTRA CORPORATION

TO ALL REGION VICE PRESIDENTS, REGION EQUIPMENT SALES DIRECTORS, REGION ADMINISTRATIVE DIRECTORS, DISTRICT EQUIPMENT SALES MANAGERS AND DISTRICT ADMINISTRATIVE MANAGERS:

During the managers' meeting at the Las Vegas CPC Convention, I gave a slide presentation which included comments on some of the opportunities facing the company in 1976 and also several problem areas to which we shall be devoting special attention this year. Following that meeting, a number of managers suggested that those comments be condensed in letter format and sent to all Regional Directors and District Managers. It was felt that this would provide a better understanding of the reasons for recently announced policies and strategies designed to make 1976 a more successful year than 1975.

The following are some of the points discussed at the managers' meeting.

MARKET OPPORTUNITIES

Considerable attention is given today to how well companies are "positioned" to satisfy the needs of specific markets. In discussing the 1976 outlook for the business equipment industry, the magazine DATAMATION described this year as "another period of transition." The magazine then pointed out that in its earlier days the computer was used primarily for automating manual functions. Later it was used for assistance in management decision-making. But today, DATAMATION said, we are entering a new era "in which the computer is becoming fully integrated into society and the economy."

This new era is characterized by a strong trend toward distributed data processing and the extension of the power of electronics to more and more applications, such as point-of-service terminals and Electronic Funds Transfer systems.

No company is better positioned to capitalize on these new trends than NCR. We have a broad line of transaction-oriented terminals coupled with extensive mainframe and communications capabilities. This is especially true in those key vocational areas where we have directed our R & D and marketing dollars.

We must employ this strength to the fullest extent in 1976, meanwhile avoiding the temptation to dilute our resources by pursuing marginal or secondary opportunities. Our overriding 1976 strategy, therefore, should be to concentrate on doing what we can do best, and then use judiciously our available products and skills for that purpose.

Departure of Major Retail Competitor

Another major market opportunity has resulted from the departure of the Singer Company from the retail systems field. As a pioneer in POS, Singer obtained a major share of the retail systems market, which we now have an opportunity to regain for NCR.

If we are successful in getting most of Singer's business, it will mean that in future years we will be competing with IBM in the retail systems field from a position of dominance. On the other hand, if IBM acquires most of the Singer customer base, then we shall be competing with IBM as a co-leader in the retail systems market. The more desirable alternative is obvious. Therefore, it is vitally important that we take full advantage this year of the vacuum left by Singer's departure.

Extensive geographic coverage

Whilst I have a healthy respect for the strengths of all our competitors, imagine how difficult it would be to compete in the worldwide POS market with the limited retail marketing and service organizations of some of these competitors.

again, no company has more extensive worldwide coverage in the business equipment marketplace than NCR. Quite literally, if we cannot sell retail systems, financial systems and our other products to these markets, then no one can. We must make NCR's widespread geographic coverage count in 1976. We must emphasize our worldwide marketing strength, particularly with large international, national and regional customers.

Acquisition of Data Pathing

In January NCR announced plans to acquire Data Pathing Incorporated of Sunnyvale, California. Data Pathing is an acknowledged leader in the field of factory data-collection systems. When this acquisition is consummated in the near future, NCR will gain a major entree into many of the world's largest multinational industrial companies -- companies which today use scarcely any of our products. These include companies like Alcoa, Bethlehem Steel, Black & Decker, Boeing, Caterpillar, Cummins Diesel, John Deere, Ford, General Electric, General Motors, Hughes Aircraft, Motorola, Rockwell International, Texas Instruments, Western Electric, and Westinghouse, just to mention a few. All of those companies are current users of Data Pathing data collection systems.

1976 PRODUCT OPPORTUNITIES

From a product standpoint, 1976 will be a milestone year in the history of the company. It is the first year in which virtually all the products we deliver will be electronic products.

New computer family

During the latter part of April we shall introduce the first members of a new family of medium-to-large general-purpose computers. These will be the first of the successor systems to our current Century Series.

Our future as a major computer systems supplier is directly dependent upon the acceptance of these new computer systems. They have been especially designed to function in transaction-oriented systems and in distributed data processing networks. Thus, they represent a substantial enhancement to our data terminal marketing efforts. At the same time they offer a sizable potential for the sale of computer equipment not coupled to the sale of terminal products.

It is essential that we move rapidly in selling and installing these new-generation systems. The majority of them will be rented. This means that the earliest units we install will have the longest life cycles, and thus will be the most profitable units. If this new line is to be profitable -- and it must be profitable -- we cannot expect to install a few systems and then hope that marketing momentum will build up two or three years later. Therefore we must push them hard from the outset.

Release of the 499

Special mention should also be made of the importance of the 499 program to our 1976 results. In the United States, for example, the 399/499 product line is the second largest gross-profit contributor of all the products we sell -- exceeded only by the Century computer line. Obviously, the release of the 499 has put us in a much stronger competitive position in the small systems area. We must use this strength fully if we are to meet our 1976 profit objectives.

7200 data terminal family

The 7200 data terminal family is another key 1976 product. The market for terminals which provide verification and editing features, as well as data entry, is one of the largest and fastest growing of all terminal markets. Our success in this market is riding on how well we do with the 7200.

Modular Terminal System and 7750

Other product releases scheduled for later this year include the new family of modular terminals for banks and other financial institutions, the so-called MTS, and the 7750 proof and encoding system which will keep us a step ahead of competition in the proof and encoding field.

Expanding software capabilities

We are in a better software position today than we were a year ago and this also has enhanced our 1976 marketing opportunities. However, the mere availability of improved software will not automatically strengthen our marketing efforts this year. We must actively use this strength in planning marketing strategy, and then follow through on that strategy.

Position to take advantage of EFTS

It is anybody's guess as to how rapidly Electronic Funds Transfer Systems will evolve. But we can expect 1976 to be a year of significant movement in that direction. Certainly many people who have been surveying financial institutions feel that it will be.

EFTS involves retail stores as well as financial institutions, and here again NCR faces an unparalleled opportunity. We have the most extensive range of retail terminals, financial terminals and computer capability combined of any equipment supplier. And we are the only company with a large existing customer base in both the financial and retail markets. In other words, we are holding a very strong hand in EFTS. If we play our cards well, NCR could emerge as the No. 1 supplier in the EFTS market.

(over)

MANAGEMENT OPPORTUNITIES

OVA Program

No single management opportunity offers greater potential than the OVA program which was undertaken in Dayton during the latter part of 1975 and which will be extended throughout the field in 1976. I want to emphasize again the importance of this program not only to our 1976 results but to our results in subsequent years as well.

During the past three years we have been able to dramatically improve employee productivity. In 1972, for example, NCR was generating only $17,000 per employee in annual revenue. This compares with over $30,000 per employee last year. In other words, we have almost doubled employee productivity in three years' time. This has been accomplished primarily by streamlining our existing organizations and improving the efficiency of their functions and services.

However, what we had not done, prior to the OVA program, was to take a fresh look at the functions and services themselves -- to try to identify and get rid of unnecessary activities. And we are finding plenty of these waste areas -- activities that are either of the 'make work" variety, duplications of work, or activities that are no longer meaningful in today's environment.

We want to channel that money into more productive directions -- for example, increased expenditures for research and development, for planning, and for other areas of support which will make the achievement of our corporate objectives easier.

As a result of much work, on the part of many people, we have recently decided to eliminate or curtail a number of the functions and services of various Dayton divisions and departments. These changes will have no appreciable effect on our first-quarter financial results, but I expect to see a significant impact beginning in the second quarter.

Improved Planning Systems

Another key management opportunity this year is in the area of improved planning systems. Let me give you an example of what I mean. Last October 20, when I appeared before the Boston Society of Security Analysts, I made the following statement:

"Let me reassure any of you who may have some concern about possible substantial year-end writeoffs at NCR, that there is no foundation in fact for such concern."

That was on October 20. You can therefore imagine my chagrin, when only a month later we had to issue a press release contradicting my earlier statement We had to announce that because of the accelerated phaseout of all mechanical manufacturing in the United States, we now had redundant service and assembly parts which would result in a substantial year-end writeoff.

In the same press release, we also announced heavy indemnity payments, connected with the closing of the Bulach and the Berlin plants and sizable employee reductions in a number of other locations. Those developments were primarily responsible for the 50% decline in our fourth-quarter profits.

The investment community does not like that kind of surprise. Our customers -- who are concerned these days about the staying power of their suppliers -- don't like that kind of surprise. I don't like that kind of surprise. Overnight, my personal credibility in the investment community declined 50%, along with our fourth-quarter earnings.

Someone may ask, "How do things like that happen? Where is our visibility? Where is our planning?"

Unfortunately, those things happen because the company has operated for years with unsophisticated planning and control systems.

We have been working hard, and spending a great deal of money, to replace the inadequate planning and control systems which have penalized NCR so heavily in the past. But even when we get all these new systems on stream -- and working well -- we cannot abdicate our own responsibilities as managers. Those responsibilities include more contingency thinking and planning through the company. Every manager -- whether in Dayton or in the field -- should constantly be asking himself the question, "What if so and so were to happen? And if it does, then what do I do to recover?"

The old NCR was a management-by-crisis company. Too much of every manager's time was consumed in putting out fires. Too little time was devoted to contingency planning. We failed to develop the type of planning discipline that enables a company to make things happen. Instead, we simply tried to forecast the future. Then we sat back and waited for it to arrive.

We must learn to manage change, and to structure our organization and use our manpower to take advantage of a changing environment. If we fail to do this, we will not even survive -- let alone thrive -- in the demanding business climate of the next several years.

° Improved Internal Management Information Systems

Probably no factor has caused this company greater trouble in recent years than the lack of good management information systems. We cannot successfully operate a business of this size and complexity by guesswork. Yet we are often forced to do so, because of incomplete or inaccurate information.

Also, we spend too much time and money manipulating data manually -- data that is either obsolete, erroneous or sorted out in such a way that it is not meaningful to the problem at hand.

For example, after 91 years in the systems business, NCR still cannot produce an accurate worldwide order backlog figure. Too often the only way we have of judging where we stand, or where we are headed, is to make an estimate based on after-the-fact data. And usually, this information arrives too late to be of much practical value.

No company will ever have perfect management information systems. The cost would be prohibitive. Also, conditions are constantly changing; a system that does the job this year may well be obsolete next year. Nevertheless, we shall continue to devote much money and effort toward improving our management information systems. I expect every NCR manager to cooperate fully with these programs.

Cost Control

NCR is still a relatively extravagant company. We continue to do many wasteful things -- practices which had their origins back in the 1950s and the 1960s, when easy growth and limited competition led us into bad habits. For example, if this company had been tightly operated -- with well defined missions and responsibilities for each organization -- there would have been less need for an OVA program. Most of the inefficiencies which the OVA studies have uncovered should have been corrected by our managers -- on their own initiative -- a long time ago.

We still tend to be wasteful with our working capital. There was ample evidence of this in the way our inventories mushroomed in 1974. Whilst we were able to reduce these inventories by $134 million last year, if we are not careful the inventories problem will rear its ugly head once again in 1976. Every NCR manager who has anything to do with inventories must be exceptionally vigilant this year. We want to be responsive to the needs of our customers, but at the same time we must keep all inventories at the lowest acceptable level.

The same degree of vigilance is necessary in regard to capital expenditures. How many times have we pointed out that any capital spending project must produce an adequate return on the investment involved? Yet time and again, we find that managers are proposing capital expenditures without having thought through the return those investment would produce.

I don't want any manager to come to me this year with any proposal for capital expenditures, unless and until he can prove to me that it will provide an adequate return on investment. And anyone who makes a capital expenditure had better be prepared to be measured by the return that expenditure produces.

1976 PROBLEM AREAS

Asset Utilization

One of the most serious drains on NCR's profitability this year will be our excess manufacturing capacity. In part, this has been caused by the transition from mechanical manufacturing to electronic manufacturing. Also, we have not been getting the volume growth we should be getting. Whilst manufacturing capacity is being reduced as quickly as is practicable, excess capacity will continue to erode our 1976 earnings. We can minimize this erosion only by increased volume.

In my January 30 letter to field management, I pointed out that if we can exceed our 1976 revenue objectives, then almost 50% of every dollar of additional revenue will come down to the bottom line in the form of profit. This is because that incremental volume will have a direct impact on unabsorbed factory overhead, in addition to its obvious impact on gross profit.

However, to achieve these benefits, we will have to identify those areas where extra volume growth can be achieved and then move rapidly to close that additional business.

Service Parts

Service parts are another perennial problem. In the past we have had too many of some parts and too few of others. This has wasted capital, seriously damaged our service reputation, and has cost us millions of dollars worth of writeoffs.

We have devoted much effort to improve this situation, and I believe we are making progress. But the service parts problem is one that must be shared by many people throughout the corporation. In part it is a manufacturing problem, in part a marketing management problem, in part a Peachtree problem, and in part a problem of our 1,000 service offices around the world. In 1976 we expect each manager who has any connection with service parts to devote whatever effort is required to minimize service parts investment.

Unprofitable Service Operations

Also in 1976 we must take actions to correct the unprofitable aspects of our service operations. For many years NCR has maintained older mechanical machines at prices which are substantially less than the actual costs of providing that service. In other words, we have operated much of our service business at a loss, even though on a time and wage-rate basis it might have appeared that this phase of our service operations was modestly profitable. What was not taken into account, however, were such factors as training expenses and the high costs of maintaining stocks of thousands of different parts for obsolescent or obsolete machines. Many of these parts, over the years, have not actually been used and have had to be written off as useless.

Someone may ask, "Why did the company adopt such an approach to the servicing of very old products?" The practice probably arose because of the urging of our Marketing Division, which felt that if maintenance rates were increased customers would no longer buy our equipment. Actually, there was little justification for such apprehension. At the peak of the mechanical era, NCR dominated the cash register market and therefore could have priced its maintenance rates on older machines at more realistic levels.

Not long ago I was talking with an executive of the Burroughs Corporation, who said that a number of years ago Burroughs considered entering the cash register market in a major way. However, after thoroughly studying the tremendous costs of developing and staffing a cash register service organization, plus the huge investments required in carrying spare parts, Burroughs decided to stay out of the cash register business. They simply could see no profit in such an undertaking. Yet NCR continued its practice of servicing machines which had outlived their useful lifes and consequently we continued to lose money on those operations.

One would have to look far and wide to find another company which encouraged its customers to use a product for 10 years, then have the company refurbish it so it could remain in use and be maintained -- again at a loss -- for another 10 years. Certainly no one expects to be able to take his 15 or 20-year-old auto to the dealer and get it repaired at the same rates charged for a car only a few years old -- if indeed he could get such an antique repaired at all.

(over)

"Service is the heart of our business" was and is a valid NCR motto. But not even customers expect a supplier to continue servicing equipment which has been obsolete for many years.

We recently completed a study of the spare parts and maintenance costs involved in servicing mechanical equipment. It was apparent that we shall have to raise maintenance prices on older mechanical equipment by a sizable amount in order to insure an adequate return to the company.

We have no intention of abandoning our responsibilities to customers who have purchased NCR mechanical business equipment, and we shall therefore continue to service such equipment for a reasonable period of time. But we cannot afford to provide that service at a loss. For this reason we shall be increasing maintenance prices on older mechanical equipment in the near future. It is important that every Regional Director and District Manager understand the need for these price increases and explain this need to customers. Our customers are in business themselves and thus they will understand that no company can continue indefinitely to provide services at a large loss and still remain in business.

The Problem of Human Obsolescence

We are all aware of the problem of obsolescence as it pertains to manufacturing parts or service parts. But do we understand all the implications of the obsolescence factor as it pertains to people?

We have seen what happened in our factories where, almost overnight, many skills formerly essential to the company became obsolete as we converted to electronic production.

What is going to happen in other areas of our operations as job requirements continue to change? Who is facing up to this problem? Are we really doing our employees a favor if we fail to let them know that the skills they are using today may become obsolete in the future? Would we better meet our responsibilities to these employees if we indicated to them now that changes over which we have no control are coming?

Certainly we ought to be taking an inventory of all the skills that are represented in our present organization. We should be asking ourselves, "Will there be a need for such and such a skill in 1980? And if not, what plans are we making to replace those obsolete skills with the skills we shall require in 1980?"

The point we keep forgetting is that we are in a new kind of business today. About the only similarity it has to our former business is that we are still a part of the business equipment industry. But today, even if a customer buys only electronic cash registers, he wants to know how that equipment fits into a data processing system. He wants the same results as his bigger competitor down the street. It's a new business. Today, for example, every new sales representative we employ should have EDP capability.

We talk a great deal about product obsolescence, about manufacturing parts obsolescence, about service parts obsolescence. We should give as much attention -- if not more -- to the human obsolescence problem. This is a problem which could well prove to be more costly than the product obsolescence problems we have grappled with in recent years.

Hiring Policies

Since 1970, NCR's worldwide employment has declined from 95,000 men and women to 72,000. In Dayton, the decline has been from 20,000 to somewhat over 5,000.

Some of these departures have occurred through normal attrition. But the majority of them represent terminations by the company.

Thus, we have 23,000 fewer people in this corporation today than we had five years ago. We have seriously impacted on the lives of all these men and women and their families as well.

Some of our managers may say, "What does this have to do with me? It was inevitable, because of the change in technology and the concurrent need to eliminate waste and duplication."

I agree. It was inevitable -- if the company was to survive. But that does not mean that we should not be concerned about it, or that we cannot learn something from this traumatic experience.

Now what are these lessons?

The most obvious lesson is that in the future, every manager who has the authority to hire anyone -- even though he currently may be below his approved employee level -- should think very carefully before he puts a new employee on the payroll. He had better make sure that he is going to need that employee -- not just for a few months, or a year or two, but for a longer period of time. And if he feels that the need is likely to be temporary, then he had better take some other action to solve his manpower problem.

We have now concluded the first phase of the Overhead Value Analysis program. As a result of those studies, several hundred people are losing their jobs. Suppose these people were to say "What have I done wrong? I was doing a job which my management told me to do. I did that job well. I was a dependable and loyal employee, yet here I am going out on the street!"

In responding to such an employee, a manager might say, "Well, at one time the company thought what you were doing was important. But now it no longer is, so you will have to go."

That is true, but will the employee consider it a satisfactory answer?

If our managers had been more alert, and more in tune with the times, we would not have had so many functions and services that no longer have any significant value to the corporation. So the first thing we should ask ourselves before hiring a single additional person, is whether we foresee a need for the services of that person over the long term.

A second lesson which we should have learned from the experience of recent years is that we had better employ people who have flexibility. No function or service goes on forever without change, especially in a high-technology industry such as ours. Therefore, before we hire any new employee we should ask ourselves, "What is this man's future?"

We may in fact need him today to carry out some function or perform some service. It may be that we will be doing that particular job for a long period of time, perhaps several years. But we must look farther out into the future than that. We have to ask ourselves, "What will happen to this employee 10 years from now, 15 years from now, or 20 years from now? Does he have the capacity for growth? Will his skills grow with constant change, as the technology and requirements of our industry become increasingly complex?"

Perhaps this person is adequate to do Job A, but can he grow into Job B five or 10 years from now? If he can do only Job A, and does not have the potential to eventually take on Job B, then we should not employ him.

We are a fast-growth company in a fast-growth industry. We should be employing only people who can grow with the company and with the industry.

This is not only in the best interests of NCR. It is also in the best interests of the person. We should seek to avoid employing people for one, two, or three years -- and then letting them go.

We have had the greatest employment variations in manufacturing. Part of the blame for this must be placed on poor market forecasting. Also, there will always be some ups and downs in the manufacturing employment curve. I think everyone realizes this, including the public. But when a company has wide employment swings in non-manufacturing employment, people have a tendency to conclude that the managers running the company lack proper planning ability.

Perhaps we need to tighten up our hiring policies -- especially those policies that pertain to employing people in overhead-type jobs.

I expect every NCR manager to become more sensitive to this problem and to deal with it intelligently. If this corporation is going to succeed in future years, it can do so only through the efforts of people -- people who have the skills we require and people who believe the corporation will offer them a good career path -- with a reasonable degree of security as long as they continue to grow with the business.

Universal Product Code

During 1975 NCR carried out an aggressive program to assist in winning public acceptance of the food industry's Universal Product Code. This included live demonstrations of scanning equipment for legislative groups, consumerist organizations and the general public. I am convinced that much of the resistance to UPC scanning systems is the result of misunderstandings as to what they are and what they can do. Thus, our primary task as the major supplier of supermarket systems is to convince the American public that UPC scanning is to their benefit rather than their detriment. We therefore must continue to work closely with food manufacturers and with the supermarket industry in a broad educational campaign for 1976. Hopefully, this effort will help clear up the misinformation and confusion which has led to restrictive legislation in several states and which is still pending in the U.S. Congress.

Electronic Funds Transfer Systems

As I indicated earlier, EFTS on a massive scale is coming in the more developed countries around the world. The only questions are when and how.

In 1976 we need to continue our efforts to make EFTS occur sooner rather than later, since we are now in an excellent position to take advantage of the EFTS trend.

Other Concerns

At this time last year NCR was coming off two record years in a row But in 1975 our profitability steadily deteriorated. Many people concluded that our progress in 1973 and 1974 was merely a flash in the pan. Obviously, we have a major corporate image rebuilding job to accomplish this year:

A good example of our image problem is found in a recent study of NCR by the investment firm of Goldman Sachs & Company. This analysis of our company began by referring to "many years of promises and subsequent disappointments."

The study then went on to say:

"NCR still has an erratic image with investors. One of the difficulties in monitoring the company has been ascertaining the significance of current revenues and other trends. Since the mid-1960s, any interpretation of revenue growth or order patterns has been difficult because of such company-dependent qualifiers as strikes, product problems, production difficulties and reorganizations.

"Even prior to the severe disappointments of the 1970-1972 period, NCR had a mediocre record at best. But during the 1960s the company's problems were either concealed by the generally buoyant environment, or passed over in hope that time would cure the difficulties."

But then noting that much has been done in the past three years to deal with the company's problems, the Goldman Sachs review reached this conclusion:

"NCR has not engineered a complete turnaround, but it has clearly avoided what could have been a major corporate disaster. The company now appears to be at least a viable competitor in most of its markets. Thus, to put the NCR turnaround into perspective, one can say that after almost being counted out, the company is now back in the race. But its exact position in the lineup is still subject to question."

I think those words -- better than any words of mine -- sum up where we stand in the public eye today. We have made encouraging progress -- yes. But no objective person could, by any stretch of the imagination, conclude that we have finally turned the corner and will be in great shape from now on.

The public is not stupid. Whether they are investors, whether they are prospective customers, or whether they are employees, people look at a company and make a judgment as to how well it is being run. And most of that judgment is based on how profitable the company is.

In the case of our shareholders, we must therefore demonstrate that we can resume the trend toward improved profitability.

In the case of customers, we must get our profits up to a level which makes it apparent to anyone that the company is -- and will continue to be -- a viable competitor in the business equipment industry. At the same time we must prove our competence in that industry, with excellent hardware, software and above all else -- service.

I consider the customer image problem to be one of the most serious we have. During the past three years I have called on countless NCR customers and former customers around the world. Time and again, in those places where we have lost orders to competition, I am told that the reason we lost the order was that the customer lacked confidence in the NCR representatives who called on him.

In most cases it was not lack of suitable products. To the contrary, we have today the best line of products in our history -- products that some of our competitors would be delighted to have in their own product lines. For example, our competitors in retail systems would be happy to have our line of POS equipment. Imagine what a boost it would be to Honeywell or Univac to have our range of data terminals. Even an IBM salesman would be glad to have added to his line the Century 8200 or the 499.

Whilst we have many outstanding people in marketing, we do not have enough of them. Consequently, our products sometimes are more impressive to customers than the sales representative who markets them.

In the case of NCR employees, we must realize that the events of the past three years have created serious morale problems. This should not come as a surprise. You cannot turn a company inside out in a period of three years, as we have done, and expect that morale will not suffer.

I suspect that part of this morale problem is due to the fact that some of our employees today feel inadequate on the job. Put yourself in the place of an employee who suspects he is slipping behind the times because his skills are no longer up to the changing demands of his job. Such a person is understandably anxious. He worries about every rumor he hears. An unfavorable development takes on larger-than life proportions. He operates in a climate of fear and this inevitably erodes his morale. Unfortunately, there is probably not much we can do about that type of morale problem.

However, for most employees our task this year is to create an awareness that we are now through the most difficult of the changes, and that from here on there will be the degree of stability within the company which has been lacking during the past three years.

Old habits and old opinions die hard. Therefore, we have an internal communications job to do. Every NCR manager -- both in Dayton and the field -- must share with his own organization the fact that NCR's outlook has greatly improved. We are in markets of tremendous potential. We have excellent products to sell to those markets. We are in good fighting trim. And we are getting stronger every day.

<u>1976 Objectives</u>

Our 1976 objectives call for sizable increases in both revenues and profits. Yet these are actually conservative objectives, considering the rapidly improving economic climate and the wide range of products and services we can now bring to our major markets.

I hope no one thinks these objectives were plucked out of thin air. To the contrary, they were carefully developed and represent the minimum performance which we have every right to expect in 1976.

As I said at our 1976 Objectives Meeting in Dayton, we cannot look upon these objectives as merely desirable goals which everyone will do his best to achieve.

We cannot successfully operate a $2-billion company solely on the premise that everyone will do his best to achieve a successful year. It is like the manager who, when appointed to his position, says he will do his best in the new job. That is always a nice sentiment. But we take it for granted that a manager will do his best. Otherwise, he should have never accepted the appointment.

Doing one's best may be good enough in fields of amateur endeavor. But that is only one of the qualifications which the professional manager must bring to his job. A good manager says he will do something and then he does it. If all of us only do our best -- and our best is not good enough -- then all of us will be in trouble.

The professional manager expects to be measured -- and should be measured -- by results rather than good intentions. Good intentions are fine, but they can carry us only so far.

No excuses for failing to meet objectives will be accepted in 1976. Someone may say, "I cannot do it all by myself." I agree. None of us can do it all by himself. Certainly I cannot go to the Board of Directors, and tell them that NCR will make its 1976 objectives this year purely through my own efforts. If we are to reach, and hopefully exceed those objectives, then I shall need all the help I can get.

Each manager, in turn, must also solicit help. He must force the message down the line. He must say to his people, "What are you going to do to help me meet our regional or district objectives?"

You cannot of course put salesmen on a dollars-earned basis. But you can establish revenue and incoming business objectives against which they can measure their performance. You can also hold each of your subordinates personally responsible for reducing costs and increasing productivity.

I hope no one thinks he can reach his objectives by sitting in an office and performing feats of magic. Nor will it help to depend on luck or Divine Providence. The goals we have set for 1976 can be reached only through personal effort and personal dedication.

Certainly every NCR manager has much incentive to help make 1976 an outstanding year. If NCR's profits decline for the second year in a row -- either in total dollars or percentage of revenues -- we cannot logically expect our customers to believe that we will remain a competitive company in this industry over the long term.

On the other hand, if we can resume the pattern of earnings growth which was established in 1973 and 1974, the future of this company will be brighter than at any time in its history. There is only one way we can stand up and prove that we are as good -- or better -- than our competitors, and that is by turning in a creditable financial performance this year.

(over)

There is no middle ground. We shall either have a disappointing year in 1976 or we shall make 1976 a successful year.

Missing our objectives will constitute a year of failure. Achieving or exceeding our objectives will constitute a successful year. It is that simple and the choice if entirely ours.

Sincerely,

W S Anderson

W. S. Anderson