

## Chapter 10 “Make”: Relying on Internal Resources

Success in a strange country required a curious mixture of open-mindedness and skepticism, capable of adjusting accepted ideas and practices to unfamiliar conditions . . . ingenuity and resourcefulness in the field are so continuous that the casual may not notice them.

—Bernard DeVoto, Introduction to *The Journals of Lewis and Clark*

To appreciate the challenges of the third leg of the strategic trichotomy—“make,” or, more prosaically, “just do it yourself”—it is most useful to look at a company’s moves to develop markets outside its familiar domestic territory.

The tug of international markets for Control Data’s high-performance computers was as strong and adventurous as that which led to the long search for the Northwest Passage. In 1803 Lewis and Clark undertook their defining journey in search of a river connection between the Atlantic and the Pacific. A century and a half later Control Data began its journey of exploration in markets beyond the familiar confines of the United States scientific and engineering community. Discovering and carving out new territory is seductive whether it’s land or markets.

### WHY ALL THIS BOTHER?

Before taking a clearer look at the global expansion of Control Data's business, it is worthwhile to pause for a moment and think about the *why* of this enormous undertaking.

Once, when asked why he robbed banks, the infamous Willie Sutton replied, "Because that's where the money is!" There was a clear and obvious money opportunity for Control Data in non-U.S. markets. In Control Data's case, however, there were a number of factors beyond mere dollars. It was perceived that competition in global markets from giant IBM would be mitigated by foreign government concerns about IBM's market dominance. Control Data had already become a favorite of the close-knit global scientific community.

Product design and development costs were huge relative to the company's size. It was desirable to amortize those costs over as extensive a market as possible. Product performance requirements were global in nature.

In short, there was a very real financial *pull-push* at work. Each incremental revenue dollar from international expansion was extremely profitable from a pure R&D perspective. There were additional costs, of course, but they were moderate relative to development costs. Later the appeal of low cost manufacturing for various computer components and for peripheral equipment products became an additional tug from the global arena.

The global expansion question for Control Data, then, was never really *if* nor *when*; the only question was *how*. The problem of market access and the clear need for resources considerably greater than those available within a start-up company with revenues less than \$50 million strongly suggested collaboration as the mechanism of choice in this strategic move. The attempt for an alliance with Philips, however, did not reach fruition. So by mid-1962 the company was proceeding on its own to set up a European marketing operation. Thus the initial and major strategic step of the company was neither acquisition nor joint venture, but rather expansion by means of its internal technological, financial, and human resources. And it would require a lot of marketing and administrative resources—money and people.

The person who had been chosen to explore the possibilities for expansion into Europe was Ed Strickland, vice president and treasurer of the company. He saw this as an opportunity not only for Control Data, but also for himself. And so it was that in the fall of 1962 an "international" operation was established in Lucerne, Switzerland, with Ed as its president. He had a small team of only four U.S. expatriates and three Swiss administrative and clerical people.

In the area of marketing expenditures, things were straightforward. The company would start up and grow its global operations within the limitations set by its internally generated revenues and profits. The growth might not be as rapid as the potential permitted, but among all of us there was a deep belief in the company's internal capacity for growth. This confidence was not misplaced, for the creativity and productivity of the sales people attracted to Control Data's international operations were no less than those of the technical people attracted to its computer development operations.

Country-level marketing and sales operations were quickly set up in Switzerland, Germany, Sweden, Holland, England, and France, all of them headed by newly recruited Europeans. The first major sale of this organization was realized within a few months: a Model 1604 computer for the Danish organization Regnecentralen. Before the end of the decade this handful of expatriate Americans and the non-U.S. people they attracted to the company were producing \$150 million a year in revenues.

Administration and organizational aspects of international expansion were more problematic. From a corporate management view the business units with profit responsibility were its product divisions. Their results—revenues and profits—were measured on a worldwide basis. Dealing with customs duties, taxes, and the like was left to the international subsidiaries. Naturally, each subsidiary had to maintain appropriate legal entity financial statements. In most instances this meant accounting and record-keeping in a tri-mode: one for host country financial reporting purposes, one for tax purposes, and finally the necessary accounting records to allow the product division to do worldwide consolidation. This was all reasonably straightforward and effective when the principal products involved were high-performance, large-scale computers. Relatively speaking, the transactions were small in number and very large in value.

There were complications, however. First, in the eyes of the host country government, Control Data's country manager legally was viewed as the person responsible for all the company's affairs in the country, including those related to profits and taxes. The company's product division general managers simply regarded that person as the sales manager for that territory. Moreover the compensation plan for country managers was strictly a sales compensation plan. This made for considerable tensions as to exactly who had profit and loss responsibility for the country, not to mention overall business strategy.

Second, there also was the need to coordinate the necessary technical support from the product divisions. And third, there were myriad logistical, hu-