A Computer Deal That Worked

By EDMUND L. ANDREWS,

It used to be an article of faith among high-technology strategists that mergers between computer companies were virtually doomed to fail. The list of high hopes dashed, at least in the short term, was notable -- Burroughs and Sperry, I.B.M. and Rolm -- and the list of successes was nonexistent.

But in the two years since the American Telephone and Telegraph Company's bruising hostile takeover of the NCR Corporation, the deal has begun looking a good deal more shrewd than it did at the time.

While industry titans like I.B.M. are reeling as customers abandon traditional mainframe computers in droves, NCR, based here, is reaping the fruits of a strategic shift toward inexpensive machines that are linked over sophisticated networks.

NCR has not been flashy, in the manner of Microsoft or Apple, and no single NCR product has set the industry on fire. Indeed, some experts view NCR as a staid and stodgy player whose cultural roots remain those of a company that gained its initial fame for its cash registers. Alert to Industry Change

But alone among the old-line computer companies -- I.B.M., Digital Equipment, Unisys -- NCR was alert to the industry sea change created by advances in cheap but powerful computer chips.

Based on a strategy conceived long before A.T.& T. came along, NCR is now rapidly replacing its older lines of mainframe and minicomputers with a broad family of products, from laptops to huge supercomputers, that are meant to be linked over networks. This new product line, based on off-the-shelf computer chips from the Intel Corporation and "open" operating systems that run software from many vendors, roared from a cold start to $1 billion in sales in 1992.

"This is one of the great untold secrets of the computer industry," said Peter Kastner, vice president of Aberdeen Group, an industry research firm in Boston. Mr. Kastner says that the new family of System 3000 computers will surge another 35 percent this year and that the line is now exceeding sales of more traditional machines.

But the jury is still out. Critics contend that NCR has ceded ground to companies like Novell that make networking software and perhaps now to Microsoft with its Windows NT product, as well as to young companies like Cisco Systems, Synoptics Communications and Cabletron Systems that make the equipment to route data between computers.

In a lackluster market, NCR's revenues dipped in the first quarter, from $1.53 billion to $1.48 billion, and its operating profit the year before evaporated into a $20 million

loss. A.T.& T. will post second-quarter results in about two weeks, and although its executives say that NCR's second-quarter contribution will be "somewhat below" the company's internal expectations, they still contend that NCR is fundamentally well positioned.

"Traditional products -- mainframes and minicomputers -- are dying," said R. Elton White, NCR's white-haired president, who began plotting the company's shift in 1988. "There is absolutely no one that can beat us in open networks today. We feel we haven't had an opportunity like this in 30 years." A Snug Fit

Over the longer term, NCR's strategic move nicely complements the strengths of A.T.& T., because these new models of computing rely heavily on high-speed communications and sophisticated networks. A.T.& T. has essentially disbanded its computer business, which lost an estimated $3 billion before the acquisition, and has allowed NCR to assume control over whatever pieces it wanted.

NCR also adds a measure of global strength to A.T.& T. because the company derives more than half its sales from overseas customers and maintains an expansive international organization of sales and support people. By contrast, A.T.& T. has traditionally focused on the United States and has only recently begun a major push abroad.

Compared with companies like I.B.M. or Digital, which each lost billions of dollars last year, NCR has fared well amid the industry turmoil. After absorbing A.T.& T.'s Teradata unit, which makes huge computers, the company generated about $7.1 billion in sales last year and its operating profit jumped from about $191 million to $288 million. But company executives caution that year-to-year comparisons can be misleading because of the addition of A.T.& T.'s operations.

About 17 percent of NCR's revenues come from systems built for retailers and banks, including electronic terminals for store clerks and automated teller machines linked in large networks. General-purpose computers account for another 26 percent of sales, with the new family of System 3000 computers taking up half of that business last year. No Blockbuster Yet

Yet critics contend the fuller fruits of collaboration between NCR and A.T.& T. have not really materialized.While A.T.& T. executives talk glowingly about the convergence of computers and communications, the combined entity has yet to produce a blockbuster product or service, like interactive multimedia computer systems, that cannot be obtained somewhere else.

Some industry experts also note that NCR must defer to other companies for the software and the routing equipment that links corporate computer networks. Novell, based in Provo, Utah, continues to make the dominant operating system that links computer networks, called Netware, and Microsoft is coming on strong with its rival product, Windows NT.

The market for "routers" and "hubs," the equipment that physically connects a high-speed network, is dominated by relatively young companies like Cabletron Systems,

Synoptics and Cisco Systems. These companies have soared in several years from start-up to annual sales of several hundred million dollars.

"In most of the key areas of networking, NCR is either a no-show or a weak player at best," said Janet Hyland, director of network strategy research at Forrester Research Inc. in Cambridge, Mass. "We barely see them on our radar screen."

NCR executives respond that they have no intention of providing every component to be used in what they call the "new way of computing." But they insist that the company has the range of products and expertise to give corporate customers precisely the kind of network they need.

"Our whole idea is that anyone in a company can access the data they need, whenever they want it," said Jerre L. Stead, who was named chief executive of NCR last March. "From notebook computers to massively parallel processors, we let the customers pick and choose what they need."

By all accounts, A.T.& T. has refrained from telling NCR what to do. Since the acquisition, NCR has hired about 2,000 of the 7,000 people who once worked for A.T.& T. computer systems, and it has incorporated some of its products. A Promising Product

Among other things, NCR decided to stop work on one of its own network management systems and use an A.T.& T. product called Star Century. Computer analysts have said Star Century may turn out to be one of NCR's brightest offerings. NCR also incorporated A.T.& T.'s notebook computer, the Safari, and it has started a number of research projects with Bell Laboratories.

But the greatest underlying strength of NCR may be its service and support organization, which is global in reach. Nearly 40 percent of all revenues come from services and software -- hand-holding and customized application programs that simplify the job of stitching together a complicated network. It may not be glamorous, but it can be crucial for big corporate customers.

"They have a worldwide presence -- service people, support people, repair people -- and there's an opportunity for one-stop shopping," said David Frankel, director of technology at Smaby Group, a high-technology consulting firm in Minneapolis. "If they can ever figure out how to marry the power inherent in communications and computing, it is indeed a very powerful combination."