

NCR Under Seige

**While AT&T rushes to
NCR to solve its own
profitability woes,
NCR has plenty of its
own troubles ahead**

By Gary Andrew Poole

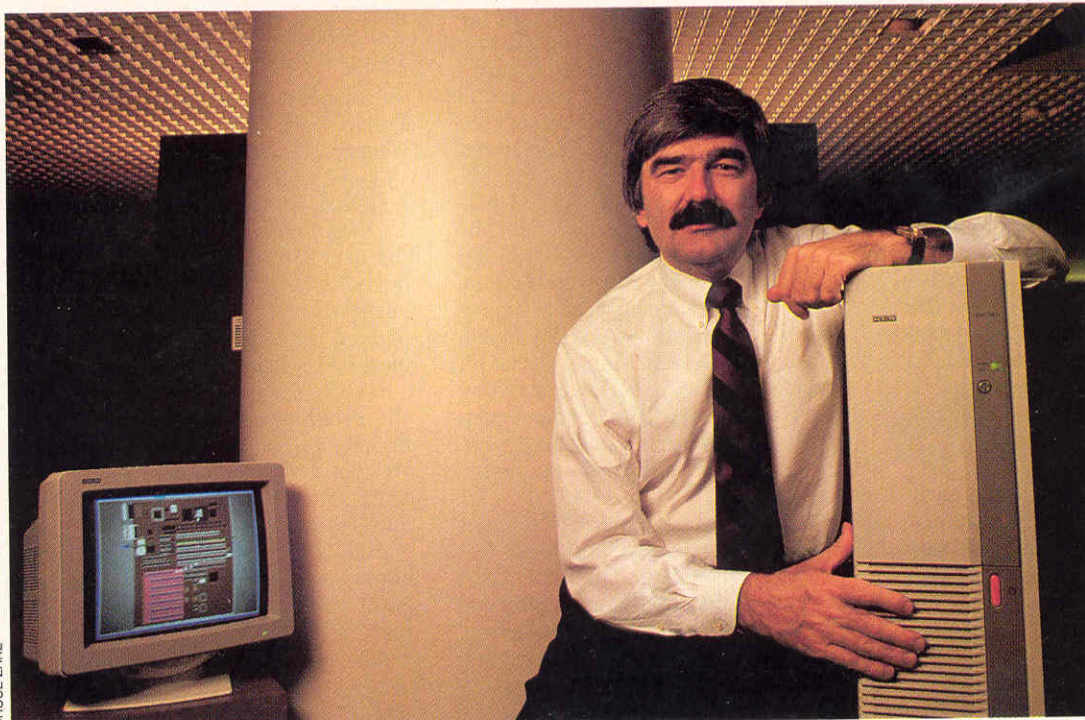
AT&T no longer wants to be considered the laughing stock of the computer industry. It wants to make a bold move for the future. So in December, it moved. It made a hostile takeover bid for NCR. Despite NCR's objections, that bid will ultimately be successful, analysts predict.

AT&T has always lumbered in its computer business. It hopes NCR can solve its years of dull products and falling revenues. In its haste to find a solution, however, AT&T has failed to notice that NCR now faces strife. After a year of internal changes and the announcement of one of the broadest and most ambitious product

lines ever introduced in the computer industry, NCR will face at least two years of revenue shortfall as it waits for orders and tries to get the new line out the door on time, say analysts.

The attraction in the bid is also the poison. NCR looks promising to AT&T because of its new Intel 386- and 486-based 3000 line and the open systems networking strategy accompanying it. NCR is killing off its Motorola-based Tower line—its most successful UNIX machine to date. With this decision, NCR has chosen to reject reduced instruction set computing (RISC) technology. The move received warm reviews from industry watchers.

continued



BRUCE ZAKE

Tom Mays, senior vice president of NCR's general-purpose products group, shows off one system from NCR's hope for the future, the 3000 line, and NCR itself, depends on careful marketing strategies, continued consumer support, and the end-result of a hostile takeover bid by AT&T.

But the strategy has shaken NCR's foundation. In the last 12 months, NCR's all-out commitment to open systems has forced a revamp of management and sales forces to adjust for the new direction. NCR is a company ready to become more dominant. AT&T realized that. AT&T, meanwhile, has failed at every turn in its computer business. It might fail again, bringing NCR down with it. NCR can't implement a new strategy, which carries many risks, and fight with AT&T at the same time, say sources at NCR.

AT&T seems willing to take this risk. AT&T Chairman Robert E. Allen says AT&T's computer operations "weren't going to reach critical mass in time to be a significant player."

NCR's Chairman Charles E. Exley predicts failure if the merger occurs. In a letter to Allen, he says, "As I explained in detail to your board of directors, the history of mergers in the computer industry is one of disasters. The acquisition of NCR by AT&T would only add to a list of failures."

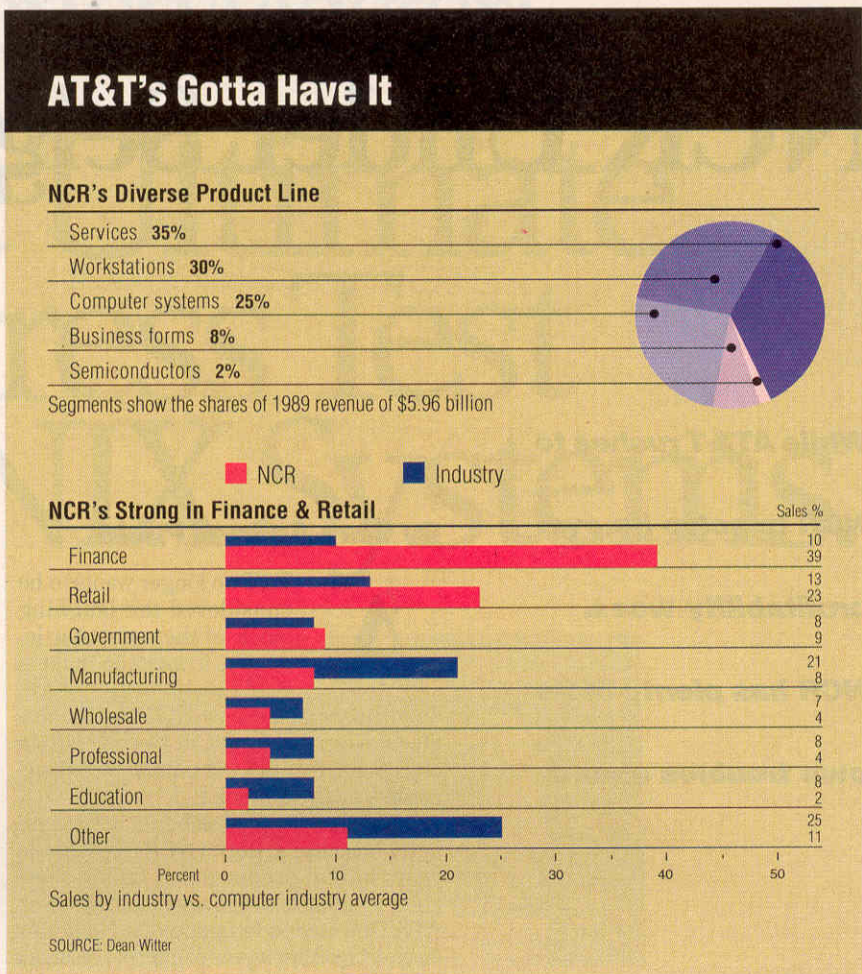
The Early Commitment

NCR's journey from cash register giant to computer power (and takeover target) started in the early 1980s. In a manufacturing plant known for its efficiency, two men sat dreaming. They dreamed about the future and how their then struggling 96-year-old company would fit into it. Ten years ago, these two managers at a NCR manufacturing plant in Columbia, S.C. decided to make the company an important part of the infant open systems movement.

Tom Mays (now a senior vice president for NCR's general-purpose products group) and Van Aggelakos (now an assistant vice president of NCR's multi-user products division) had a simple idea: a company-wide movement toward selling open systems products would lower its profit margins, but boost its overall competitiveness.

The idea wasn't accepted at first, but the flailing Dayton, Ohio-based NCR was laying people off by the thousands. It had to take a new direction or jeopardize its very existence. There were doubters. "Some people thought we should be committed," laughs Aggelakos.

After long deliberation their proposal was finally accepted in the early 1980s. The venerable Tower System, a line of supermicrocomputers, was born. The impact the Tower line has had on NCR is monumental. Many analysts say the Tower has kept the company's computer operations profitable in the last few years. With an estimated installed base of 100,000 units, the



Tower line is popular in retailing and banking.

NCR planned to introduce an upgraded Tower, but has stopped further developments on the popular systems. For now the company will continue to manufacture Towers and support existing Towers. But it's 1991, the Tower has fallen.

In recent months, Mays and Aggelakos dreamed about a new product line—the 3000 line, one of the broadest and most ambitious computer lines ever introduced. (See sidebar.) Their dreams looked like they might come true again. But in December their lucky streak hit a chuckhole when AT&T—attracted by NCR's management team, computer expertise, world-wide sales channels, and the new product line—made its hostile takeover bid.

AT&T lost an estimated \$2 billion in its computer business and fears further embarrassment. This fear could be well-founded. NCR's management team threatens to leave if the takeover occurs, taking its computer expertise with it. The long process of introducing the new line could leave AT&T

without any significant computer profits for years.

R-I-S-K-Y...Can You Say That? I Knew You Could

"Their new strategy is *very* risky," says Robert Kidd, an analyst with Dataquest, referring to NCR's new product line.

"Sure it's risky," counters Steve Milunovich, an analyst who follows NCR for First Boston, a securities firm. "But the user interest is there. NCR is the only proprietary company that's told its customers, 'UNIX is the way to go,' and backed the statement up with a complete line of products."

NCR has not surprised its users with the recent moves, says Jon Linden, president of NCR's UNIX User Group, an independent group. He says the users have reacted to the news of the 3000 line "fairly positively."

Still, the fall of the Tower line poses some short term problems for NCR. Kidd of Dataquest shares many analysts' view that NCR announced its new products prematurely. Most of the new products won't ship until 1992, which will sway potential customers away

from the destined-for-death Tower line and also from NCR.

"I won't be surprised if their Tower sales dive into a deep slump," he says. NCR expects this to happen and has started discounting its Tower products, but the short-term revenue shortfall could pinch its resources. Also, with a new product line, NCR has to retrain its sales force, which will take time and resources.

All of these negatives add up to a strategy that is (ummmm...) risky. NCR wants to move from a \$6 billion annual revenue company to a \$25 billion company by 1995. "This is an absolutely risky strategy," says Judith Hurwitz with Seybold's Office Computing Group, "but this is the day and age when playing it safe is as risky as a bold move. Other vendors are worried about losing their old client base, but NCR's strategy is for the future."

Betting the Farm on the System 3000

The System 3000 line that is now shipping aims to please. There are high-end desktops, floor-standing single- and multiprocessor servers, and yet more powerful floor-standing multiprocessor servers. Advance sales have gone well, say NCR officials, who refused to give out figures. Yet, the remaining four tiers of NCR's seven-tier 3000 computing platform won't be released for another year. That can seem like eons to many

AT&T: The WRONG Choice

NCR's Board of Directors has unanimously rejected* AT&T's predatory attempt at a hostile takeover because it is grossly inadequate and not in the best interests of our shareholders and other important stakeholders.

Now, we'd like to be left alone so that we can continue to develop and deliver the leading-edge products and responsive support programs you have come to expect from us.

Apparently, the folks at AT&T can't recognize a busy signal when they hear one.

NCR's fight against AT&T's hostile takeover bid included a series of full-page advertisements in the *New York Times* and other publications.

The Great Hope: NCR's System 3000 Family

When someone asks Bill Eisenman, vice president of NCR's multiuser product division, about the pressure surrounding the success of NCR's new System 3000 computers, he doesn't blink an eye.

"We feel comfortable around here," he calmly says. "We're a cadre of people trying to aggressively build an end-to-end computer business. We're confident that we'll do it."

The System 3000 line has impressed analysts and users. It ranges in performance from 7.5 mips to more than 100,000 mips, and is designed so users can run the same application across a broad range of systems.

NCR is scheduled to deliver six models from its new line, including 386- or 486-based workstations, two multiprocessing servers and one scalable mainframe-class computer capable of using as many as eight Intel 50-MHz 486 processors. By the end of 1992, NCR will introduce one portable and two parallel-processing systems designed to match supercomputer-processing power.

Here's a breakdown of the models:

System 3300: High-end desktop systems. The released models are the 3320, 3340, and 3345. These models are high-performance workstations as well as entry-level workgroup servers. These machines use Intel 20-MHz 386SX, 25-MHz 486, or 33 MHz processors, which provide 7.5 to 27 mips. Memory options range from two to 64 megabytes with internal disk storage of up to 680 megabytes. Prices for the systems range from \$4,000 to \$60,000.

System 3400: Floor-standing single- and multiprocessor servers. The released models are the 3445 and 3450. The NCR 3445 is a server based on an Intel 33-MHz 486 microprocessor. It has memory options of 4 to 64 megabytes, SCSI up to 5 megabytes per second, and internal disk storage options of up to 3.3 gigabytes. The 3445 costs from \$20,000 to \$85,000. The NCR 3450 is an entry-level, multiprocessor server operating under the NCR UNIX SVR4 multiprocessing operating system. Scalable performance is achieved through the use of one to four Intel 50-MHz 486 microprocessors providing from 40 to 160 mips performance. The 3445 costs \$35,000 to \$200,000.

System 3500: More powerful floor-standing multiprocessor servers. The released model is the NCR 3550. The NCR 3550 is a symmetric, multiprocessor, computer system. The NCR 3550 uses NCR UNIX SVR4 multiprocessor operating system. The system uses from two to eight Intel 50-MHz 486 microprocessors providing 80 to 320 mips. Memory options range from 16 to 256 megabytes, with internal disk storage up to 13 gigabytes and external disk array capacities of up to 50 gigabytes. The system can support more than 1,000 direct of LAN connections. The system costs from \$100,000 to \$800,000.

Still to come: System 3100, a Windows-compatible portable; System 3200, entry-level desktop computers; System 3600, low-end parallel-processing machines; and System 3700, top-of-the-line parallel processing computers. —G.A.P.

customers seeking solutions now.

The entire 3000 line runs AT&T's System V Release 4 and is based on the Intel chip set, which Tom Mays calls the "hub of NCR's development."

Intel was chosen "purely on its price/performance advantage and the access to application architecture," he says.

"Whenever a company moves to a different architecture it should be concerned," says Bob Vautrain, a senior research analyst with Gartner/InfoCorp. based in Acton, Mass. "But their customers want to move to Intel," he adds.

Some customers say they're interested in Intel because of its large number of software applications. Ronnie Anderson, chairman of the International NCR User's Group (an umbrella organization for the 34 independent NCR user groups), con-

curs. "Our members' first concern is software," he says.

NCR is philosophical about the shift. Company officials acknowledge the inherent problems with changing architectures, but contend that the RISC market isn't large enough to attract independent software vendors.

Some Tower users interested in buying systems from the 3000 line have expressed concern about compatibility. NCR officials say they'll provide migration tools so software applications can be ported.

Hewlett-Packard, one of NCR's competitors, says NCR made a serious mistake with this philosophy. "The price/performance of RISC is much better," says Bernard Guidon, general manager of HP's general systems division. He

adds that NCR's choice of architectures won't jeopardize NCR's installed base, which is mainly made up of banking and retail applications, but its decision limits NCR to these niche markets.

Networking Strategy

NCR made gestures to expand into other markets. It hopes to sway other users with its networking software, which supports the System 3000 and also allows users to move to standards-based networking. The strategy also aims to quash fears from Tower users that the Tower is obsolete. The strategy is based around its Open Networking Environment, which is a set of products that provide a selection of Open Systems Interconnect (OSI) networking solutions.

The Open Networking Environment has four categories of products: a suite of OSI networking products; a group of SNA and TCP/IP software products for the System 3000 that allows OSI environments to co-exist with existing networks; a set of transitioning products that allows customers to access their old and new network environments while moving to standard-based networking; and

an OSI-based network and systems management software product that spans the complete environment.

The Open Networking Environment seeks to move businesses from their current SNA and TCP/IP networks to the OSI network environment, says an NCR spokesperson. Users can run OSI applications and add other OSI capabilities as they become available, allowing them to migrate to OSI at their own pace.

Analysts have mixed reactions to the software. "There's a lot of sizzle, but not a lot of steak," says Robert Kidd of Dataquest, who says the plan is overly ambitious.

"This plan is well thought out," counters Hurwitz of Seybold's. "They've never been a great software company, but they did a good job, especially with the NCRNet Manager."

NCRNet Manager is OSI-based network and systems management software with support for OSI networks, SNA environments, and DOS, OS/2 and UNIX SVR4 operating systems.

NCR's user community also likes the product. "There's been a real positive response from users because they're

concerned about networking their different systems," says Ronnie Anderson. "It's exciting to users and dampens some of their fears."

NCR's introduction of its 3000 systems and networking software has given NCR a renewed image of an open systems company, but its relationship with AT&T could hurt that image, analysts say.

No one at either company will give a description of how the merger would look. Charles Exley, NCR's CEO, fought the takeover bid. He told a United Press International reporter that if the takeover is successful he will "dump Open Look and the 3B [line]."

With a new product line, a networking strategy, and a defined direction, NCR aims to capitalize on its strong sales channels around the world. NCR has staked its future on the new line. Timely roll-outs for NCR will be especially critical.

In a time when large companies move like elephants, NCR took a bold move with its new line that can make or break the company. If the takeover succeeds, AT&T will be left to direct this new and difficult strategy. ■

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