# STILL WAITING FOR THE NEW NCR

Free of AT&T, the computer systems maker keeps stumbling

In a ballroom at the Hotel Del Coronado, an opulent beachfront hotel in San Diego, Per-Olof Loof, the evening's star performer, has strapped on his electric guitar. Loof, a top executive at $7 billion NCR Corp., is an unlikely rocker but quickly launches into Back at the New NCR, his own version of the 1969 Beatles hit, Back in the U.S.S.R. Applause erupts from dozens of NCR employees and customers.

Such a reception is a rare treat for NCR management these days. In the year since AT&T spun off the Dayton (Ohio) cash-register and computer systems giant, unhappy investors have ridden a wild roller-coaster. NCR shares, which started at 34 at the spin-off in January, quickly zoomed to 43, only to settle around 30 today.

That's largely because earnings have come in well below expectations. Many on Wall Street figured the company, which lost a cumulative $4 billion in the five years AT&T owned it, would quickly return to profitability. Instead, NCR has continued to wallow in red ink, posting three disappointing quarters in a row, while its margins dipped far below the industry average. "NCR was valued as a done deal, as if the turnaround had been accomplished," says analyst John B. Jones of Salomon Brothers Inc. In fact, it still has a long way to go: For the year, Jones expects NCR to earn just $1 million on revenues down 5%, to $6.6 billion.

**SHARP KNIFE.** Even CEO Lars Nyberg agrees that 1997 has been "a big disappointment." A tall, intense Swede credited with turning around the information systems division at Dutch giant Philips Electronics in the early 1990s, Nyberg took over NCR's top job in 1995. He spent two years preparing for the spin-off, getting rid of a disastrous personal computer unit and laying off 3,800, about 10% of the workforce. Now, he's also cutting redundant operations in the 130 countries where NCR operates and expanding foreign manufacturing.

Despite the slow start, Nyberg remains optimistic that he can get NCR back on track; indeed, by 2000, he vows to hike revenue 40%, to $10 billion. To get there, Nyberg is counting on boosting international sales of existing products such as automated teller machines. New products for growing domestic markets, such as data warehousing, are also in the works. But he's fighting an uphill battle against skeptics. "This is definitely a show-me situation," says one institutional investor with almost two million shares.

Nyberg's biggest problem is reviving NCR's $3.8 billion computer unit, which supplies more than half its revenue. In the third quarter, computer sales fell by double digits in North and South America and Europe and were flat in Asia.

Analysts and competitors say NCR's computer problems are a lingering result of neglect under AT&T. For starters, NCR's computer sales force was allowed to shrink too much. And though it boasted customers such as H&R Block Inc. and J.C. Penney Co., outsiders say NCR was far too dependent on sales to its parent. Worse, the phone giant failed to invest enough in the business or expand NCR's computer product lines, especially its Unix-based servers. "What NCR found, because of the AT&T screwup, is that their critical mass in the Unix business is not that big," says Nick Earle, worldwide marketing manager for Hewlett-Packard Co.'s enterprise systems group, a strong NCR rival in both servers and data warehousing.

**OVERSEAS HELP.** AT&T disagrees. A spokeswoman says the company pumped $3.4 billion in cash into NCR to help finance its losses and put more than $500 million annually toward research and development. "We certainly believe that the resources allocated to NCR were sufficient to make it successful," she says.

Nyberg concedes that the sales force became too small, but disputes suggestions that NCR may have fallen behind technologically. Yet R&D spending as a percent of revenue was only 6% at NCR in 1997, far below the 9.9% spent by rival Sun Microsystems Inc. or the 7.2%

invested at Hewlett-Packard. Nyberg's solution to the computer problem is a crash program to hire up to 800 salespeople in the next year. But that may be too little, too late. "You find it very difficult once you fall behind in this market," says Hewlett-Packard's Earle. "It's hard to catch up."

If computers are NCR's main problem, the ATM could be one of its saviors. ATMs, which bring in $1 billion, or 14%, of NCR's revenues, have great prospects in foreign markets, where NCR already sells more ATMs than anyone else. The company has done especially well in the underserved, fast-growing economies of China, Russia, Indonesia, Brazil, and India. India, for example, has only 1,300 ATMs in the entire country, NCR's Loof says, but 250 million people with money to use them. Although NCR faces stiff competition from North Canton (Ohio.)-based Diebold Inc., there's room for both. By 1999, global demand for new ATMs will grow 15%, according to newsletter The Nilson Report.

The question is whether that will be enough to offset troubles in the mature U.S. market, where the risks are higher. In addition to Diebold, NCR is under attack from upstarts such as Triton Systems Corp. in Long Beach, Miss., and Tidel Engineering Inc. in Houston that specialize in cheap ATMs that only dispense cash. Tidel has jumped from zero to 6% of the U.S. market in three years, while Triton has nabbed a 16% share in only two. NCR's share has dropped from 39% in 1994 to 28% today.

This puts extra pressure on NCR's other great hope for growth, its data-warehousing business. Using proprietary terminals developed by NCR, banks, retailers, airlines, and other companies can gather and store volumes of information on their customers' spending habits--everything from the top-selling toothpaste in a certain store to which airfare cuts drum up the most business. NCR's computer systems allow the banks or retailers to "mine" the data quickly to develop demographic profiles, keep track of inventories, and sell new products. At Bank of America, for example, Charles Griffith, senior vice-president and general manager of corporate management information systems, credits NCR's system with cutting the time needed to approve customer loans over the phone from days to minutes.

**LIFTED BURDEN.** NCR currently leads the U.S. with a 50.5% share of the warehousing market, according to researcher International Data Corp. in Framingham, Mass. It dominates the largest banks, retailers, and airlines, but there's still lots of growth. Analysts estimate that the U.S. warehousing market, now worth $5 billion, could hit $50 billion by as early as the middle of the next decade. But there, too, more competition is on the way. While NCR has done well with big companies, analysts say it's behind with small businesses, the faster-growing market.

To catch up, NCR recently introduced a cheaper warehouse product for smaller businesses. Nyberg has also begun to open up NCR's proprietary system to other companies, ending its practice of forcing customers to use its software. That had obliged NCR to do all the innovating on its platform itself, leaving it "on a railroad siding away from the mainstream," according to Neil Mendelson, senior director of data warehousing at Oracle Corp., NCR's prime rival in the market. Oracle has 62 software partners working to perfect its system.

Nyberg knows that falling behind in data warehousing could pose a huge threat to his plans for the new NCR, but argues that recent changes have set NCR up for a rebound. "After four or five years of flat revenues, a company that hasn't performed can't turn around in 12 months," says Nyberg. But how long the rebound really will take is a question even he can't answer.

*By Peter Galuszka in Carlsbad, Calif.*