The New York Times
September 21, 1995

THE SECOND BREAKUP OF AT&T: THE COMPUTER BUSINESS; The Costly Marriage to NCR Becomes a Vision That Failed

By LAURENCE ZUCKERMAN

When AT&T finally overcame the resistance of the NCR Corporation in 1991 and paid $7.4 billion for what was the nation's fifth-largest computer company, AT&T's chairman, Robert E. Allen, proclaimed a new era in which AT&T would make "global computer networks as easy to use and accessible as the telephone network is today."

That vision of a convergence of computers and telecommunications is held even more widely today, as businesses and consumers move to the Internet in search of the next generation of business technology.

But AT&T's stewardship of NCR, which it renamed AT&T Global Information Solutions, had done little, if anything, to advance that revolution, and AT&T is now quitting that particular struggle.

After years of losses, the new management of the division has decided its only hope of survival is to abandon the personal computer business, narrow its focus and return to its roots, providing hardware and software to retailers, financial services and communications companies.

Yesterday, AT&T said the troubled unit would again become an independent entity, one of three to be formed by the breakup of AT&T. And to begin realigning the company, AT&T said 8,500 of its 304,500 workers would be terminated, including 1,000 at its Dayton, Ohio, headquarters.

"AT&T thought they could throw their muscle around to make NCR what it wasn't," said Jon Oltsik, an analyst at Forrester Research in Cambridge, Mass. "They tried to diversify into everything, but they didn't have a plan."

AT&T will take a $1.5 billion charge against earnings in the current quarter to account for the revamping. Not including NCR's $7.4 billion purchase price, the write-down makes a total of more than $2 billion in NCR-related charges since 1991. The division lost $332 million in the first half of this year.

Lars Nyberg, the executive who arrived in June to turn around the troubled computer unit, said the cuts would allow the division to break even in 1996, just before it is expected to be spun off in early 1997.

"This company has not done what other companies have done in this industry," he said yesterday. "It has not reduced expenses as gross margins have declined."

Strong medicine is not new to NCR, which began life in 1882 as the National Cash Register Company in Dayton, Ohio, where it is still based. In the early 1970's, the company almost went under when its managers failed to recognize the growing importance of computers. After three-quarters of its workers were laid off, the company fought its way back to profitability and became a leader in automatic teller machines and high-end computers.

After cutting expenses, Mr. Nyberg said, he plans to increase revenue by focusing on the unit's strengths, rather than making PC's, where the competition from lower-cost manufacturers was too formidable.

He pointed to opportunities in the banking industry, where the pace of technical change is gathering momentum. He said that he also planned to exploit the company's lead in the area called data warehousing, in which retailers and other companies plumb huge data bases containing information about their customers to tailor marketing campaigns.

Because of the expense of the powerful systems needed for such jobs, data warehousing has been available only to large players like Wal-Mart. But next week, Mr. Nyberg said, he would introduce a line of machines to make the practice affordable for medium-sized and even small companies.

"It was a niche business, but it won't be a niche business anymore," he said.

The computer operation would enter the world as the smallest and weakest of the three new AT&T companies. It had $8.4 billion in revenue last year, and after the revamping it would be smaller, Mr. Nyberg acknowledged.

Most analysts believe that it will face an uphill fight. "Outside of their traditional banking and retail areas, they have lots of things going but none of them are leaders in their areas," said David Moschella, an analyst at International Data Group in Boston. "They still can't make up their mind whether they are a product company or a service company. That's a tough position to be in."