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NCR and A.T.&T.: Would the Combination Work?

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Whether or not the NCR Corporation remains independent, its managers -- a year or 10 years from now -- will be trying to sell computers to executives like David V. Evans at the J. C. Penney Company.

NCR last week received a $6 billion hostile takeover bid from the American Telephone and Telegraph Company, which is particularly covetous of the computer maker's hold on banks and retailers like J. C. Penney, where Mr. Evans is vice president of information systems. While a merger has been widely criticized by industry analysts as unnecessary, Mr. Evans and other customers have another view: they too say the logic of a merger is unclear but do offer some ideas of how the combined companies might fit together.

For three-quarters of a century, the J. C. Penney department store chain has been ringing up sales on devices from NCR, formerly known as National Cash Register. J. C. Penney buys its computerized cash registers and personal computers from NCR, and relies mostly on A.T.& T.'s long-distance network to link them. Mr. Evans is reasonably satisfied with this state of affairs and is doubtful that any new or useful products and services would emerge soon as the direct result of a merger.

"I'm not sure there's anything in particular that the end-users are not receiving these days," Mr. Evans said. "Who or whether we buy the transport of the data from is different from who or whether we buy the processing from."

Yet Mr. Evans finds it logical that A.T.& T. should eventually expand into computer processing, given that industry's dependence on telecommunications. "Basically what you have is a reasonably successful $6 billion starter kit," he said.

What is surprising is that the views of Mr. Evans and other customers of both companies tend to reflect A.T.& T.'s. It admits it could do very little to help NCR sell to clients like Penney for at least one year, and perhaps until the end of the decade. Nor is NCR, if acquired, likely to help A.T.& T.'s main businesses directly for some years, it says. Indeed, A.T.& T. has remarkably few concrete plans for NCR.

NCR managers could yet find a way to prevent a takeover, by finding a friendly buyer or organizing their own buyout. "Only someone who doesn't understand the business and technology would think" NCR is compatible with A.T.& T., said Charles E. Exley Jr., the chairman and chief executive of NCR.

Some industry experts contend that A.T.& T.'s main goal is actually to find new bosses for its own, struggling computer business The deal "makes sense if you're getting rid of a money-losing operation, but it would be cheaper shutting it down," and leaving the computer business, said Fritz W. Ringling, a New York telecommunications consultant. "But that would be admitting failure."

A.T.& T. managers are indeed beseeching their widely admired NCR counterparts to agree to a merger and then take over responsibility for A.T.& T.'s computer unit. They have been reluctant to suggest their own post-merger plans, lest they influence NCR's management.

"A.T.& T. cannot and should not do the planning of the integration until we do that collaboratively with the NCR management," said Robert M. Kavner, the head of A.T.& T.'s computer operations and architect of the takeover bid. The computer unit has not been a failure, he said, and recently won several large contracts.

Mr. Kavner said that in the long run, both companies would benefit from shared access to research by Bell Laboratories, A.T.& T.'s research arm. This basic research includes computers that would transmit and receive combinations of voice, data and video information; recognize speech and handwriting; learn from their mistakes, and use light signals instead of electrical currents to process data.

NCR cannot afford to do much of this kind of research on its own; A.T.& T. could generate more profits by using NCR to turn research into products than by licensing Bell Labs' discoveries, Mr. Kavner said. NCR counters that if there were such an advantage it should have been apparent in the results of A.T.& T.'s computer unit.

In contrast to J. C. Penney's Mr. Evans, some communications managers do see ways in which A.T.& T. could improve NCR immediately and reap quick benefits. NCR has a contract to maintain ticket machines for the National Railroad Passenger Corporation, or Amtrak, and has sometimes been slow in repairing them, said Norris W. Overton, Amtrak's vice president for information systems. NCR said it had a good service record on the contract.

A.T.& T., from which Amtrak recently bought $14 million worth of personal computers, has responded much faster to maintenance problems and might be able to teach NCR something, Mr. Overton said.

Another customer, Arthur M. Telchin, the director of information systems at Rogers & Wells, a New York law firm, said A.T.& T. needs to expand its computer business to keep clients from defecting to rivals with wider product ranges and better customer support. His firm recently replaced its A.T.& T. personal computers with another brand for just such reasons, he said, adding, "we didn't want to be out on a limb."

BUT A.T.& T. has given surprisingly little consideration to other aspects of how its divisions might fit with NCR. For example, a strategic planning manager in A.T.& T.'s manufacturing unit for telephone company switching and transmission equipment said no study had been done of whether these highly computerized devices could use NCR equipment.

Mr. Kavner said A.T.& T. was not relying on possible gains in long-distance traffic to justify the merger. For antitrust reasons, A.T.& T. is forbidden to sell telecommunications equipment and long-distance services in the same contract.

The head of communications and computers at a major bank, who insisted on anonymity, said that banks choosing automatic teller machines and other NCR devices built under A.T.& T.'s direction would within five years be likely to give more of their long-distance business to A.T.& T.

NEARLY three-fifths of NCR's sales come from overseas. Some industry experts have pointed to these customer relationships as a way for A.T.& T. to build its international sales. Mr. Kavner said that selling more than computers through these channels was under consideration but not a "front-burner operational issue."

Other experts contend that these foreign contacts would prove of little use to A.T.& T., which has a limited range of computer products to sell abroad. NCR's sales force knows little about communications gear like corporate switchboards, and tends to deal with computer buyers rather than telephone-system buyers.

NCR's Mr. Exley cited technical obstacles to a merger. The companies use different prewritten blocks of software for developing programs for specific uses. And while both have emphasized linking desktop computers with a more powerful computer that moves information among them and does some data processing, their systems use different underlying software systems.

"There's not only no synergy, there's a direct contradiction," Mr. Exley said.

He also dismissed suggestions that A.T.& T. may have an advantage as groups of small computers, sometimes connected over telephone lines, replace large single computers for complicated processing tasks.

"That would be sort of like Con Edison saying that since they're providing current to the outlet, they should be in the Mixmaster business," Mr. Exley said, referring to the electric utility serving New York City.

But one of the biggest obstacles to a successful merger may not be technical, but human. Mr. Exley insists that he will quit if A.T.& T. succeeds, and notes that his senior managers have contracts awarding them generous compensation if they leave following a hostile takeover.

Mr. Kavner said such threats were common during hostile takeover struggles but seldom materialized.

But if Mr. Exley is serious, as he insists, then the effects on NCR could be severe.

"If the top echelons leave, as they will if Exley resigns, then A.T.& T. will not have bought much more than real estate in Dayton," said Stuart D. Woodring, a software market analyst at Forrester Research Inc., a consulting firm in Cambridge, Mass.

Some customers most dislike the uncertainty. "It's sort of like sitting on the sidelines when two of your friends are having a fracas," Mr. Evans said. "We're just hoping it will be over soon." WOULD THEY MESH?

NCR and A.T.& T. produce very different computers for different markets.

NCR is best known for its midsized computers, used to process volumes of transactions, and for computerized cash registers and automatic teller machines. A quarter of its equipment sales are to retailers and 37 percent are to banks or financial services companies, said Kevin D. O'Neill, a computer network analyst at Business Research Group in Newton, Mass. It earned $412 million on sales of $5.96 billion last year.

A.T.& T. entered the computer business in 1984, as part of an antitrust settlement. It has lost about $2 billion on the business since and analysts say it will lose $100 million to $300 million this year on sales of at least $1.5 billion.

A.T.& T. makes desktop computers linked by more powerful computers, minicomputers for use in phone company switches, and various gear for linking computers in small and large networks. Its history gives it an edge as users turn to smaller computers linked by telephone. NCR's network strategy is primitive by comparison, said Thomas L. Nolle, a consultant in Voorhes, N.J.