A Reprogramming at Digital
By STANLEY KLEINMAYNARD, Mass.
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A Reprogramming at Digital

The No. 2 computer maker sets its sights on the office market.

By STANLEY KLEIN

MAYNARD, Mass.

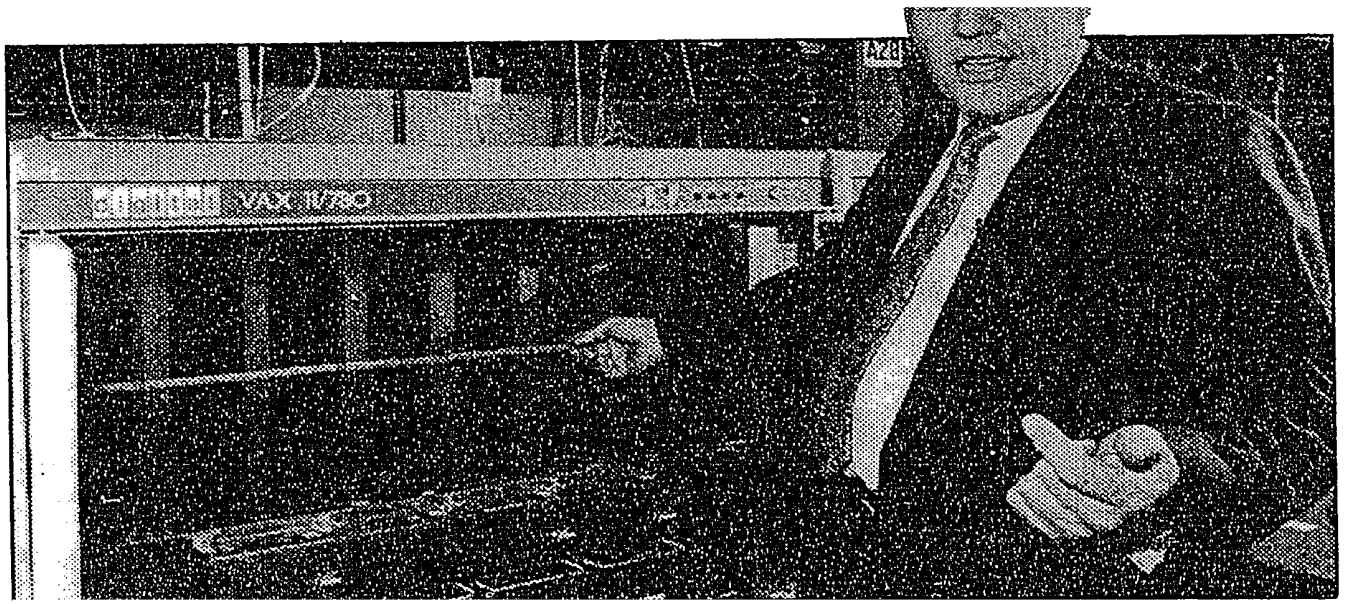
SINCE its beginnings, the Digital Equipment Corporation's marketing strategy has consisted of what the computer industry calls "pumping iron."

Digital simply spewed out its highly regarded minicomputers, terminals and printers, believing that their quality would attract customers. This approach, the antithesis of I.B.M.'s painstaking hand-holding sales technique, worked well as long as Digital's customers were engineers, scientists and other specialists who used such D.E.C. hardware to build their own systems.

In fact, Digital's strategy has helped push it today into the No. 2 position in the industry, second only to the International Business Machines Corporation in computer sales.

But some analysts are concerned that "pumping iron" may have left Digital too musclebound to compete in the race to dominate the potentially lucrative office automation market. They fear that Digital's plan, announced earlier this year, to mount a major drive into the fiercely competitive personal computer arena, will pit it against rivals — some new to Digital — that have more experience in marketing and distribution.

Stanley Klein, a writer in Sudbury, Mass., publishes a newsletter on computer graphics.



The New York Times/Ira Wyman

Kenneth H. Olsen, president of Digital Equipment

Those worries do not seem to faze Kenneth H. Olsen, Digital's president. "D.E.C. intends to be the pace setter — in pricing, in performance, in quality and in attractiveness," he said recently in a typically reticent interview in his office, some 20 miles west of Boston in a century-old renovated textile mill on the Assabet River.

Digital has never been known as a company that was particularly forthcoming about its plans. That, some analysts said, is a reflection of its 56-year-old president's philosophy. "If you reveal your strategy, then you have none," he said. But Mr. Olsen exuded optimism. "The marketplace for computers is infinite," he said. "Our goal is to build a quality computer first. Growth will then follow."

But Frederic G. Withington, for example, vice president of information systems at Arthur D. Little Inc., warns that Digital's move "from being a supplier of computer components to that of an end-user supplier" will require that the company change "rather basically

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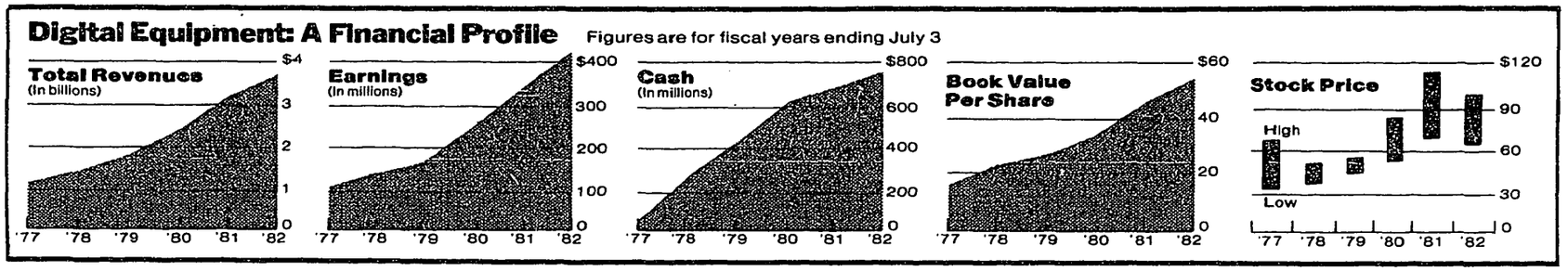
A New Digital



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to compete."

Digital's goal is to reach a vast reservoir of basically computer-ignorant customers — "end users" — those who don't have to know what makes a computer tick to make it tick.

Heretofore, Digital's forte has been supplying other large organizations, such as the Massachusetts Institute of Technology or the Bell System, with the "guts" of the computer systems they were building. Digital's minicomputers, many of which, such as the VAX series, could stand on their own in many applications, were also ideal for use as building blocks.

NOW Digital wants to sell its computers directly to smaller users. A VAX system, complete with desktop terminals, might serve the needs of a medical arts building, for example.

This may seem a strange moment for such change in the 25-year-old company. After years when it seemed that Digital could do no wrong, it has begun to show the effects of the recession. Profits were up by about 21 percent for the fiscal year 1982, which ended July 3 — but that sounds better than it is, since the trend in recent quarters has been strongly downward, contrary to D.E.C.'s arch rivals, I.B.M., Hewlett-Packard and Wang. Some analysts on Wall Street expect the fiscal year 1983 to be a slow one for the company. One brokerage house, Morgan Stanley, even predicts a drop in earnings. Digital itself foresees a flat year.Moreover, Digital's usual 12-month order backlog has vanished, and a hiring freeze is in effect among the company's 65,000 employees.

The company's stock has suffered, too. Though the recent market surge has driven shares to the mid-$80 range, Digital's stock was trading down by more than 50 percent from its December 1981 high of $113 a share, and bottomed out at around $60 a few weeks ago.

But Digital, unlike many companies, takes an aggressive attitude to lean times and uses them to pump out new products and position itself in emerging growth markets. It also is an aggressive discounter when it is trying to shore up old markets or crack new ones. Digital followed that pattern during the wicked recession of the mid-1970's, by introducing the VAX system , which is now D.E.C.'s flagship product and is considered by experts to be the leading minicomputer of its type in the industry, with mainframe-like performance.

Indeed, Mr. Olsen said, "we are enjoying the recession," alluding to the company's new products.

But Digital may not enjoy getting into the marketing ring with such heavyweights as I.B.M., Wang, Hewlett-Packard, Data General and other companies, which are more at home there. And it will have to square off against some hungry and technologically aggressive contenders ranging from fairly young companies such as Apple, to potential giants such as the soon-to-be divested A.T.& T. unit, American Bell (now D.E.C.'s biggest customer), and Xerox. Not to mention the Japanese.

But few doubt that Digital must go into office automation. Initially employed to do calculations, then data processing, then word processing, computers are now able to generate graphics, distribute electronic mail, create electronic files, and perform many other functions.

Besides building computer systems that could offer these multiple activities, Digital's long-term goal is to enable all of them to be available at a single desktop computer work station. Simply by modifying the software — the computer programs that tell the machine what to do — each system could satisfy the needs of a secretary, or an executive, or an engineer.

DIGITAL, and other computer makers, want to build a computer terminal that can work independently, or which can be plugged into a larger network of big mainframe computers.

So lusty is the long-term outlook on information processing markets that Arthur D. Little projects a virtual doubling in size over the next five years — from $73 billion in 1981 to $125 billion in 1986, and then a doubling again five years later, reaching $230 billion by 1991.

Despite Mr. Olsen's stated optimism, the fact is that Digital has yet to make its first shipment of its personal computer product line, although the company said it has all the orders it can handle. That line is expected to be the "cornerstone" of the company's assault on office automation markets, said David R. Fernald, director of marketing in Digital's Merrimack, N.H.-based Commercial Group.

"Our objective is to own the desk of the knowledge worker," said Avram Miller, group manager of D.E.C.'s 300-325 computer series.

Digital has also introduced a new work station built around the best-selling 32-bit VAX minicomputer intended for engineering design applications. Also in development are yet more powerful and clustered VAX computers, along with smaller, microcomputer-based VAX machines.

Digital's new line may provoke a "price war" with other vendors, according to the International Data Corporation in Framingham, Mass., a market researcher.

The low-end Digital models, the Rainbow 100 and the Decmate II, will sell for about $3,500 at retail, or about $500 below I.B.M.'s comparable model, according to I.D.C. To reduce manufacturing costs and inventory requirements, the keyboard and the visual display screen on the new computer series are the same for all models.

In addition to price, another selling point that Digital is stressing concerns the new computer's compatibility. Besides having access to Digital's own vast software library, one option enables the machine to handle the thousands of programs already developed to run on Apple, I.B.M., and other personal computers.

Digital has adopted a shotgun sales approach. "We are going to try all channels," Mr. Olsen stated.

Those channels include Digital's direct sales force, which has traditionally serviced large users; the Computerland chain and other retail outlets, for new customers, and the electronic distributor, Hamilton-Avnet.

More distribution outlets are likely to be signed up. "We'll take advantage of those that do best," Mr. Olsen said.

Retail outlets in particular could be critical to the company's achieving its stated goal of selling 100,000 personal computers in 1983 alone. A bad omen, however, is that sales of equipment at Digital's own 25 stores "have not lived up to expectations," according to analyst Adolph Monosson, who publishes "Monosson on D.E.C.," a Boston-based newsletter that monitors the company.

Yet another concern among analysts, customers and even Digital's own employees, is the company's management structure. There are 18 different product groups, which can in effect be likened to 18 small companies, each competing with one another. These 18 groups, for example, "buy into" products developed by central engineering as each sees fit. Different groups even wind up working on the same product.

Mr. Olsen, however, vigorously defended this approach, which has been the norm at Digital since he and his brother, Stanley, and Harland Anderson, founded the company. He refers to it as a "bubble up" management philosophy whereby "people set their own goals."

While Mr. Olsen argued that the "complex" system is responsible for Digital's success to date, some experts said it may create problems in the highly competitive environment Digital is just now entering.

As Digital gets bigger, Mr. Monosson warns, "this approach could cause D.E.C. to lose its ability to compete."

Some analysts are worried that Digital will antagonize customers who must deal with this plethora of marketing units. Other companies faced with this problem have recently restructured their marketing organizations so that they present one face to customers. Even I.B.M., no slouch in the sales department, restructured.

In advertising, too, Digital takes what many experts consider is a vacuum-tube approach. For example, where Wang buys prime-time spots on national television dramatically depicting its office automation products — in one spot lightning bolts bounced from word processor to laser printer to remote stations — Digital is content to show up on the nightly business report on public television, where exposure is limited to a quick flashing of a logo and a still photo of products.

Mr. Olsen said: "Why build up customer expectations when initial production [of D.E.C's personal computers] will not be sufficient to meet existing demand." ■