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Brickbats into roses

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HIGHLIGHT:

Just as he didn't let the criticism faze him a few years back, so DEC's Ken Olsen isn't letting today's praise turn his head.

TODAY IT'S ROSES, roses all the way for Kenneth Olsen of Maynard, Mass.' Digital Equipment Corp. But a scant three years ago Olsen couldn't do anything right so far as Wall Street was concerned. There were crucial delays in bringing new products to market and an ill-fated attempt by the computer maker to get into PCs. The company's earnings took a deep hit, dropping a third, from \$ 417 million to \$ 284 million, and the stock fell by 40%, down to near book value. Was DEC just another sprinter that couldn't run a marathon?

"They said I was too old to run this business," Olsen, a 60-year-old engineer, says with a wry smile. Olsen, who founded the company in 1957 with \$ 70,000 in startup capital, never thought seriously of stepping down. A lesser executive might have responded to the criticism by cutting back on ambitious plans. Not Olsen. He plowed money from dwindling revenues directly into research. His driving idea was to create a new generation of fully compatible computers that would run on uniform software and communicate across shared networks. "The concept was very simple," he says, "but there were billions of dollars involved in doing it."

Billions of dollars and three years later, fortune is smiling on Ken Olsen again. The introduction of a torrent of new products has sent revenues climbing by 14% (to \$ 7.6 billion) and income rising 40% (to \$ 617 million). DEC's stock price moved from \$ 45 to \$ 100. This, when most of the computer industry is languishing.

Among its major competitors, according to Montgomery Securities, DEC is the only company that showed four consecutive quarterly increases in operating margins. In the last quarter only IBM had higher margins, but it was close: 15.0 to 15.7. Flush with \$ 2 billion in cash, DEC is expanding its sales force and making important inroads against IBM.

What accounts for DEC's standout prosperity? And what were the risks Ken Olsen took to achieve that prosperity? Eighteen months ago DEC rolled out the first of its VAX8000 computers. With these machines, DEC offers a fully integrated line of computers that work effortlessly together. IBM's competitive machines run on three different operating systems, all of which are mutually incompatible. VAX sales in the last 12 months have exceeded \$ 3 billion.

Ironically, it was the success of IBM's PCs that demonstrated the need for Digital's connectable systems. After mastering the personal computer, many business users began seeking way to link to other PCs and more powerful mainframes. DEC saw the problem early and made the first moves. It now supplies equipment linking the PCs and mainframes of many major companies (including Du Pont, General Motors and Citibank).

Listen to Daniel Chertoff, who follows Digital for Sanford C. Bernstein: "Digital has among the best networking and communications solutions."

Like IBM, DEC continues to pay a lot of attention to marketing. Digital, one-seventh the size of IBM, has a sales force 60% as large, and growing. The investment seems to be paying off. The company has markedly increased its proportion of direct sales, keeping the profit that used to be claimed by independent dealers. Digital has also cracked markets in banking, insurance, pharmaceuticals and finance, which were once the exclusive province of IBM.

Talk to Olsen, however, and it's clear that from where he's sitting the company's future is in the hands of its engineers, not its salesmen. "Why are we doing unusually well today?" he asks. "We keep working hard, introducing new prod-

ucts and keeping our prices low. This may not be glamorous, and we may be laughed at for being dull and old. But that's what we're selling." Digital's research spending as a percentage of sales (11%) is 4% higher than IBM's.

But if ever there was a business where product leadership is shortlived, this is it. Whether DEC can keep its pace depends importantly on sustaining its high rate of new product introduction (eight major new computers in the last 18 months alone) and one the sales growth of Digital's new desktop computer, unveiled by the company earlier this month. The new Digital machine will compete with IBM's top-of-the-line model, the PC-AT. Its principal selling point will be its capacity to connect with more powerful minicomputers. IBM's PC, in contrast, cannot tie directly into large computer networks.

On the horizon, where Olsen's gaze is fixed, a computer with several independent processing units. The planned Digital multiprocessor, although not directly competitive with IBM mainframes, would be as powerful but far less expensive. It would narrow the gulf separating personal computers, minicomputers and mainframes.

But don't expect a man who kept calm during adversity to relax when things are going well. "A New Englander," Olsen told FORBES, "doesn't worry about the winter after." Picking up on that metaphor, one can say that Olsen has already chopped enough wood to get him through the next winter. Right now he is busily chopping wood for the year after that -- and the year after that.

GRAPHIC: Picture, Kenneth Olsen, founder and president of Digital Equipment, A torrent of products and revenues. Profits to follow. Seth Resnick/Picture Group

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