ADAPSO Reunion Workshop:
Banking Litigation and Issues of the 1960s

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ADAPSO Reunion – Banking Litigation and Issues of the 1960s Workshop

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Abstract: A group of former CEO's of computer software product and services companies discuss the formation of ADAPSO and how fighting against the policy of allowing banks to offer computer services became the first significant issue of the organization. The win against unfair banking competition and fights which followed against IBM, accounting firms and Microsoft led to one of the strongest times in ADAPSO's history. The participants then discuss the growth in specialized computer services companies and how ADAPSO was comprised of entrepreneurs that led to the growth of that industry.   Finally, they talk about the effects that winning the fight against the banks had on the computer services industry.

Participants:

Name	Affiliation
David Allison	Smithsonian Institution, historian
T. Lowell Dent	Computer Power, Inc.
Frank Lautenberg	ADP
Luanne Johnson	Software History Center
Joe Markoski	Squire, Sanders & Dempsey
Mike Nugent	ADAPSO staff attorney

Introductions

Bernie Goldstein: I think I'm the only person here who attended the first ADAPSO meeting. There were 12 people sitting around a table like this. A fellow by the name of Bill Evans, who was a professional manager of trade associations and handled a number of small trade associations, had the foresight to believe that here was perhaps a new industry that was small enough that it could not afford full-time permanent leadership. He brought us together with the idea that we would be one of the associations that shared his services.

Mike Nugent: Everyone should identify themselves and the company they were with at the time.

Goldstein: I was with a company called Computech. I was one of the founders of Computech and, like most companies in this industry, it disappeared into another company which then disappeared into yet another company. That is the history of this industry.

Let's go around the room with introductions.

Lowell Dent: My name is T. Lowell Dent, Jacksonville, Florida. I founded Computer Power, Inc. When I first joined ADAPSO, my company's name was Computing and Statistical Service Corporation. I joined ADAPSO in 1963, I believe.

Joe Markoski: Joe Markoski, Squire, Sanders & Dempsey. I first went to an ADAPSO meeting in 1976.

Nugent: I'm Mike Nugent and I was an ADAPSO staff attorney from 1978 to 1983. I did much of the banking/regulatory litigation work during that time period.

David Allison: I'm David Allison. I'm a curator at the Smithsonian Institution.

Julie Johnston: Julie Johnston. I was a staff member at ADAPSO.

Luanne Johnson: Luanne Johnson, former President of ADAPSO and now President of the Software History Center.

Tim Bergin: I'm Tim Bergin and I am on the computer science faculty at American University. I am also the Editor-in-Chief of the *IEEE Annals of the History of Computing*.

Origins of ADAPSO

Goldstein: One of the speakers this morning said that the first issue that coalesced the association was IBM and its position in the market place. That isn't quite true, by my memory, and, as we were reminded this morning, those of us who remember history will write it our way. [*Laughter*]

And that, indeed, is what we'll do. IBM was very much present on the scene. They were the first monopolist we had to deal with. Their sales force helped create a very early period of this industry by selling excess capacity in the form of hardware, the EAM equipment and, later, the computing equipment. IBM then encouraged tabulating room managers to take this excess

capacity and start small companies to begin offering services in the marketplace. As a result, in each city of reasonable size there began developing two, three or four of what we then called service bureaus or tabulating organizations that began providing services—usually financially-oriented—in the market place. There was no sense that an industry was being born.

So there would be three, four, five companies in a city. The first recognition that this constituted an industry was that the telephone Yellow Pages were willing to set up a section under which we could advertise. And you know their standards for setting up a section were not very high. [*Laughter*]

So, under the guidance of Bill Evans, ADAPSO was formed. The first program that ADAPSO pursued was to educate us as to how to run a company. There were no schools providing courses, there were no books published on how to run a company in this industry, so we had to teach ourselves. We'd come to meetings, which would be in modest motels outside the city center because that's all we could afford, and we would have how-to sessions. Perhaps, Lowell, you remember some of those.

Dent: If it was not too far to go, I would be there.

Goldstein: However, new members were slow to join. Bill Evans was getting on in years and not really a marketing man, so ADAPSO decided to look for a young man who would travel the United States and pitch membership in ADAPSO. But we could not get anybody to take that job. If you think about what that job was: staying in cheap motels, driving from city to city, and getting people together at lunch or dinner to encourage them to think that a trade association made sense, it wasn't a very desirable job. But I was at a crossroads in my career and had left my job as New York District Director for Control Data. So, in part selfishly, and in part for ADAPSO, I volunteered to do that job. Frank Lautenberg, I think, was the President of ADAPSO at that time.

By the way, it's interesting to note that this industry has given birth to a Senator, Frank Lautenberg; to a candidate for President of the United States, Ross Perot; and to a Dean of the Wharton School of the University of Pennsylvania, Tom Gerrity, who had been an executive at CSC. There are some men who have gone on later in their careers and done us great honor in terms of where we've been as an industry.

So I spent six to eight months traveling the United States, selling ADAPSO memberships, and that's a worse job than being an insurance salesman. [*Laughter*] Because it really was an intangible.

Initial Concern with Bank Competition

But as I went around the country, I found that a lot of these independents—who were, by definition, undercapitalized generalists offering these services—were very concerned about bank competition. Because the banks, stimulated by aggressive IBM salesmen or Boards of Directors were offering competing services. First of all, the banks had substantial access to capital. There was no capital flowing into this industry other than the capital that these founding members could take out of their pockets or borrow from family and friends. Secondly, the banks thought that there was a little magic in data processing and, therefore, many of them advertised that they were going to offer a free service. The game plan, obviously, was to attract demand deposits to the banks.

Nugent: Free payroll was one of the big services.

Goldstein: Yes, free payroll as well as other free services, and these independents that I spoke to were concerned about this and frightened, to be sure. Because there was no way that we were going to be able to survive that type of competition. So I came back to the ADAPSO Board and reported this. The Board felt that this was an opportunity to speak up for this brand-new industry and to take on the banks.

This was a very brave thing for ADAPSO to do. We fought the banks in the years that followed, both in the courts and through legislation. And it was really a David and Goliath battle. There was no way we could win, except that the banks were very weak enemies in this particular game. First of all, they were the beneficiaries of chartering by federal or state institutions and they were sensitive to that. They were a regulated industry by definition. Secondly, they weren't coalesced, because the banking industry was divided between the big banks and the small banks which didn't have the budgets to offer free services. For ADAPSO, it was not only an issue to win but an issue to energize the industry as to what it could do in this type of battle.

Johnson: You mentioned becoming aware of this in your trip around the country. Was it also an issue for you and for Computech at that time?

Goldstein: No, Computech didn't exist. Computech had been acquired by Control Data. It was during a hiatus in my life that I did this trip.

The banks made another mistake. Not only had they taken on this young industry, but they also simultaneously took on the travel agents and insurance agents. Now if there is anything that defined small American businesses in the United States at that particular time, it was the travel agents. They were really the backbone of middle-American business. So, girded for this experience, I went down to testify before Congressman Wright Patman and the House Banking Committee. Many of you who went to business school will recognize the name Wright Patman.

He was sort of a Lyndon Johnson type of character from Texas and somebody the banks would have loved to push around but were frightened of.

Nugent: He *hated* the banks.

Goldstein: He hated the banks. And he gave us a reception at the House Banking Committee which was so welcoming that it infuriated the representatives of the American Banking Association who were present. We just hit his hot button. He hated the banks to begin with. He was a populist in terms of his political point-of-view and he opened the door for us. We gave him the story that had been prepared by Milt Wessel, who was ADAPSO's General Counsel. We came out of the House Banking Committee with a laundry list of particular things that banks were not allowed to engage in, i.e., that were determined to be unfair competition.

Well, that was the House, which was very friendly, and then we went to the Senate. It was less friendly, more sophisticated, call it what you will, and we came out with a different....

[*Ed. Note: At this point, Senator Frank Lautenberg entered the room.*]

Come on in, Frank, I'm talking about you. Frank mentioned in his speech last evening that they embarrassed him, when he first became a Senator, with some of his testimony before the Senate Banking Committee.

We didn't do as well before the Senate committee and then, as is common in these situations, different legislation came out of the Senate. So there was a conference committee to resolve the differences.

Nugent: Who was the senator? Do you remember?

Frank Lautenberg: Proxmire was the Chairman of the Banking Committee but McClelland, who may have been Chairman of a subcommittee, was the one that heard my testimony.

Johnston: I know who you are but please say it for the tape.

Lautenberg: I'm Frank Lautenberg.

Nugent: You were at ADP at that time?

Lautenberg: Oh, sure.

Goldstein: You were President of ADAPSO at the time.

Lautenberg: Right. 1967-1968. Basically we were saying, "Hey, don't let those big, bad boys get all the business and we are here to plead the case of the entrepreneur." I wasn't really looking at the technology. I was looking at the banks' duplicitousness and how they were reaching out to grab everything and anything they could.   But the Committee heard us and that was it. It didn't mean anything. I'll tell you where we beat the banks. It was on the pavement. That's where we beat them.

Allison: Well, from an historian's standpoint, the issue is: How fierce was this fight and what do you think were the turning points? Did the banks really contest this?

Lautenberg: There were several contenders on the banking side that we were concerned about. Citibank was aggressive as was Chemical Bank. ADP ultimately bought Chemical's payroll business. Bank of America was out there fairly aggressively.

Nugent: Also, Seattle First Bank.

Goldstein: Remember that the banking industry is a "monkey see, monkey do" industry. If Chemical offered a free service, Chase had to offer a free service. So there was an enormous amount of imitation.

Nugent: The banks were trying to use *their* excess computer capacity, too.

Banks Leaving the DP Business

Goldstein: The banks, having been conned by their IBM salesmen, bought excess capacity and thought that they could turn out payroll for free, that it didn't cost anything.   Well, they quickly learned that this was an industry where you can't produce results for free.

With different results coming out of the House and Senate, the conference committee produced what they called Regulation Y. Regulation Y was far more permissive than what had emerged from the Wright Patman committee because it restricted what applications banks could do but it used the word "financially-related". Well, what's "financially-related"? Practically everything: payroll, accounts payable, billing.

But, by then, a funny thing was happening. The banks realized that this was not an easy business, this was a tough business. Larger firms like Automatic Data Processing were beginning to develop and were growing by acquisition. The banks couldn't produce results for free and they weren't very innovative.   Banking, in my mind, was not an innovative industry and they began losing the battle. They were slowed up by the years of process before Patman and

the Senate Committee and they began to leave the business. As Frank has just said, he bought Chemical's data processing operation.

Lautenberg: We bought Citibank's Quotron not too long ago after they struggled and dumped $100 million into it.

Goldstein: So, this fight with the banks which we took on, in part to generate membership for ADAPSO, and in part to protect those members we already had, really was won, There was a remark made by one of the speakers this morning that this is one of the few industries that is not a regulated industry. In my mind, one of the reasons that we're not a regulated industry is we had early success—success that we didn't have the budget or the experience to undertake—and we won. We really won this battle against the banks and the banks never emerged as important players in this business.

Nugent: Just parenthetically, at that time Citibank had gotten around the Bank Holding Company Act, which limited what banks could do in non-banking businesses, by creating a one bank holding company.

Lautenberg: What was the year?

Nugent: I think it was 1968 or 1969. Congress said, "Wait a minute, since the law only applies to multibank holding companies, and this is a one bank holding company, we're going to hold hearings and try to revise the law to get Citibank." It created an opportunity for everyone who saw banks getting into new businesses to come in and say that they should be limited to that which is closely related to banking.   So the insurance agents, the data processing crowd, the travel agents, started suing. I think ADAPSO v. Camp was at that time.

Markoski: That case went all the way to the Supreme Court and established the principle that a competitor had a right to sue the government to enforce something. It was a landmark case.

Milt Wessel's Contribution

Goldstein: You know, this story could not be told without talking about Milt Wessel. Milton was a litigation attorney with the law firm Kaye, Scholer, Fierman, Hays & Handler in New York City when he was retained by ADAPSO.

Nugent: He prosecuted the Mafia.

Goldstein: He was a Special Attorney General at the time that the FBI broke up the Mafia meeting in Apalachin, New York, and arrested a lot of the leaders.

I introduced Milton to ADAPSO. I had gone to his firm because one of our employees stole some software and I was outraged and I ended up with Milton Wessel. He became very intellectually interested in this industry. And he played a *very* important part not just in the bank situation but in developing a philosophy and a legal framework for the tie-in concept: the implicit tie-in sale when an organization that controls one line of commerce uses that to have an unfair advantage in another line of commerce. The philosophic concept of the tie-in sale, honed and developed by Milton, became an important base for the other activities that ADAPSO took on as time went on, for example, the IBM antitrust issue. We forget that IBM was a monopolist, but the best illustration I can think of for their monopoly is that when you upgraded your computer with IBM, you paid them an additional 25% and an engineer would come and take a part *out* of the machine. [*Laughter*] I'm not making that up. That's the way it worked. The machine ran faster with that part removed and therefore they were entitled to charge you more.

Bergin: They took off the governor.

Goldstein: That's exactly right. And who but a monopolist could do that? Data processing managers were afraid to order a Burroughs or Univac computer.

Additional Issues: IBM, Auditing Firms and Microsoft

So what followed the banking issue was the IBM issue. And then we were twenty years earlier than the rest of the nation when we got concerned about auditing firms going into consulting. I remember that about twenty years ago ADAPSO produced a brochure that said it was a conflict of interest for accounting firms to provide data processing services to their audit clients. How right we were given the Enron situation today.

And following that was Microsoft where we showed more aggressiveness than the current Department of Justice in terms of pursuing what was a new monopolist on the scene. What did all of this add up to? We became a feisty organization and we attracted membership. We became the place where our voices were put together and we were able to accomplish things that we hadn't the muscle economically to accomplish. Because we had tasted victory in this bank fight and that gave us the heart and the strength to go on and deal with the subsequent threats to this industry.

And we got stronger and stronger. Public markets opened up to us, venture capital money opened up. That, too, became an excess. You know, every good idea goes to excess in the financial community and we're currently paying the price for that. But we became an organization that was known as one that could not be pushed around, that had a right to its own

identity, that had a right to its standards. That's what the banking fight did for us, in my judgment. Would you agree with that, Luanne?

Johnson: Oh, absolutely. I think that it was not only the sense of success that gave ADAPSO members the confidence to go into these other arenas, but also the intellectual infrastructure that came out of the work that Milt did, which provided a framework to go forward in all of these other areas.

Goldstein: It's still being used today. I notice in the states' litigation against Microsoft, they are using the tie-in strength as part of the argument in terms of trying to reverse some of the compromise that emerged from the settlement of that case. Frank, what did ADAPSO mean to ADP?

Lautenberg: I've been thinking about this during these last 24 hours, about the nature of our industry as a community of entrepreneurs and proprietors. When I think of the ADP acquisition record, we were buying companies that were doing $100,000 a year in sales. What we wanted was to find someone who would work hard. It was like hiring a good employee with a credential because they didn't really offer much except that they were willing to work like jackasses to get the thing done.

There was a very pioneering character to the industry. I think there's a picture that has to be drawn about the entrepreneur, the proprietor, the small business owner: not a visionary, necessarily, but dedicated, committed, with a kind of mission. We were going to accomplish something. And the rest that flowed out of that was creativity of a fairly significant dimension. You know, we were working with new tools, and these tools enabled us to expand our thinking, enabled us to provide more service. I really think that it was a point in time in American history when we learned how you could use specialization to get work done. We were scared silly of the banks but they never had the capacity to provide the kind of service that we could provide. That was our store and we were watching the store. They were the money stores and they didn't know a hell of a lot about how to get things done. So, there's something even deeper that attaches to ADAPSO, in my view, than the evolution of technology as a part of life in America. There was also a cultural impact.

Johnson: One thing that you said in your speech last night really struck me. This was such an entrepreneurial industry. All over the country, in every metropolitan area of any size, there was a little company springing up to provide this service. The hardware manufacturers saw the business opportunity in the technology. But this was an industry that saw the business opportunity in the applications.

Lautenberg: Right.

Johnson: The services companies understood that there was a business there in how people were going to use this technology, as opposed to the business of providing the technology itself. You said that you didn't even really care about technology. ADP was focused on how to deliver this service and whatever technology was there to do that was the technology you were going to use. To me that was really an insight. It was the business opportunity in the *use* of the computers that grew out of this industry.

Lautenberg: Our first technological development was the use of a Volkswagen. [*Laughter*] We were able to deliver our products faster as a result.

Goldstein: Frank was much too modest in his remarks last evening. I remember at an ADAPSO meeting when he stated that ADP was announcing a million dollars of earnings as a break-through number that year. He gave us the early success of ADP and its growth into national and, eventually, international markets through acquisitions, and the fact that it became an early public player. His early success said that we could do it, too. He headed up a company that was really magnificent in terms of what it was consistently able to achieve in the marketplace, and that allowed us to be very brave—that we had a piece of that future as well.

Lautenberg: Thank you.

Goldstein: And so we weren't frightened to take on IBM or Microsoft. We decided during the Justice Department antitrust action against Microsoft that we were going to have open hearings and invite all members of the industry to come to these hearings and tell about their experiences with Microsoft's dominance in the marketplace as a monopolist. Those hearings were eventually cancelled because ADAPSO was beginning to be co-opted by large members with deep budgets, and Microsoft, after an enormous amount of work, got ADAPSO to cancel those hearings. ADAPSO hearings about Microsoft's monopoly were hitting the papers and creating enormous pressure on them and this was the way we thought we could aid the Justice Department action.

Lautenberg: There were always things out there to frighten us. I know how we felt when the PC came along: oh, my gosh, the companies would be able to do it themselves and wouldn't need ADP. Today, ADP has hundreds of thousands of small computers in customer installations. They're ours and the customers use them. Once again, we emerged as the user of the technology rather than being devoured by the technology. The industry has such strength in terms of the services that I think there's a lot more credit due to the industry than it has gotten. And, Luanne, this history is a wonderful project. This is exciting, and Bernie, I congratulate you and the others who have contributed to getting it going.

Johnson: Thank you.

Goldstein: It's interesting that the hardware companies have come around to recognizing that service may be more important than hardware.

Lautenberg: Look at IBM.

Growth in Services

Goldstein: IBM, Hewlett-Packard, and Compaq all announced that service was going to be their new area of growth. Because, of course, as Frank said last night, the consumers didn't want to buy computes. It was rare that someone wanted to buy a compute. They wanted to buy results. This is an industry that entered the results marketplace and what we sold we priced on results. And, God forbid, if we didn't produce results, we didn't get paid.

Lautenberg: I think the experience with the banks is what got us started on the high road.

Nugent: Yes, that first round of battles was over excess capacity. And that resulted in the ruling that said banks can only do certain things with excess capacity, one of which was data processing if it was financially-related. But the banks didn't go away. They came back offering free time-sharing services. I remember Rick Crandall of Comshare being involved and Tymshare being involved. So after the data centers group, it was the timesharing companies whose ox was getting gored.

Goldstein: They became part of ADAPSO as a result.

Nugent: Then the banks gave away software and the software companies started coming into ADAPSO because the banks were giving away free software. They were engaging in a whole range of computer services and so there were battles throughout the 1970s and, really, into the early 1980s.

Johnson: The banking industry seems to be somewhat of a slow learner.

Goldstein: The only successful thing they gave away was toasters. [*Laughter*]

The ADAPSO Entrepreneurs

Allison: One of the things that historians will want to know in trying to assess this battle is not just what the issues were but what did the team look like. You said a couple of times that you were small, you really weren't equipped to fight this battle and yet you fought it. Were there two guys, were there three people, what was the team that came together to take on this initiative?

Goldstein: The team was the Board of Directors of ADAPSO. That's where the running orders came from. And then some of us became the messengers and delivered the message, but it was the ADAPSO Board that endorsed this fight. Remember, the Board had a selfish game, too, because this was beginning to attract new members to ADAPSO. It became the organization to be part of. Members were attracted not just to the educational programs of ADAPSO, but ADAPSO as the industry spokesman.

Allison: There was a team of lawyers, too...a couple of lawyers?

Goldstein: There was one lawyer, Milt Wessel.

Lautenberg: You asked what kind of people, and you make me think about some of the people we had at the beginning: some roughnecks and some seriously intellectual people.

Nugent: It was a mix.

Lautenberg: And the business mission was an interesting thing. There were very few people with technical backgrounds in the earliest days. They could have been tradesmen or business people in a retail business. Or anything. They were entrepreneurs, and they found a way to put their talent to work. They grabbed the tools of the trade. It was an interesting evolution. In ADP's case, the three of us—Henry and Joseph Taub and myself—came from poor, uneducated working class families. Their father and my father both worked in the same silk mills. Henry Taub was an accountant, a very bright guy. He was 19 when he graduated, having worked full-time besides going to school. And he was 21 when he really put the muscle into ADP, then named Automatic Payrolls. But we weren't visionaries. We weren't people who looked out and said, "Some day ADP will be all over the world." But when Art Weinbach, who is now the Chairman and CEO, gives a speech to the employees, it's immediately translated into ten languages. That really tells you something about what happened. The company went from the streets of Paterson, New Jersey, in what was a virtual ghetto, to that kind of business opportunity and the impact it had on clients. We did so much for so many people and got paid for it. But it was an entrepreneurial business enterprise. And once it became based on computer technology, then, boy, the business just took off.

Goldstein: When David Allison interviewed me yesterday for my oral history he said, "I notice you were never a technologist." And I said, "Thank God." [*Laughter*]

Because if I were a technologist, I would be rapidly obsoleted in an industry in which technology was moving at such a rapid speed. So the survivors and leaders of this industry were not technologists at all. I doubt even Bill Gates is a technologist today. These were entrepreneurs. What is an entrepreneur? Someone who is a little crazy, who doesn't want to work for somebody else, and is willing to take personal and financial risk to start a business.

It was very typical for the head of the data processing department—what was then called the tabulating department—to tell the company he was working for that he could save the company money by setting up the department as a service bureau and selling the services to other companies. It was those men who became the early players in the industry. They were eventually followed by the business school graduates who were attracted to the business, but men of that type were the founders of this industry.

Lautenberg: It was also a particular time in our country. Our start was literally after World War II. Business was expanding and there were excellent opportunities there. But when you think of mistakes you made along the along the way—we were going to do bowling scores. [*Laughter*]

I started with ADP in 1952. We charged 25 cents per pay check. And we did everything. At one point, we even used to sit there and check their timecard calculations. And then we got bolder. We decided to charge for changes, and charge for the input not being ready on time. We found out that, as people began to understand how important we were to them, they were amenable. I won't say that price was no object but that wasn't the principal concern because the value-added was so good.

I remember a brokerage firm named Reynolds and Company that was an offshoot of Reynolds Tobacco. The senior partner, the managing partner, of Reynolds and Company used to sit down on weekends and do the bloody payroll for 200 people because he didn't want anybody to know what other people were making. So when we came along, it was a godsend. And you found so many cases where this essentially clerical function had become a major event every week in the company because the one thing you couldn't stall was the payroll. So we just kept adding things and technology helped us enormously along the way. Now the customer does the input right from his office and when we print paychecks, we start up with blank paper. The printing of the checks are done at very high speeds including the company's logo and the color of the check and the numbering and the magnetics and everything else that goes on them.

I'm sorry that I have to leave. I have to catch a ride back to New Jersey and the airplane will not wait. But it's been great. I congratulate you, Luanne, and all of the people who have shown such interest. And, Bernie, you're a stalwart. I really respect you. So, I'd like to be of help if I can and see if I can whip up some interest at ADP.

Johnson: We'd love to see ADP do a corporate history.

Lautenberg: So would I, but we've always been too busy running the business.

Nugent: What other company names do you remember from those early days?

Effects of Winning the Banking Battle

Goldstein: The problem with company names is that companies merged. It was a sign of success, not failure, to sell your business to another company. So these widely dispersed small-scale businesses in multiple cities that were offering local services became part of a larger organization. What did winning the bank battle do for us? It created the spirit of feistiness; it provided borders to this industry that were eventually respected by others. It allowed us resist pleas for government intervention and regulation, and we prospered. Horatio Alger stories abound in this industry and we've been very lucky.

Johnson: I went back and read through all the minutes of the ADAPSO Board meetings starting with the organizational meetings in 1960 through about 1985.   I was looking for the first things that ADAPSO did. And one of the first things that it did was come up with a standard chart of accounts for the industry. Right there, you know you are talking about small companies in an emerging industry where they need help figuring out how to account properly for their income and expenses. At the same time, they're saying, "We're going to take on the banks." I think it's just fascinating that these small companies decided to take on a venerable, well-funded industry.   I think that established the ADAPSO culture from then on. That commitment to serving the small companies, helping the entrepreneurs be better managers, and at the same time being willing to take on these really tough fights and challenges.

Nugent: I remember Milt telling the story about Computer Power but I never got a chance to meet you until today, Lowell.

Dent: In 1965, I called Bill Evans because a bank was going to put me out of business.

Goldstein: You were with Computer Power.

Dent: Right. Computing and Statistical Services at the time, later called Computer Power, in Jacksonville, FL. The Atlantic National Bank was literally trying to put me out of business.

When I started thinking about starting a computer service bureau, one of the first applications I planned to sell was medical billing. Doctors in our area were doing their own billing and accounting in-house. To service that market we developed a pretty good multi-client patient accounting/billing system.

I had discussed my plans for a computer service bureau with a number of people, including Mel Kahler, DP manager of Atlantic National Bank of Jacksonville, now part of First Union. Mel decided that he would like to have a part in any company that I started.

In an attempt to thwart my attempts to start a company, a friend with whom I had discussed my plans told the Chairman of the Board of the Atlantic National Bank that Mel planned to join me in a computer venture. The Chairman summoned Mel to his office and told Mel that he had to decide right then whether he was going to stay with the bank or join my venture. Mel chose to join me, whereupon he was fired on the spot. My medical billing plans were mentioned during this meeting.

Mel joined my yet-to-be-incorporated company the next day and became my valuable and trusted partner from that day forward.

I was able to sell the Riverside Clinic, a medical partnership with about a dozen doctors, on using our service pretty quickly. In our excitement to land one of the most prestigious medical groups in the area, we cut prices to the bone and kept adding additional functionality with little or no remuneration. But we were looking forward to also converting their small private hospital after they saw what a good job we could do for them.

We successfully converted the group from a manual NCR bookkeeping machine system. In the process, we saved them money while improving cash flow, and we reported patient revenue by procedure and doctor, which was not possible in a timely manner on the old system.

After less than one year, the Atlantic National Bank took the account away from me with free but vastly inferior technology. It cost the clinic nothing to get their billing done by the bank. I had done a good job; the bank did a lousy job. In a few months, the medical group pulled their billing back in-house, but, by then, a new office manager was on board who preferred to continue with his in-house operation and never again go outside for accounting services after the experience with the bank.

This left us with nothing but unrecoverable development costs due to the early termination of our services because of the bank's "free" offering.

The bank also lost, rather than gained, deposits because some doctors moved to other banks. I lost a valuable client. Our client lost us as a trustworthy provider. Everybody lost.

Nugent: How did you know ADAPSO was around?

Dent: We got a questionnaire from ADAPSO in 1965. Do you remember that?

Goldstein: I do. We were collecting data to present to Congressman Patman.

Nugent: How many members were there at the time?

Goldstein: I don't really know.

Johnson: That information is available. Somebody would have to do a little research, but you'll recall that there was a time when every member that joined ADAPSO was approved by the Board. Therefore, the Board minutes recorded every new member that was approved to join at each meeting and also noted which members dropped out.   By going through the minutes and seeing who came in and who dropped out, you could construct a list of who the members were at any point in time during the early years.

Markoski: How do you explain the fact that everyone was so active? Because, looking at ADAPSO from the outside, it seems as it got bigger, not all the members were involved the way they all were during this early period.

Goldstein: Well, the industry began segmenting into specialties and then there were the influences of various geographies. There were things that began to fracture the sense of unity that developed from the bank battle at the beginning of ADAPSO.   You can see from Harris Miller's presentation this morning that what has survived is a different sort of association, but a valuable one with a very substantial budget of $6,000,000 doing things that we couldn't have dreamed of doing or that were not even necessary to do at that point in time. We could probably find similar stories in other industries. The reason this is of interest to us is because this was ours and it was new. We invented an industry.

Growth of the Computer Services Industry

Johnson: One of the things that I'm curious about is what you think was the beginning of the computer services industry. We can pinpoint a time when the software sector of the industry began. That began with CUC in 1955. That was the first software company.

Goldstein: Computer Usage Corporation.

Johnson: Right. But the services side is different. ADP came out of a services business that wasn't originally computer-based. It's a little harder to figure out the point at which the computer services industry begins. Obviously, there were enough companies in 1960 that it made sense to begin talking about creating an association. Bernie, what's your sense of how many companies were out there in the 1950s?

Goldstein: In any city of at least 200,000 population, you would find a firm. Some of them, as Frank said, used billing machines. They didn't use electro-mechanical machines at all. But they were there—a few of them in each city.

The reason the software industry came later is because IBM established an industry standard that software had no value. They gave it away. It becomes laughable in today's economics that they could have taken that position. But how can you have an industry when the principal firm in the industry is giving it away?

Allison: It seems like billing and payroll were the lead applications rather than inventory or something else like that. Is that a pretty clear pattern?

Goldstein: Well, they were repetitive. You could sell the same service to more than one client. Payroll was initially a very standard opening application.

Johnson: Payroll is one that you could generalize because there were regulatory influences as to how you did your payroll, unlike other types of applications like inventory.

Goldstein: And remember, many business organizations liked to contract out payroll because it kept sensitive information private.

Dent: I think most jobs had some kind of cycle, such as weekly or monthly. You would pick up the source documents, get the input prepared, take a couple of days to turn it around, and deliver it back to them. You didn't have electronic communications back then. I would use our Volkswagen Bus to pick up the source documents and deliver the reports. I would call ahead to the client to tell them that I was on the way and ask them to please have the check ready. I would hand over the reports and pick up the check, I hoped. I would then return via the bank with the check and a previously prepared deposit slip, often just in time to cover the payroll checks handed out that very morning.

Goldstein: Well, I think that maybe we have covered our topic. Is everyone satisfied that we have covered it? We haven't said everything but we've covered a lot.

Bergin: I have one question that might cause us to rethink the issue. Most of what I heard sounded like it was coming from the high moral ground that these small companies, because they were small, had a right to this business and the banks with their money and their connections didn't. But, really, you're talking about a political battle and you're the victors and the victors write the history.

Ensuring Fair Competition

What could banks have done to compete fairly? Why were they excluded?

Allison: Why wasn't it fair competition?

Goldstein: Because they were an industry that didn't allow competition. There were just so many banks that could be chartered.

Nugent: That's the key—the exclusive franchise given by the government. If you look at all the fair competition issues ADAPSO took on, it was banks, CPA's, telephone carriers, and others who had a government-conferred right to do certain things who were using that right to pay for business in unrelated fields. Banks were not just doing payroll, they were saying, "Give us your deposits and we'll give you the payroll for free." So they were using that deposit-gathering power to restrain competition in the payroll processing business.

Markoski: That principle has gone through every battle that ADAPSO has been involved with. Anybody can enter the industry, we don't care who you compete with, but if you've got a government franchise or something that I can't get, you can't use that to compete against me.

Allison: Doesn't that make the accounting situation a little different then?

Nugent: No, because they've got a franchise.

Allison: I see what you're saying. In that case, it's from the audit even though that's regulated in a different way.

Johnson: There's another example, too, where ADAPSO protested unfair competition from non-profit organizations who were offering, with their excess capacity, computer services. The non-profit organizations had a special tax-exempt situation that allowed them to do this at lesser cost. It wasn't fair that they used that tax-exempt franchise to compete against people who didn't have that opportunity.

Goldstein: So the image here is a young growing business that is putting its fingers in the dike as it becomes stronger and richer and able to survive.

Bergin: Let's see if I can summarize this. Legally, you had the law on your side, but the effort was to raise the dialogue up to where everybody saw that, and then the banks or others would have to back off—as opposed to getting new legal rights through ADAPSO's lobbying.

Nugent: It was illegal to explicitly tie something in but Milt's real contribution was to extend it to the implicit tie-in.

Bergin: So there was, in a sense, new law made because of the efforts of ADAPSO. It wasn't merely a matter of raising a dialogue.

Nugent: All of the rules for how AT&T, the banks, and IBM, engage in unrelated businesses were really influenced by ADAPSO. For example, in the telephone company case, AT&T couldn't use rate payer funding to fund R&D in computer services. That was the ADAPSO contribution. The same with the banks. They couldn't use bank personnel funded by the depositor to compete in other services. With the CPAs, there had to be a separation between one business and the other. ADAPSO really contributed to those rules of separation. How do you separate a competitive business from a non-competitive business? How does the money flow back and forth? How does promotion occur? That's where ADAPSO really contributed using existing law as the basis for the argument.

Bergin: I don't know whether those of you who are not academics know this, but the big topic in business schools in the early to mid-80s was *outsourcing* and the argument that organizations shouldn't waste their intellectual and other resources doing things that other people can do better because they do it full time. And so companies began outsourcing their personnel departments, payroll processing, and other functions not related to their core business.

It's a nice point to end on to realize that this industry began practices that had a major impact on the way that business operates today!

Goldstein: Well, it probably did start with us. Thank you, everybody.