Oral History of Bernard Goldstein

Interviewed by:
Luanne Johnson

Recorded: August 23, 2000
Fort Lee, New Jersey

CHM Reference number: X4982.2009

Table of Contents

Bernard (Bernie) Goldstein

Conducted by Luanne Johnson

Abstract: Bernard (Bernie) Goldstein discusses his career in the information technology industry beginning with the founding of Computech, an early computer service bureau, the founding of United Data Centers, a chain of computer service bureaus, and the founding of Broadview Associates, the premier merger and acquisitions company in the industry.   He describes the early computer services industry, and discusses the early days of ADAPSO, the industry trade association, and how companies in the industry benefited from ADAPSO.

[Editor's Note: This interview was conducted in the office of Broadview Associates in Fort Lee, NJ.]

Personal Background

Luanne Johnson: I know quite a bit about your career in the industry, Bernie, because we've known each other a long time. But I don't know anything about your background. So let's start with that.

Goldstein: I'm a graduate of the Wharton School of Finance and Commerce at the University of Pennsylvania and I have a graduate degree from the graduate school of business at Columbia University. So that's my education.

Johnson: What about before that? Did you grow up in an entrepreneurial family? A family of business owners?

Goldstein: Well, I suppose you could say that about my father. He had to go to work. He was the oldest of a large family, and typical of his era, he had to go to work. He left school after the seventh grade and never returned. He was successful in business and essentially was an entrepreneur, first as a retailer and then as a real estate investor. So it wasn't because of a family tradition, but out of desperation

Johnson: What about siblings?

Goldstein: One brother, who wasn't an entrepreneur.

Johnson: Were you older?

Goldstein: No, he was.

Johnson: So the younger brother in this case was the one who became an entrepreneur. That's interesting. Was your father fairly successful by the time you got to college age so that he was able to support your education?

Goldstein: I always remember our family as being comfortable as a result of his success in business. So the answer is yes.

Johnson: Where did you grow up?

Goldstein: In New York City.

Johnson: And you knew at the point you decided to go to college, that you wanted to be in business?

Goldstein: Yes. I think you can distinguish Wharton from Harvard Business School by the type of graduates they were turning out. At that particular time, Harvard Business School was producing great young managers to seek their careers from companies like Proctor & Gamble, Citibank, and so on. Wharton had much more of an entrepreneurial reputation. So Wharton produced guys who frequently went into business for themselves. Our industry has changed, though, because 60% to 70% of the young graduates from the Harvard Business School are now going into dot-com companies or at least that was true of the last class.

Johnson: That's fairly recent, though.

Goldstein: Yes, and so the nature of how graduates from business schools think that they can utilize their knowledge has changed. I think our industry has changed.

Johnson: I agree. Okay, you grew up in New York City and you went to Wharton and then to Columbia. Since you went to an entrepreneurial school, did you immediately go into business for yourself?

Goldstein: Well, I went into the Navy for three years.

Johnson: Oh, okay.

Founding Computech

Goldstein: When I came out of the Navy, I knew that I wanted to be in business for myself. Two friends, both of them engineers, and I put together a capital fund of $5,000 and started a business called Computech.

Johnson: I remember Computech, but I didn't know that you were one of the founders.

Goldstein: Yes, the three of us started the business called Computech.

Johnson: What year was that?

Goldstein: 1958. Computech was one of the early computer service bureaus. I knew nothing of what we call information technology today. But it just seemed like the right business opportunity to me. We were all bachelors, first of all, and my mother took us all in. We shared one room and she fed us and we engaged in self-exploitation as a substitute for capital.

Johnson: Yes, sure.

Goldstein: So we started the firm. Sometimes I've been asked, you know, how could you go into a business in which you knew nothing about the technology? And the answer is, as I think about it, that nobody else did either. So ignorance could survive. We were inventing the business at that particular time.

Johnson: Was that with unit record equipment, pre-computers?

Goldstein: At first it was pre-computers with what was called EAM equipment.

Johnson: Electronic Accounting Machines.

Goldstein: However, our timing was such that when the first 650 came out from IBM, we started renting time on a 650. So we were early computer users and went from there to a 1401 and the 1460 and various iterations of those machines. We developed systems for music publishers for royalty distributions and for real estate firms who did rental billing and for the U.S. Navy to do scientific calculations and for market research organizations to do tabulations and cross-tabulations of questionnaires.

Johnson: Was it primarily a regional market that you were serving?

Early Computer Services Industry

Goldstein: We were in New York City, and these were all markets that were native to New York City. You think about those three industries, real estate, music publishing, and market research, they were all native to New York City.

And at this time other early entrepreneurs were developing their companies. Frank Lautenberg was working with Henry Taub at ADP. Frank was selling insurance, if I recall, and they hired him because they needed a salesman. They'd sit down with Burroughs billing machines and crank out payrolls. And other little companies were starting.

This was very early in the game and we didn't think of ourselves as an industry at that point. But we had to struggle because eventually IBM developed monopoly power in this marketplace. And that monopoly power was expressed in terms of the pricing of their computers. It created the market for us because we could sell "pieces" of computers, namely, time slots, but it also created a problem for us because we had to pay top dollar at IBM. Just to give you an illustration of what IBM's power was at that time in early computing, if you wanted to upgrade the machine and make it a faster machine, an IBM CE would come in and *remove* a part from the machine. He didn't add a part, he would *remove* a part. If there's a definition of what monopoly power is, I think that's one of them.

So we had our share of success. We grew the company and meanwhile other people were growing their companies. ADP was an early success story. I remember sort of emotionally celebrating when ADP made a million dollars profit in one year. One million dollars profit in one year was a sign that the industry was coming of age.

Johnson: Do you remember when that was? Was it the mid-1960's or a little later?

Goldstein: I would say that was early 1960's. Frank Lautenberg brought his great marketing skills to ADP and they led in another way and that is that ADP was the first company in this industry to grow by acquisition. They went into city after city at this early stage and bought generalized data centers that were beginning to grow in that city. And then they would phase out the generalized business and bring in their formularized services, especially payroll processing. They set a standard, which I think is still applicable today in the industry and that is that growth by acquisition has been the driver of growth and the model for how firms grow. It was ADP who, I think, set the original standards for that.

Johnson: Do you have any idea whether they have ever done a corporate history?

Goldstein: I don't know, but I would hope that they have.

So here we were, independent companies were springing up in the industry. I don't think my two partners and I were typical. I think typically companies were started in this industry by guys who

ran EAM shops. Or early computer shops. IBM would come in and tell management, "Yes, this is probably more computer capacity than you need, but you can go out and sell the excess capacity to somebody else". So by creating excess capacity in their installations, they caused people to see that there was an opportunity to subdivide computer power and create a business.

Johnson: So many of the original companies were started to sell a company's excess computer capacity?

Goldstein: They were frequently started by men who ran in-house facilities. And they spun those out, which was less likely, or they left to go out. They left and said, "This is my skill. I'm going start a business." You know, they couldn't manufacture raincoats so they went into this business.

Johnson: So they were as data processing managers.

Goldstein: They were data processing managers. And frequently, they weren't college graduates and had come up the hard way running punched-card applications in these companies and then starting these businesses.

Johnson: Computech lasted a long time, didn't it?

Goldstein: Computech was eventually sold by us to Control Data Corporation.

Johnson: Computech was running on IBM equipment?

Goldstein: Computech was running on IBM equipment, but CDC was being run by Bill Norris who was really a visionary. It was from Bill Norris that I first heard that some day software and services were going to be more important than hardware. So at the time when IBM was giving software away, and SBC was the Siberia of the IBM organization in terms of where people were going, Norris recognized the value of software and services and he bought Computech from us as well as a number of other companies. I became the New York District Director for Control Data and stayed with them for a number of years.

Johnson: When was that approximately?

Goldstein: Mid-1960's. I became the New York District Director for Control Data and ran a data center for them. At about that time, ADAPSO was beginning to appear on the scene.

Beginnings of ADAPSO

Johnson: ADAPSO was formed in 1961. Next year will be the 40th anniversary. But I don't think they had much in the way of staffing at that point.

Goldstein: It was Bill Evans in New Jersey who stimulated the development of the association. It was his business to start-up associations. He ran the association, and we had meetings where twenty people would get together in a hotel room somewhere. But there was a camaraderie and there was a sense of confidence. It wasn't whistling in the dark; we felt we were onto something that could be very important. And spokesmen began emerging, one of whom was Leonard Palmer. He became an early President of ADAPSO and he was an early player in the industry who thought that he could adopt the ADP model and he built a chain, if you will, of data centers called Computer Servicenters, Inc.

I became active in ADAPSO. I felt we were surrounded by economic monsters who were giving the services away. Banks, some insurance companies, certain accounting companies. IBM developed monopoly power in the industry. Well, these were giants and we had to put our voices together and begin taking positions to protect ourselves.

Johnson: The glory days of the organization.

Goldstein: Yes, the glory days. What was fair competition and what wasn't fair competition. I stayed with Control Data as New York District Director for two years, and then I was convinced by Frank Lautenberg, Leonard Palmer, and old buddies at ADAPSO that we had to grow the organization. I thought this was a wonderful opportunity to serve for a re-entry as an entrepreneur, so I quit Control Data and volunteered to travel the United States for ADAPSO. So for six months or more, I went to dozens and dozens of cities. Checked into low-cost motels, ripped out the yellow pages, and made appointments. The yellow pages were the prime research document for the industry at that time. I made appointments and sold membership in ADAPSO.

And I was able, as I remember, to more than double the size of the organization. Because it was the first time in small cities, such as Birmingham, that somebody was coming in and telling people that there was a trade association. That there were common interests and that there was an industry beginning developing in this area.

Johnson: Those guys must have felt very isolated up to that point.

Founding United Data Centers

Goldstein: Oh very isolated. They didn't know that in other cities flowers were blooming, small data centers were starting up. And I did this, not just for ADAPSO, but for selfish reasons. Because I was looking to get to know what the industry was at that point. Because the Leonard

Palmer model of building a chain of data centers seemed to me to be very attractive by growing in multiple markets as opposed to single markets. And so I would come back to my motel and dictate memos to myself about the people that I had met. He has this type of company, etc., etc.

So it was a program about building ADAPSO but it was also a program of getting well known in the industry. Nobody had done that before. At the conclusion of that, I decided I was going to build a network of data centers, which I called United Data Centers. And while we called it a network, it really was a chain because the companies weren't networked together. Then I proselytized applications and software within the data centers, grew them by acquisitions, shared equity, paid cash and United Data Centers eventually became a public company.

I was somewhat imitative of Computer Servicenters, Inc. which Leonard Palmer had done, but at that point Leonard Palmer was something of a wild man, if you remember. His company wasn't doing well, but I was able to build about 15 data centers with United Data Centers.

Johnson: What did you start with? Computech was gone at this point.

Goldstein: Well, Control Data had realized that their strength lay in what then was large-scale mass scientific computation. So they were losing interest in the very data center they had bought and I bought it back as the start for United Data Centers.

Johnson: How'd you finance it?

Goldstein: I financed it with some of my own money and with funds from what today is called the three F's; friends, family, and fools.

Johnson: So there wasn't anyplace to go to get financing to do that.

Goldstein: No, there wasn't any place to go, but we put some initial capital together. And we had a very small public offering and raised half a million dollars. And we became a public company.

Johnson: Oh, okay. You mentioned that it became a public company, but I didn't realize it happened that soon.

Goldstein: The survivors in the industry were beginning to have access to public funds. So we went public. We raised $500,000. Gives you some idea.

Johnson: Big money in those days.

Goldstein: Big money, right.

Johnson: Okay. So you went public very early.

Goldstein: We went public and we built this company. I acquired data centers in Salem, Massachusetts; Lexington, Kentucky; Birmingham, Alabama; Wichita, Kansas. By this time ADP and SBC and other companies were beginning to concentrate on the major markets, but I was a coward. So as a good coward, I said, "I don't want to take this company into the big markets. I've gone through the smaller cities.   I know who's good, who isn't; they know me." I built my network of data centers in secondary markets. And United Data Centers was successful and it was profitable every year that it was in business. And eventually got to maybe $18 million of revenue.

Merger of United Data Centers and Tymshare

But then I sensed there was a technological change underway. It was called time-sharing. And it was very scary because we were still doing batch processing. And I thought that this technological change was going to change the character of the industry. What I did was negotiate with Tom O'Rourke of Tymshare, and Tom got convinced that he had to move into the commercial areas of processing which was United Data Centers and I got convinced that I had to adapt to the technology of time-sharing.

I merged United Data Centers with Tymshare and I became a Senior Vice President and Director at Tymshare. At that point, one of my partners in United Data Centers was Al Eisenstat, and Al went out to California to become General Counsel of Tymhare and I stated in the East responsible for growing Tymshare by more acquisitions. I was beginning to develop a specialty in mergers and acquisitions. Tymshare was an early success story and other time-sharing companies were developing, as you know, at that particular time. I think I stayed with Tymshare for four years at that point, but I was too removed from Tymshare. It was a West Coast company. I didn't want to move to the West Coast. And therefore, I was recruited by National CSS at the end of that four year period. Bob Weissman called and said, "We'd like you to come in and help us grow the company." So I resigned from Tymshare and became chairman of National CSS.

Johnson: And Bob was the CEO/president?

Move to National CSS and Sale to Dun and Bradstreet

Goldstein: Bob was CEO and president and I was chairman of the board. And National CSS was then beginning to develop a low-cost IBM-compatible computer called the 3600. It eventually turned out to be unsuccessful, but again the rhythm of technological change required

us to focus on how our business would have to adapt. Time-sharing was a marriage of large scale computer systems and large communications networks and the new technology coming off the assembly line was the minicomputers. Costs were beginning to come down and power was beginning to go up. I don't have to remind you of the anti-inflationary aspects of this industry.

We at National CSS saw this. We were very concerned that time-sharing companies were going to become the Neanderthals of the industry. Meanwhile, large companies were beginning to be frustrated that they weren't adapting to the advantages of information technology fast enough. And along came Dun & Bradstreet Corporation which wanted to buy a time-sharing company to get all the good people and the technology they needed to run their business. They successfully acquired National CSS and I negotiated that deal for Bob. Bob was kept so pristine that he became president of Dun & Bradstreet. He was the good guy, I was bad guy in negotiations. And after the deal was done, I resigned. I didn't want to work for Dun & Bradstreet.

Founding Broadview Associates

By then I was incurable deal-maker. I had started as an uncapitalized entrepreneur and gone on to be a professional manager with Control Data Corporation, then I became a merger and acquisitions man as a principle with Tymshare and National CSS. And at that point, I liked the excitement of the deal. I thought there were going to be enormous opportunities in mergers and acquisitions in the industry.

An early chief financial officer at ADP, Gil Mintz, had left ADP and become a single practitioner in the merger and acquisition business serving the industry. He called it Broadview Associates because he lived on the corner of Broad and Fairview.

Johnson: *[Laughs]* Oh, Bernie, all these years, I've had this vision of you guys saying, "We're going to take this very broad view of the industry."

Goldstein: Well, it wasn't really a merger and acquisitions firm yet. Gil was a single practitioner and Sonya was his secretary. They would lock the door when they went to the diner for lunch. Gil ordered the exact same lunch every day; cottage cheese and cantaloupe. I was concluding the sale with National CSS and had decided I wanted to be a deal-maker only, as opposed to a principle. So I called on Gil and I suggested that he should make me a partner and we could do this together. He describes that as: "Bernie called on me to acquire me." That's his description. We were compatible, and so I came in as an equal partner and that was the beginning, really, of what became Broadview Associates.

 Johnson: And what year was that?

Goldstein: 1979.

Johnson: Okay, so the D&B sale closed about that time?

Goldstein: Yes. And Gil and I remain good friends. As a matter of fact, I'm visiting him in France this summer. Gil is – was then, and still is – a very conservative business man and I thought at first this would be a marvelous retirement business. But after I did a couple of deals, I knew that it was in my bones that I wanted to grow this business. And Gil gave me my head in terms of growing the business. So we were the first M&A specialists from the industry and that is what we still do. But today Broadview is 270 people and we're one of the major deal makers in this industry. We do more deals within this industry than any two or three investment banks combined in the world, and we've gone upscale in terms of the size of the deals. And we moved into venture capital recognizing that the supply of capital was also part of the opportunity in this industry. So Broadview has become this successful firm that is operating at the level of more than $100 million a year in revenue.

Johnson: I was looking at some of the Broadview ads. If someone who knew nothing about you asked what Broadview is, would you say that it's an investment banking firm?

Goldstein: Broadview is an investment banking firm. It just doesn't do all the investment banking activities. It doesn't do underwriting. It doesn't bring companies public. It sells companies in whole or in part. It makes investments in companies through its venture capital arm. It's a member of the NASD. It's a true investment bank, but it's focused in two ways. Number one, it only works still today in the information technology field, and, two, it doesn't do all the functions of a generalized investment bank.

What we've brought to Broadview is the same discipline that's been successful in the industry itself. Don't be generalists, become specialists. Become an expert in two things. A niche market, a vertical market that you can know better than anybody else, and become an expert in the technology that supports that market. Essentially Broadview brought that mantra over to the investment banking business. And it has worked beautifully. There were those in the early industry who were successful at growing by acquisition, like ADP and Leonard Palmer, and now growth by mergers and acquisitions is a primary strategy for growth for virtually everybody in the industry.

Johnson: Bernie, that's fascinating. I mean, everybody takes it so for granted now that that's the way it's done. But you've shown that there's a real traceable evolution of that strategy.

Goldstein: There's a traceable evolution and in part, it's also because as firms grow in this industry today, processing firms or software firms, they eventually stop being good places where

technical innovation takes place. The talent that they have – and they're always short of technical talents – is dedicated to maintaining and enhancing the existing products. If they want to add products, what do they do? They find a small company out there that has a new product of interest. And the larger organizations in the industry have metamorphosed into sales organizations with their technical staff dedicated to maintenance and enhancement. And then they go out and buy the new development, because it's the still the small companies that make the new stuff. And that's been the great opportunity in this industry.

So this industry has not only served the general public by creating a great export industry, but also by creating such wealth through the sharing of equity and award by the process of the growth by acquisition.

Johnson: Is that true on the professional services side as well?

Goldstein: Yes. Absolutely, absolutely. Cap Gemini just acquired Ernest & Young, for example.

ADAPSO as an Educational Organization

Johnson: Let's talk some more about your involvement with ADAPSO. I know that one of the issues was that you were small companies facing competition from big companies. Were there other things that ADAPSO addressed in the early days?

Goldstein: Well, we all needed to learn from each other. Nobody was given a course in running a company the information technology industry. So we would come to these meetings and we would have how-to-do-it sessions. So it wasn't just fighting what we called anti-competitive practices, but there was an enormous amount of education going on. And, as you know, eventually the industry grew and fragmented, so did ADAPSO. It was probably very natural.

Johnson: I had the same conversation with Gary Durbin [founder of Tesseract]. He talked about how much he learned from going to ADAPSO sessions. He learned how to set up a user group from competitors who told him how they did it. He said he couldn't believe how candid and open everybody was. He said that once you walk out the door, they're going to beat you over the head as hard they can competing against you, but behind those doors, they were open and candid.

Goldstein: Well, that's very true. The people were so willing to help each other. At that point, the industry players had their college degrees and they were a step up intellectually, but I think what kept them so good for each other was that the market was so enormous that they didn't have to destroy their competitors to have a significant market share.

Johnson: It changed, because I was there during that transition. At the point that the systems integrators got the political power within what became ITAA, they had a different way of doing business. They didn't have that quality that the software guys had. For one thing, the people that came to ITAA from the systems integration companies were midlevel managers, not the CEOs, and they were not about to give up any secrets to the other guys. So it became a different atmosphere. I actually could see that transition because I was there during that time and watched that go on.

Goldstein: The early days were fantastic. I mean, it all happened so fast. At first, they didn't want to let software companies in. You know, Gil Mintz said to me on one occasion, "You'll never sell a software company, they have no continuing revenue."

Johnson: *[Laughs]* Did he really?

Goldstein: Yes. And so I went out and sold a software company in what was then the largest that deal we ever did. He said, "You're right, we can sell software companies."

Johnson: That's great. Bernie, thanks so much for your time. It's been great to see you and to talk about the old days. This is such an important part of industry history that I appreciate your help in preserving it.

Goldstein: Thank you. It's been a fun run and rewarding, too.