

## Chapter 12

### DATA SERVICES

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## Chapter 12

### DATA SERVICES

#### 12.1. INTRODUCTION

In 1982 Informatics was a successful and leading supplier of data services to the business community. Consisting of various computer applications and services made available to customers by providing them access to computers through a communications network, Informatics data services operations were based upon four large multi-computer, multi-customer data centers (located in Fairfield, New Jersey, Columbus, Ohio, Washington, DC, and Dallas, Texas) and a nationwide computer network. Through the years there have been and still are smaller data centers within the company that support development efforts or specific contracts. In other cases the company has operated data centers owned by its customers. But in none of the latter cases were data services offered to the public, so they are not discussed in this chapter.

From the four larger centers numerous customers are offered use of proprietary software, on-line timesharing services, computer communications, and remote job entry processing. As described in Section 12.4.1, the business was carried on in 1982 by two major organizations, Data Services Group (DSG) and Information Services.

Informatics efforts to enter the data services business can be thought of as occurring in five phases. First was the acquisition of CPM Systems in 1965. Second was the development of MACS in 1967. Third was the Atar Computer Systems Inc. joint venture in late 1967 (which is described in detail in Section 4.4.2). Fourth was the major entry into the batch service bureau business in late 1968. The fifth, starting in 1972, was in Fairfield, New Jersey, under the Equimatics joint venture which evolved into the Data Services Group of 1982 and made possible other types of information processing services in other units of the corporation. The first four phases were unsuccessful (although the first two were only inexpensive experiments) but they taught lessons which paid off in the last phase. The corporation's persistence resulted in an Information Processing Services segment which in 1982 produced revenues of \$60.3 million and a pretax income of \$4 million.

The successful effort to adhere to its original business plan and enter this business occurred early in the 1970's. Informatics formed a joint venture, Equimatics, Inc., with The Equitable Life Assurance Society of the United States to supply data services and proprietary software to the insurance industry. This strategy, emphasizing services to specific industries, was subsequently implemented by the company as it expanded its offerings to the specific needs of other industries. The following chapter discusses Informatics pursuit of the growing data services market.

##### 12.1.1 Original Company Plans

In its original business plan, **A Prospectus for Corporation D (1)**, Informatics identified computer machine time sales and data processing services performed for customers as a possible future market area. Entry into this

business was not expected to be immediate but rather was to be delayed until the company had achieved sufficient annual revenues from custom software services and consulting and perhaps the sale of software products to support the leasing of a computer and the development of data processing services. The company initially predicted that it would be able to achieve this goal at the end of three years of operation, after 1965. In fact, Informatics did try to enter this business in a small way by acquiring CPM Systems in 1965, described in Section 12.1.1.1 below, and by developing the Media Account Control System (MACS) service in 1967, as discussed in Section 9.1.6. But it did not make a major commitment to enter the data services business until 1968, with the heavy investment in Atar Computing Systems described in Section 4.4.2, and the major entry into the batch data services business described in Section 12.2 below. This relatively late entry was one of the few projections stated in **A Prospectus for Corporation D** which eventually proved to be in error.

#### 12.1.1.1 CPM Systems, Inc.

CPM Systems, Inc. was Informatics initial, tentative foray into data services. It was acquired in 1965, as described in Section 4.2.2. Under the direction of its founder, Russell Archibald, this small company offered data processing services and software designed to perform CPM (Critical Path Method) and PERT (Program Evaluation and Review Technique) data analysis for Southern California contractors in the home building industry. Both CPM and PERT are well known management techniques which were originated and perfected in the aerospace industry during the 1950's. They permit the effective division of complex engineering and production projects into properly defined tasks planned and ordered (in terms of schedule) to allow project completion in the minimum amount of time consistent with the expenditure of resources planned. This is basically done by identification of tasks which can be performed concurrently with other tasks and of critical tasks (those that affect the length of a project because the performance of other tasks is dependent upon their completion). Properly sequencing the performance of critical tasks into the shortest possible time, planning the concurrent performance of other tasks, and monitoring and reporting progress for all elements was the essence of the service to the contractors.

After the acquisition, the home construction market in Southern California declined and sales for CPM and PERT services dropped off. Archibald attempted to refocus his department on the manufacturing industry, and Informatics obtained a contract with Van Camp Seafood for the system design of a profit/loss forecasting system for the introduction of new products. This system expanded the company's existing CPM system software to include calculation of estimates, actuals, and revised estimates of monthly production expenditures, production and shipping volumes under various conditions. Having high hopes for this system, Archibald stated:

The new product market analysis system is adding a valuable capability to the area of product planning. With this system a basic programming package can be readily adopted to almost any new product and is virtually "off-the-shelf."

While this effort did gain some additional revenues for Informatics, it did not materially raise the fortunes of the CPM Systems department which continued

to be plagued by financial losses. Informatics divested itself of the CPM Systems business in 1967.(2)

#### 12.1.1.2 MACS

The Media Account Control System, and the data services based on it, were related to MARK IV, and are discussed in Section 9.1.6.

### 12.2 RUCKER DATA CENTERS AND DATAPLAN: THE FIRST DATA SERVICES DIVISION

After the failures of CPM and MACS, and shortly after the initiation of the Atar Computer Systems Inc. joint venture (see Section 4.4.2), Informatics seriously entered the data services business in early 1968. It established the first data services division (DSD) under the direction of vice president Richard Hill. At that time the company anticipated that the data services market would grow to \$1-1.3 billion within five years.

Informatics first examined a number of start-up companies in the emerging time-sharing market. Management recognized however that direct entry into this market was extremely capital intensive and a major risk. It decided not to "bet the company" on such a gamble. This was probably wise, since most of those start-ups went out of business in the recession of 1969-1970. Believing that the future of timesharing services lay in supplying business data processing, primarily for small companies which could not afford an in-house computer (which proved to be wrong), Informatics decided the best way to learn how to market to small businesses was by acquiring business operations which were currently serving and marketing to them. Thus, rather than directly enter the on-line timesharing business and commit to a heavy investment, Informatics set out to "bootstrap" its way into this marketplace by acquiring a number of independent batch service bureaus which it could slowly integrate, using its custom services expertise in communications systems, into a on-line computer communications network. The company reasoned that an established business could produce a small profit, and thereby pay for itself during early years and offset the development costs of a timesharing network. Observations of IBM's Service Bureau Corporation led the company to believe that small data centers had low financial risk.(3)

Informatics therefore formulated a plan to initiate and build its own data services business by first establishing one in-house data center and acquiring a second on-going center. It expected to use the earnings produced from this base to acquire additional data centers across the nation. At the end of five years, Informatics hoped to operate a total of twelve data centers (three established in-house, nine acquired) and nineteen satellite (remote job entry) centers supported by 39 sales offices. Annual revenues at the end of this period were projected to be \$23,280,000 with a 10 percent after-tax profit rate of \$2.3 million (results which were not achieved until the second DSD produced them in 1982).

The backbone of business for these service bureaus was intended to be the sale of applications-oriented, remote job entry processing services using proprietary software. MARK IV in particular was intended to be a major attraction to customers because it could be used to implement rapidly a number of different applications--thus providing a "unique computer utility." This

concept of MARK IV available through service bureaus would also permit Informatics to sell computer machine time "with a difference" and charge customers premium rates based on their use of MARK IV. The company also planned to offer other software products besides MARK IV including pension fund accounting, payroll, mortgage loan, legal time accounting and billing, and medical billing services. (None of these were ever offered by the first DSD, but all except medical billing were eventually offered by the company in other modes of delivery.) All of this was expected to avoid the normal competitive price cutting inherent in this market.(4) Richard Hill explained this strategy with the following statements:

An interesting facet of the data services business that we propose to enter is the emphasis that we are placing on a product orientation. We hold very strongly to the belief that a service bureau that sells machine time is putting a fixed price on an irreplaceable commodity and that its profit potential is limited thereby. Our approach is to sell services which are computer based, implying that we will charge what the market will bear for these services. The better the product the greater its value and, hence, product analysis and product planning will be major efforts within the division.(5)

Not just dozens but hundreds and probably thousands of product opportunities exist. The free and "for sale" program libraries for System 360 are rich sources of material. Every bureau we examine with a view to acquisition potential has packages not otherwise available. Our own developments for in-house accounting and other applications are sources. Our own inventiveness, and the availability of MARK IV, make it easy to dream of multitudes of potential products.(6)

Besides selling applications processing based on products, the data centers were also planned to offer keypunching and other automated data input services and custom software design and programming based upon the use of MARK IV. Although there was much enthusiasm among Informatics management for this bold plan, the chairman of the board, Irving Tomash of Dataproducts, had misgivings. He advised against moving ahead too rapidly, but did not force a confrontation on the issue. The disagreement became moot when Dataproducts sold all its ownership in Informatics to the public in 1969.

Putting the above described plan into action, Informatics formally established its first Data Services Division (DSD). (The second DSD is discussed in Section 12.4 below.) Richard Hill was appointed its vice president, and established the first batch service bureau in September 1968 when he leased a 9,000 square foot facility located on Ventura Boulevard in Sherman Oaks, California, and ordered an IBM System 360/model 40 computer. The company reduced the initial investment cost of this facility by obtaining an agreement with Intellectron Corporation to share the use of the facility and the computer. As well as being a profitable small business in its own right, this Valley Data Center was expected to be the development laboratory from which standard services would be exported to all future centers.

In early 1968 Hill began an acquisition search, hoping to find promising potentials in major cities of the United States where data processing services would be most in demand. This search however proved that suitable service bureaus available for acquisition would be much harder to find than Informatics had originally thought. Informatics did not locate any attractive data centers for several months until October 1968 and was beginning to give up hope when it was contacted with a possibility of acquiring, in one deal, three centers located in two major metropolises.

#### 12.2.1 Rucker Data Centers

During October 1968, Hill was contacted by representatives of the Rucker Company with an inquiry whether Informatics was interested in discussing acquiring their data centers. Hill answered in the affirmative, and closed-door meetings immediately ensued. The Rucker Company was a large manufacturer which had purchased fifteen smaller companies in the previous three years in an ambitious corporate development effort. Its growth investments included a subsidiary, Universal Data Processing Corporation, which contained two batch computer service bureaus in the Los Angeles area (called "Universal" and "El Segundo") and a third called "DATA II" in Oakland, California. All three operations used IBM 360/30 computers. Data II and the El Segundo center were represented as being profitable, and the Universal center (presumably unprofitable) was in process of being merged into El Segundo which was expected to eliminate the losses. Despite several negative circumstances, such as the absence of reliable records to provide evidence of good financial performance and Rucker's refusal to permit Informatics management to speak to data center personnel prior to the acquisition, Informatics considered the Rucker data centers "an attractive piece of property since it fits so well into our long range plans."(7)

As described in Section 4.2.5, a final agreement was reached in March 1969. After the acquisition, Informatics immediately held many meetings with data center personnel to improve their morale and provide direction. The company created the position of Director, Product Planning, located in the Valley Data Center, to identify and locate potential application software products and services which could be offered through the data centers as unique offerings to customers. Interestingly, insurance application packages were among the first offerings. These packages were unsuccessful but three years later Informatics would team up with the Equitable Life Assurance Society to successfully sell insurance oriented data services. Informatics made additional efforts to pinpoint and correct operating problems in the data centers and began recruiting an active sales force to support them:

To support these centers we have a major requirement for sales and marketing personnel. The opportunities are here--for a chance to represent quality products and services, to grow with a dedicated organization determined to grow fast, to achieve rewards directly based on individual performance.(8)

The centers at the time of acquisition possessed approximately 100 customers between them for whom they performed traditional data services such as accounting, inventory control and mailing list maintenance. There were plans to introduce accounts receivable and bill of materials processing packages. These

centers, together with Dataplan, described in Section 12.2.2, made Data Services Division a substantial operation. But it had serious problems.

In the first month of operation the Rucker centers lost a total of \$45,000, the beginning of a continuous stream of financial losses that lasted through 1971. During the next year, the Data Services Division lost an average of \$60,000 to \$70,000 per month versus planned start-up losses of \$40,000. These losses were due to several large unprofitable contracts with EBSCO, American Holiday, and several others, where it was contractually impossible to raise prices or to terminate the contracts. The losses were caused by operating problems (which were inherited from Rucker management) within the data centers, particularly the El Segundo Center (which had been renamed the Los Angeles Center). Among the problems encountered were numerous poorly designed custom programs, especially prepared for individual customers, that were difficult to run on the computer and produced processing errors so that many jobs had to be reworked and rerun. The poor quality of these programs absorbed both computer and human time, increased costs, and generated enough customer dissatisfaction that many customers withheld payments because of poor service: ultimately American Holiday filed a lawsuit. As reported to the board of directors, "The continuing problem with the L.A. Data Center is falling revenues without corresponding falling costs. . . . There is no doubt that . . . we are living with the shortcomings of the previous management."(9) It has become painfully evident that "due diligence" by Informatics before consummating the acquisition had been seriously neglected.

By July 1969 the degree of management attention required to correct the situation was strongly recognized:

. . . the financial reporting system is becoming more comprehensive. We still have a long way to go. We are lacking information on the progress we are making at cleaning up bad programs for example. We do not get marketing reports. We have no analysis of machine time usage that is worthwhile and dependable. We have not analyzed carefully differences and similarities between the operation of the various data centers. We have not projected into the future to see what we must do (for instance, machine time sales) to stabilize the situation at an early date.

Top management pressure will be exerted to get these things done.(10)

The August monthly report to the Board of Directors proclaimed "All emergency attention is being given to the data centers to staunch the flow of blood."(11) Acting on the urgency of the situation Informatics established a corporate management task force under the direction of Frank Wagner to investigate the data center problems and recommend appropriate courses of corrective action. It met every Saturday with the president, scrutinized in detail everything about the operation, and initiated many corrective measures.

These actions in themselves probably could have favorably effected data services operations had it not been for the fact that the domestic economy slipped into the beginning stages of a prolonged recession during late 1969.



For the first time in its history the data processing and computer software industry experienced a decline in its growth. The recession immediately affected small businesses which were the primary customers of Informatics data centers. With their business dropping off, these small businesses no longer had the funds to purchase data processing services and began cutting their requirements, reducing their usage and cancelling their contracts.

To make matters worse, at the Valley Data Center, Intellectron unilaterally broke its agreement to share costs of the center, and set up a competing facility. Informatics brought suit against them, but it produced more costs for lawyers than recompense. Hill began to spend more time with lawsuits than in managing the business.

It became evident that drastic action was necessary. Negative cash flow from the Data Services Division could bankrupt the company. So the decision was reached to abandon the business unless it turned around soon. A "stop-loss" figure was established. A new manager, Ronald Freeman, was hired to direct the Los Angeles data centers, ostensibly to stabilize them and turn them into profitable operations. Secretly, he knew that if losses went beyond a specified level, his job was to gracefully remove Informatics from the data services business with a minimum of loss to the company, harm to employees, and inconvenience to customers. The data center losses grew beyond the \$60,000 per month level to levels between \$90,000 and \$133,000 versus planned monthly operating losses of only \$27,000. The "stop loss" figure was reached by the beginning of 1970.(12)

Under orders from Bauer, Freeman began work to liquidate or sell the Los Angeles data centers. This courageous decision, to walk away from several million dollars in revenues, ranks as one of the toughest and best decisions ever made by the young Informatics management.(13) This effort took approximately one and a half years during which time data center staffs were cut and, when possible, leased equipment was returned. The losses of the Los Angeles Data Center were partially eliminated through sale of a number of its contracts to Penninsula Tabulating Service, Inc. in March 1970. The El Segundo facility was shut down and the remaining business was carried on in a facility cooperatively operated with a competitor, Boothe Resources, who eventually took it over in June of 1971.

The five year plan for 1971-1975, published in May 1970, struggled with the failure of the "batch services strategy," as follows:

There appear to be four basic strategies we could employ towards this part of the business:

1. Plunge into it by making large investments now in facilities and packages.
2. Aim at the market indirectly by entering the time-sharing business, hoping to extend into on-line business services at a later date.
3. Continue in the conventional batch-oriented mode as we are, hoping to upgrade to on-line activities later.

4. Do nothing now but continue to study the market, hoping to seize opportunity when the directions become more clear.

Our actual path will be a combination of the third and fourth alternatives. We are in the conventional data service business now, in Oakland and New York City, and to a limited extent in Los Angeles. . . . We will avoid heavy commitments in timesharing or other facilities, still in the belief that the market is a least three to four years from being developed sufficiently to warrant major investments.(14)

But the third alternative was a forlorn hope and, when a buyer appeared, DATA II, the Oakland center, was sold to Computer Dynamics, Inc. for \$150,000 in cash during October 1970 which was, ironically, its first profitable month in the previous six months. Subsequently, the Valley Data Center was sold to Creative Data Systems in 1971.(15)

#### 12.2.2 Dataplan, Inc.

Concurrently with its acquisition of the Rucker data centers, Informatics (as described in Section 4.2.6) on June 10, 1969 purchased a 70 percent interest in Dataplan, Inc., a New York City batch service bureau, which had been a wholly owned subsidiary of the Interpublic Group. Informatics paid Interpublic \$750,000 in cash and a note for \$850,000 to be paid off in five years at prevailing interest. Informatics acquired Dataplan for the same reasons as it did the Rucker data centers--to provide a building block for the Data Services Division, as well as to give it a business base in the New York City area, provide processing support to Informatics Computing Technology Company, and to offer MARK IV services to the local data services market. At the beginning of the discussions, an attractive possibility was the introduction of MACS (see Section 9.1.6) to the huge New York advertising markets with Interpublic as the first customer.

Informatics probably first discovered Dataplan as a possible acquisition in January 1968 when it was contacted by John Felix Associates, Inc., a unit of the Interpublic Group, a large New York corporation composed of advertising agencies and marketing services companies. According to Werner Frank, Dr. Albert Madansky, president of Dataplan and a friend of Frank's, had previously asked Frank if Informatics was interested in acquiring Dataplan.

Madansky was a brilliant applied mathematician and statistician. Marion Harper, the flamboyant advertising entrepreneur who had built Interpublic, persuaded Madansky to introduce to Interpublic sophisticated mathematical analysis of advertising effectiveness, by making him president of Dataplan.

As Dataplan's owner the Interpublic Group was also virtually its sole customer, and in the agreement selling the majority interest to Informatics, guaranteed to continue to do business with Dataplan at specified annual rates of revenue, declining over five years. Informatics optimistically perceived the Dataplan acquisition as a good business opportunity, announcing to the board of directors "we believe we negotiated well on this matter and got what we hoped for."(16)

Madansky continued as general manager of Dataplan, reporting to Werner Frank, the head of Eastern Operations. For the first several months after the acquisition Informatics optimism was justified because Dataplan was modestly profitable, although very little business was obtained outside of Interpublic, since no significant sales effort was made. However, beginning in October 1969, the service bureau began producing financial losses which were small at first but accelerated during April 1970. In the latter month, monthly revenues for Dataplan fell \$19,200 below its planned forecast, producing a \$5,600 loss instead of the expected profit of \$18,950. Informatics management eliminated staff and took several other actions to bring expenses down to improve operational performance. Unfortunately during the next several months, monthly losses up to \$30,000 were incurred where profits of \$16,000-\$20,000 had been planned. Madansky was replaced as general manager by Richard Ketover, formerly with Computer Applications.(17)

A sizable portion of Dataplan's problems arose from disputes about the quality of services provided to Interpublic. Despite the acquisition agreement, the users in advertising agencies owned by the latter corporation, which was no longer a majority owner in the service bureau, did not feel obligated (despite the purchase agreement) to contract all their data processing needs to Dataplan on a sole-source basis. The Interpublic users began seeking and using competitive service bureaus where they expected to get lower prices or better service for particular applications. The Interpublic corporate staff had little influence over the mavericks in the advertising agencies, and made only feeble efforts to make them abide by the agreement.

But there were also problems with the corporate accounting customer. Dataplan had been designing and implementing a number of custom data processing applications for Interpublic which incurred development problems, delays and costs exceeding original estimates. Much of this was due to the usual bad communications between the Dataplan programmers and the users at Interpublic. However, Interpublic accounting used the delays and cost increases for these applications as justification to reduce or withdraw its business with Dataplan and either delay or stop payment on work already performed and billed. The latter was a mortal blow, severely reducing Dataplan's revenue levels and causing the large losses. This circumstance caused Informatics to charge that Interpublic was in default of the acquisition agreement and file suit against Interpublic in September 1970 for rescission and damages. Informatics succeeded in this effort; the suit was settled, and Interpublic reacquired from Informatics its 70 percent interest in Dataplan in October 1971 for \$750,000 including the cancellation of the promissory note.(18)

### 12.3 SUMMARY OF INFORMATICS FIRST FORAY INTO DATA SERVICES

The acquisition of Dataplan and the Rucker data centers turned out to be a financial debacle, forcing the company to make a premature and hasty retreat from the supposedly safe, low technology batch service bureau business. Simultaneously, the liquidation of Atar Computer Systems, Inc. (AtarCSI) (the long-shot joint venture into the remote transaction processing business) related in Section 4.4.2, represented a failed experiment in the high technology end of data services.

The financial impact on the company's reported earnings in fiscal 1970 (ending March 28) was catastrophic. Operating losses in the California data centers pulled down operating income (before extraordinary items) to a loss of \$241,000. But the company had decided to get out of the batch data services business. Further, it believed that the probability was low that the Civil Aeronautics Board would approve the AtarCSI contract. So Informatics took the conservative approach, wrote off most of the assets on its balance sheet for data services, and set up reserves to cover future operating losses until the operations were phased out. This resulted in an "extraordinary item" loss on the operating statement of \$4,002,000 (after the effects of income tax), made up as follows:

California Data Centers		
- Purchase cost in excess of book value	(\$1,637,000)	
- Reserves for future losses	(371,000)	
		(\$2,008,000)
Dataplan		
- Purchase cost in excess of book value		(1,389,000)
AtarCSI		
- Investments and guarantees		(643,000)
Tax benefits not included above		38,000
	Total	(\$4,002,000)

This massive loss more than wiped out the retained earnings of \$937,000 that the company had accumulated since its foundation, eight years before, creating a deficit in retained earnings of \$3,319,000. So the company had to "dip into its capital" (the investments made by the stockholders during those eight years), reducing the stockholder equity to \$2,729,000. This was accomplished by a "quasi-reorganization," an accounting device which reset the retained earnings to zero and reduced the "Capital in Excess of Par Value" on the balance sheet to \$2,785,000.(19)

However, this was not a crippling blow to the company, since the losses did not all represent current cash. The \$1.6 million paid for the Rucker Data Centers had been paid in shares of (relatively high priced) Informatics stock. Much of the remainder had been paid out in cash in prior years. Moreover, the subsequent settlement of the suit to rescind the Dataplan purchase resulted in a further improvement in the company's financial position. Consequently, working capital remained a relatively healthy \$2,351,000 and an adequate line of credit at the Bank of America was available. The company recovered rapidly, recording pretax profits of \$2,680,000 in 1971, \$4,240,000 in 1972, and \$6,500,000 in 1973.

But these experiences taught the corporation much about the data services business and sharpened its skill in investigating and evaluating future acquisitions and new market opportunities. Not disillusioned with this bad experience, Bauer merely considered Informatics first attempt at entering the data services business as "strategically correct but tactically wrong." Exiting from the data services business temporarily in 1970-1971, Informatics waited for the economy to improve and kept its eyes open for a sound business opportunity

which would allow it to re-enter this business safely and successfully. This chance appeared almost immediately, in late 1970, when Informatics discussions with the Equitable Life Assurance Society of the United States presented the company with a way of participating in the remote data services business without any financial risk. As a result, however, Informatics itself did not record any data services revenues until after the merger with Equimatics in 1974.(20)

#### 12.4. THE DATA SERVICES GROUP

##### 12.4.1 How It Began

As discussed in more detail in Sections 4.4.4 and 10.0, on December 1, 1971, after a year of waiting for regulatory approval, Informatics entered into a joint venture agreement with The Equitable Life Assurance Society of the United States for the formation of Equimatics, Inc., primarily to supply data processing products and services specifically tailored to the needs of the insurance industry. With operations headquartered in Fairfield, New Jersey, Equimatics modestly entered the data services business with an IBM 370/145 by first merely supplying batch data processing for The Equitable's administration of Medicare claims. Soon it was supplying limited remote batch and timesharing services to New York area offices of The Equitable through a local computer network which it established. The successful performance of this effort for The Equitable prompted Equimatics to undertake plans to expand its network and data service offerings to other cities and other insurance industry customers early in 1974. Thus when Informatics merged with Equimatics during 1974 to create the "new" Informatics, the corporation immediately gained possession of a young but thriving data services business. In the years following this merger, Informatics initiated action to provide data services to other markets besides the insurance industry and greatly increased its data processing capacity through the acquisition of Management Horizons Data Systems of Columbus, Ohio in 1977.

Upon entering into the joint venture for the formation of Equimatics, Informatics projected that the batch data processing service market would increase slowly from \$749,146,000 in annual sales in 1972 to \$1,067,000,000 by 1978. Although this was an extremely large market, the network information services market (i.e., remote timesharing services, remote inquiry/response, and remote on-line processing) was forecasted to grow at the booming rate of 28 percent per year from \$577,377,000 in sales during 1972 to over \$2,420,000,000 by 1978, overtaking the batch processing market and exceeding it in size by more than 100 percent. With the emergence of this rapidly growing billion dollar market, Informatics, while not entirely turning its back on the batch processing business, determinedly set out to successfully enter the network information services market of the 1970's. The corporation planned to increase corporate revenues from Information Network Services and Insurance Data Services from \$2.3 million in 1973 to \$10 million annually by 1978.(21)

The thrust of this business growth has been founded on a strategy that emphasizes supplying vertical industry oriented applications and services which can serve the common needs of a multitude of customers in the same business. This approach is succinctly described by the following statements in the corporate five year plan of 1979:

There will be an emerging, increasing emphasis on communications-based data services. All products being sold will be candidates for adaptation to data services. The intention is to develop application- and industry-oriented services and a nationwide network of communications and computers over the five-year period.

The Company's capability will be increased to provide software products and data services which are application and industry oriented. This will require strengthening our management group in these application areas and in certain chosen industries. Examples of our interests in addition to the insurance industry are: accounting applications, manufacturing applications, the distribution industry, and other business activities which require the processing of natural language information, such as information services in support of litigation.(22)

This basic strategy evolved slowly. Immediately after the merger, the Fairfield data center and the planned Equimatics network under John "Jay" Callanan initially became the Data Services Division (DSD) of the Commercial Services Group and finally the Data Services Operation (DSO) of the Data Services Group (DSG) of Informatics, in both cases under the direction of Richard Kaylor, group vice president. As described in Section 10.2, they became completely responsible for the insurance data processing projects that they had sold and could support; i.e., Medicare claims, Equitable timesharing and processing for the Health Insurance Association of America. However, the work for EVLICO (Equitable Variable Life Insurance Company), which had been sold and supported by Equimatics in Dallas, remained the responsibility of that division, who subcontracted the processing to DSD. Of course, the Texas-based batch processing remained the complete responsibility of the Equimatics Division in Dallas, including the operation of the computers that did the processing, as related in Section 10.2.1. Hence DSD, which expected to have exclusive responsibility for Informatics data services, found out at its birth that practical considerations of application knowledge, customer relations and geography required that other units within the company have some responsibility for selling and supporting data services, and even for operating computers.

As might be expected, DSD did its best to retain control of as much of the data services business as it could, which often resulted in friction between it and other units. In the years from 1974 to 1979, the following policy became the rule. DSO had exclusive rights to general-purpose data services business, and any application or industry-oriented data services in which they could demonstrate competence. However, any unit of Informatics with a special competence in an application or industry had the right to sell for their own account and to support data services for that application or to that industry. However, they were required to subcontract to DSO the processing at a discount from retail prices. For such processing, they could subcontract to other suppliers or operate their own computers only with corporate permission when certain stringent conditions made it in the best interests of Informatics.(23)

As a result, Equimatics continued in the insurance data services business and provided itself with computing services to support the development of its



<u>LOCATION</u>	<u>TYPE OF BUSINESS</u>	<u>EQUIPMENT</u>
<u>OFFERING SERVICES TO THE PUBLIC</u>		
DSO-Fairfield, NJ	Cross Industry	(1) IBM 370/158 (2) NASCO AS 7000 (1) NASCO AS 9000
MSD-Columbus, OH	Wholesale Distribution	(2) IBM 370/168 (1) Amdahl 470/V6
Information Services- Riverdale, MD	Insurance Industry Litigation Information Publishing Services Library Services	(1) NASCO AS 5000 (1) Amdahl 470/V6
<u>INTERNAL SUPPORT (Including Support of Specific Contracts)</u>		
Information Services- Riverdale, MD	Software Contract Support Development	(1) Wang VS85 (2) Wang VS90
Commercial Information Systems-Dallas, TX	Software Development Contract Support	(1) IBM 4341 (1) NAS 5000
Software Products Group- Canoga Park, CA	Software Development	(1) IBM 4341
<u>FACILITIES MANAGEMENT</u>		
Professional Services Western Operations- Palo Alto, CA	NASA/Ames Aeronautical Laboratory	(1) CDC 7600 (1) IBM 4341 (1) IBM 360/67 (several)DEC VAX 11/780
	American President Lines	(2) IBM 3033
	JPL Image Processing Laboratory	(1) IBM 376/158

COMPUTER SYSTEMS OPERATED BY INFORMATICS IN 1982

(Excluding Microcomputers and Communications Computers)

FIGURE 12-1



software products as described in Section 12.5.1. Information Systems and Services got more and more into the data services business and eventually established the Washington Information Processing Center and acquired computers as discussed in Section 12.5.2. Other units from time to time provided data services or acquired computers to support development of software products. Figure 12-1 shows the computers operated by Informatics in 1982.

Consequently, DSO gradually restricted its own offerings to remote processing of a general-purpose nature and cross-industry applications. When MHS and COSD were acquired, they became separate industry-oriented divisions within Data Services Group (DSG). This Section 12.4 discusses only the data services provided by DSG.

#### 12.4.2 The Second Data Services Division

Immediately after the Equimatics merger, Richard Kaylor and Jay Callanan further refined and enhanced Equimatics plans for broad-based data service offerings and the creation of an extensive information network. The management of Informatics Commercial Services Group recognized the obvious potential synergy which existed between the former Equimatics data center and network and its own financial and communications systems business. A comprehensive network could be implemented using Informatics ICS IV/500 communications software (see Section 11.6.2). Accounting and financial data processing services could be offered to network customers through use of Informatics ACCOUNTING IV products. Data base publishing services (such as Excerpta Medica--Section 7.9.6) of Informatics Systems and Services Company could also be delivered through the network. As explained by the company's **Data Services Division Business Plan**:

. . . network development is the glue to hold the multi-service vendor together. With a good network, the industry specialization and software product capabilities of the multi-service vendor can be applied to the needs of many users, particularly those in small to medium sized businesses. A network is also the key to maximizing profits from facilities management (FM) contracts. The development of national and international networks, therefore, is the key strategy for data services vendors in search of leverage.

The company formulated detailed plans for the development of a comprehensive data services network covering 100 cities requiring a basic investment of \$2.25 million plus hardware investments ranging between \$1.9 and \$2.6 million over a five year period. In the same period Informatics forecasted aggregate sales for data services to reach \$36.6 million by 1981, giving the company a 5-10 percent share of the network information services market.(24) To achieve this a marketing plan was developed and sales offices were opened in eight cities by 1982, staffed by over 80 field sales and support personnel. This included a large office in Washington, DC, which obtained a modest amount of U.S. Government business, primarily from the Department of Transportation. A product planning and development organization was formed which negotiated licenses with the suppliers of many software products for resale through the network. Another legacy that DSD inherited from Equimatics was the emphasis on the use of the VM operating system and its time sharing system, CMS, for use by customers who wished to develop their own applications.

Beginning with one IBM 370/145 in early 1973, the capacity of the Fairfield Data Center has grown steadily, always using IBM or IBM compatible computers. At the end of 1982 it was equipped with one IBM 370/158, two NASCO AS/7000s and one NASCO AS/9000. Data communications there, and throughout Informatics, were handled by Comten computers. In 1982 DSO recorded revenues of \$20.9 million and pretax profits of \$2.7 million.

#### 12.4.2.1 FINAC (Financial Accounting) Services

Among the opportunities foreseen by Walter Bauer and Werner Frank for data services were financial and accounting data processing services based on Informatics own software product line--ACCOUNTING IV. As described in Section 11.8.1, ACCOUNTING IV consisted of three separate but interrelated products performing general ledger, accounts receivable and accounts payable processing, applicable to almost any type of business. Normally, the use of such software systems was beyond the financial resources of small to medium size businesses who could not afford or preferred not to operate their own computers. However, many of these smaller businesses did obtain automated payroll services through their banks which marketed this service to attract and to retain business customers. Informatics reasoned that it could provide additional automated accounting services to these small and medium size businesses if such services were offered and marketed to them by banks. The banks would gain an expanded full-line of automated services to offer its customers, thereby becoming more competitive, while Informatics would gain the patronage of the captive customer base of the banks. As explained by the business plan devised for offering this service:

To most efficiently penetrate the end user market at "least cost," the FINAC plan is predicated on the "wholesaling" of the Company's (service) wares through the "retail outlet" of the commercial banking institution. This approach serves the mutual interest of both parties: Informatics gains a revenue source for a new business thrust and the banks either improve or expand their Automated Customer Services activities on a controlled involvement basis. It also affords Informatics an economical means of initially establishing itself in a targeted market place, trading, as it were, on its parent company's reputation for financial stability to attract its outlet bank affiliates and on the bank's posture in the local community to gain the end-user account. This obviates the need to mount an extensive end-user marketing campaign to give credibility to a yet unknown vendor. It also minimizes the time required to achieve a meaningful result in this market.(25)

The company determined to offer ACCOUNTING IV services either 1) by licensing of the product line directly to the banks to provide services to customers by using their own computers, or 2) through a joint marketing/wholesale arrangement whereby the banks would sell the service and Informatics would provide the processing. Dubbing the proposed service "FINAC" (acronym for Financial/Accounting), Informatics was optimistic that its approach was correct particularly because the Mellon Bank in Pittsburgh, Maryland National Bank in Baltimore and the Virginia National Bank in Norfolk all had

previously purchased ACCOUNTING IV products and were successfully selling services utilizing them to their customers. The Mellon Bank had 175 small business accounts and the Maryland National Bank had over 100 medical accounts for automated accounting services based on ACCOUNTING IV.

Based on a survey of 4,000 banks across the country, Informatics believed the market for FINAC services to be large, growing from \$350 million in annual sales in 1975 to over \$550 million by 1982. The company forecasted that its sales of FINAC services would increase from \$40,000 in annual revenues with pretax losses of \$389,000 during 1976 to \$12.4 million in revenues and pretax profits of \$7.9 million annually by 1983. The break even point with investments required to offer the service was predicted to occur in 1979. Between 1976 and 1980, the cumulative number of end users of FINAC services provided by Informatics were forecasted to grow from 18 to 1,771. However, Informatics was not successful in selling banks on the concept. But worse, software performance problems experienced with ACCOUNTING IV (see Section 11.8.1) prevented Informatics from implementing its own financial and accounting data processing services. This represented another failure of an Informatics concept to capitalize on the supposed marketing prowess of a third party.

#### 12.4.2.2 Direct Dial Data (DDD)

Undaunted by the failure of the FINAC idea, and the folly (as also shown in the failure of MACS) of relying on a bank to become a sales agent for its data services, Informatics was determined to find a way to offer generalized accounting and finance data processing to small and medium size businesses. Its next effort was the acquisition in 1977 of Direct Dial Data Services, Inc. (DDD), from Greyhound Computer Corporation as described in Section 4.2.14. DDD marketed its data processing services through local banks and data centers which served as "dealers."

Warner Blow was put in charge of DDD in the Commercial Services Group, reporting to Richard Kaylor. At long last DDD represented a possible expansion of data services to the small business accounting applications market. Informatics supplied each dealer with marketing and support materials, and overnight remote processing. The dealer sold and supported the end user of Informatics software, typically a very small businessman. Input was supplied over phone lines to a collector unit at each dealer, and then transmitted on Informatics network to Fairfield. Output was printed remotely at each dealer, who then, next morning, delivered it to his customers. The processing was successfully moved from the Greyhound computer center to DSD in Fairfield. Service to the dealers showed significant improvement.

Intensive marketing efforts were undertaken to gain more dealers. When DSG was formed, the organization was taken out of DSD and renamed the Financial Systems Division of Data Services Group. It gained two major contracts from New Jersey Bank and First Wisconsin Bank, both which acquired dealerships from DDD. But DDD almost immediately ran into a major business setback when its largest dealer, Wells Fargo Bank located in San Francisco, terminated its agreement for services, and began to service its customers on its own computer with software that (presumably) it had been developing for some time. This was after Informatics had, prior to the acquisition, conferred with representatives at Wells Fargo, which was dissatisfied with DDD's performance under Greyhound

management. Wells Fargo representatives gave oral promises that the bank would not discontinue business with DDD for several months to give Informatics time to rectify the bad service previously supplied by Greyhound. Informatics would not have consummated the acquisition without this promise, a fact of which Informatics believed Wells Fargo management had to be aware. Upon cancellation of business by the bank, the company gave serious consideration to taking legal action against Wells Fargo on breach of contract and anti-trust grounds:

Wells Fargo knew full well that we would not have gone ahead with the acquisition without their continued use of the system and their providing us a chance to reverse the quality of the service which was admittedly poor during the last few months of the ownership of DDD service by Greyhound Corporation.(26)

In December 1976 Informatics decided to file a suit against Wells Fargo, claiming damages of over \$300,000. "The amount of dollar loss is small but we believe the remedy should be pursued nonetheless," management advocated. Depositions of Wells Fargo personnel taken during the discovery phase, indicated the bank had long been carrying out plans to terminate DDD services, which seemed to verify Informatics complaint that Wells Fargo had deliberately misled Informatics to protect their interests until they were ready to support their customers in-house.(27) This also led Wells Fargo to have concern about their ability to win if the suit went to trial. So eventually they settled, by paying Informatics \$260,000.

Unfortunately, Informatics found its efforts with DDD disappointing. Just as had been the case with MACS and FINAC, relying on banks to help build a business was a fruitless approach. Operating losses resulted and the company began pursuing other means to market financial data services. In 1978 the corporation slowly liquidated the DDD business.(28)

#### 12.4.2.3 Summary of DSD

Despite the setbacks with FINAC and DDD, the Fairfield data center and Informatics network continued to grow both in revenues and technical capability. By June 1977 Informatics Data Services Division possessed a nationwide network encompassing 12 major cities nationwide and was offering data processing services for specific applications in accounting, administration/personnel, banking and finance, business management, data management, engineering, graphics, information retrieval, insurance, management sciences, mathematics, operations research, planning and projection, statistics, simulation, and word processing.(29) In 1982 DSD operated in three lines of business. It supplied cross-industry processing to commercial companies, such as AT&T, Squibb, and Booz, Allen & Hamilton. To the U.S. Government it provided transportation-oriented applications. And it supplied to The Equitable insurance-oriented timesharing and the processing of Medicare claims. Note that the company had finally abandoned its pursuit of cross-industry services to small business. With the growth of the business, Jay Callanan was promoted to operations vice president and the division renamed Data Services Operation (DSO). In 1982 it had revenues of \$20.9 million and pretax profits of \$2.6 million. Its somewhat disappointing revenue growth compared to its competitors might be attributed to the fact that it never put in place a strong vice president of marketing, with the result that its regional sales managers were often failures and continually

had to be replaced. Perhaps management was too concerned with preserving the lucrative Equitable business and never gave the attention needed to compete more vigorously in the hard world of commerce.

For Informatics the Fairfield data center, initially established by Equimatics, represented a true milestone since it permitted the corporation to successfully re-enter and pursue the booming data services business. With this milestone accomplished, Informatics set out to accomplish an additional milestone, supplying specific industry applications for non-insurance businesses, by acquiring Management Horizons Data Systems.

#### 12.4.3 Management Horizons Data Systems, Inc.

As described in Section 4.2.15, in November 1977 Informatics acquired Management Horizons Data Systems, Inc. (MHDS) from First National City Bank (FNCB). The deal included a two year contract to Informatics, for a total price of \$3.3 million, to supply remote batch processing for the bank's traveler's checks system (TRACKS) and money order processing system (MOPS). Overall, the acquisition was a bargain for Informatics except for three elements: 1) Citicorp, the holding company of FNCB, insisted that Informatics assume the long-term leases of two obsolescing IBM System 370/168 computers, 2) Informatics did not have confidence in the top MHDS management, and 3) the sales organization, with one exception, was very weak. The overvalued computers burdened MHDS with excessive costs for computer capacity and required high prices to the customers to cover such costs. The poor original top management of MHDS at the time of acquisition was not a problem, since Informatics was easily able to reorganize the operation to put in place a competent top management team. A mitigating factor was that middle management was very competent, and was still in place in 1982.(30)

Despite the negative conditions, the acquisition of MHDS was a real steal for Informatics, permitting it to rapidly expand its information network and increase its data service offerings ahead of its own schedule. Located in Columbus, Ohio, Management Horizons initially was established as a consulting firm, MHD, by a brilliant group of professors and management consultants at Ohio State University. Subsequently, a data processing subsidiary, MHDS, was established, and under its parent's direction, designed and implemented a unique on-line data processing system for wholesalers and retailers primarily oriented towards the drug, hardware, building materials, industrial supply, and food distribution industries. This was a comprehensive system offering a full line of processing services for order entry, customer invoicing, inventory management, scientific buying, accounts receivable, accounts payable, payroll, general accounting, and the modeling of optimal merchandise mix. By the end of 1971, MHDS had signed up and obtained advance payment from a total of 80 wholesale customers located in 32 states and 2 provinces in Canada to be connected to MHDS through a leased line data network with 102 separate terminal sites. During 1971 and 1972, MHDS began placing its customers on-line with its system and supported them through the development of a number of management education seminars and by comprehensive documentation of its various application programs.(31)

With the acquisition of MHDS, Informatics gained 125 new employees, approximately 107 new customers, a very large application program for the

distribution industry, a wide-ranging on-line remote job entry network encompassing 100,000 miles of dedicated circuits and over 108 terminal locations. There was a highly sophisticated 14,000 square foot centralized data processing center with two 370/168 computers, 65 disc drive spindles, 30 dual density tape drives, five Comten front-end communications processors, and various card input and printer equipments. The computer system offered to its geographically remote users fast turnaround of 2.5 to 5 minutes for batch processing jobs. With MHDS's capability, Informatics data services revenue forecasts were increased from \$11 million to \$17 million in annual revenues by 1978 and plans were made to integrate MHDS operations with the Fairfield data center, rebuild the marketing organization, and improve and enhance the software.(32)

Upon making the acquisition of MHDS, Informatics reorganized its own operations. Data Services Group was established, with headquarters in Columbus. It consisted of MHDS, Data Services Division in Fairfield, and Direct Dial Data renamed the Financial Systems Division. Kaylor, the group vice president, moved to Columbus. After a preliminary period to become familiar with MHDS operations, he dismissed the former president and general manager and appointed Warner Blow as general manager of MHDS. Of the three original MHDS executives, only Tom Hoover, vice president, technical development, was retained. MHDS was at first renamed the MHDS Division and later the Management Services Division (MSD). The various distribution system processing applications were renamed DISTRIBUTION IV, and the meager MHDS marketing force was reorganized and enlarged under Fred Ragusa as acting vice president of sales and Lou Spreitzer as director of marketing planning. Dan Friedeman directed Subscription Services (including installation, contract administration, customer education and documentation).

A new subscription services contract was initiated for new customers and to replace, upon expiration, the contracts of existing customers. Particular attention was paid to eliminating the very favorable terms that the charter subscribers enjoyed. The new contract contained a price increase of almost 25 percent, desperately needed to offset increased operating costs. Of 55 existing customers presented with the new contract during the summer of 1977, 37 signed by the beginning of October. Although others were slow in signing, only a few customers were ultimately lost. MHDS also owned a 50 percent interest in a Canadian sales subsidiary which fortuitously won a \$1 million annual contract with Acklands in October 1977 and two more large contracts in February 1978.(33)

Informatics initially planned that a major integration of computer capacity would be achieved between its two data centers permitting each to process overload requirements at the other when needed. This proved impractical because the DSG technical organization encountered great difficulty in upgrading the operating system under which DISTRIBUTION IV ran to MVS, which was needed to cope with an increased demand for services. In an effort to motivate DSD to accelerate the integration Kaylor eventually forced them to carry \$75,000 per month of the cost of one IBM 370/168. This permitted MSD to lease an Amdahl 470/V6 computer to handle its work load, but it was still an expensive data center operation.

#### 12.4.3.1 The Distribution Data Processing System

Soon an unforeseen development occurred among MSD's wholesale distribution customers. The growth in minicomputer capability resulted in a strong competitive offering by minicomputer salesmen to MSD customers. Suddenly many began to insist on having their own in-house computer. MSD opportunistically took advantage of this demand by developing a distributed data processing system (DDPS) product offering based on installing the Honeywell Level 6 minicomputer at customer sites. This system permitted MSD to be more competitive by providing its customers with the ability to maintain some on-line data base files at their own location for easy updating and information inquiry and to decrease their processing costs (by not having to be continuously dependent on MSD host computers). At the same time they had access to the large-scale MSD computers for large batch processing jobs, additional computing capacity and storage, and, potentially, connection to the Informatics time-sharing system based in Fairfield. MSD began to develop the system in 1977 when it obtained a contract from Marsuco Industries, an industrial supply distributor, which was willing to support development of the system. With a \$25,000 subscription fee, annual maintenance fee, and hardware sales, Informatics projected that its annual revenues for DDPS would grow from \$40,900 in 1977 to \$471,600 in 1981. Incremental profits were planned to increase in the same period from a financial loss of \$383,900 in 1977 to profits of \$286,400 in 1981.(34) Although DDPS itself was never profitable, the reorganization of MSD and the development of additional competitive service offerings revitalized MSD into a profitable growing operation by 1982. Noting the improvement of morale at MSD under Informatics management, Walter Bauer reported:

The renaissance of spirit and optimism at MSD continues; the years of the organization's low self-esteem generated by the inattention and lack of interest by Citibank are increasingly becoming faded memories.(35)

In 1982 MSD had revenues of \$10.9 million and pretax profits of \$200,000.

#### 12.4.3.2 ORDERNET

Inspired by a design study (PUBNET) performed by Richard Kaylor several years before for the book distribution industry, another application offering arose from MSD's business with the wholesale drug industry. This new service called ORDERNET, introduced in 1978, allowed wholesalers to order directly from manufacturers through the MSD network. ORDERNET minimized the paperwork required to process purchase orders and reduced delays in the placing and delivery of orders. The processing took a tiny fraction of the computing power available, and the initial software development was very inexpensive. Informatics successfully won the endorsement of the National Wholesalers Drug Association and eventually obtained the approvals of several other similar business associations of wholesalers. These endorsements produced interest and acceptance of ORDERNET by potential customers and brought growing profits to Informatics.(36)

#### 12.4.4 Commercial On-Line Systems Division (COSD)

In January of 1981 Informatics made yet another addition to its data service offerings when it acquired (as described in Section 4.2.18) Transportation Computing Services Corporation and its subsidiary, Commercial On-

line Systems, Inc., a leading New York City supplier of on-line data processing services to the apparel manufacturing industry and the sole supplier of such services to the various taxicab companies and to the union of taxi drivers in New York City. It had been founded and was owned by Lawrence Parks and Issac "Zack" Lonstein. It became the Commercial On-Line Systems Division of the Data Services Group, under the two principals. Since COSD was limited to the New York City marketplace, Informatics expected a mutual benefit which could result if COSD was given the use of the existing Informatics network and the large centralized computers of its Fairfield data center to pursue the growing apparel manufacturing industry marketplaces in Texas and on the West Coast. However, the costs of this conversion to Fairfield computers were much greater than expected. Moreover, the timing of this acquisition was most unfortunate, since the recession of 1982 had devastating effects on COSD's customers in the apparel industry which represented the bulk of its revenues. Hence, in 1982 it had revenues of only \$3.0 million and an operating loss of \$0.73 million, as well as amortization of acquisition costs amounting to \$0.40 million. Subsequently, Parks left the company, and Lonstein became vice president and general manager.

#### 12.4.5 Data Services Group in 1982

Informatics Data Services Group was a growing business which, in 1982, produced \$34.9 million revenues and \$1.7 million pretax profits after absorbing COSD's loss of \$1.1 million. In July 1981 Richard Kaylor resigned from Informatics. Frank Wagner as acting group vice president for the remainder of 1981, and was replaced in 1982 by Kenneth Draeger, who had been the general manager of the Network Services Division of Automatic Data Processing.

Through an industry-oriented strategy that began with Equimatics pursuit of the insurance industry, MSD offerings to drug, hardware and building supply wholesalers, and COSD's growth potential in the apparel and taxicab industries, Informatics has built a successful nationwide data services business catering to the specific needs of its customers. Despite its initial set back in this marketplace when it acquired the Rucker data centers and Dataplan, Informatics persistently pursued this goal, successfully fulfilling yet another objective of its original business plan within 20 years after its founding.(37)

#### 12.5 OTHER DATA CENTERS

As noted in Section 12.4.1, not all data services were performed for customers by the Data Services Group. When special circumstances existed, Corporate policy permitted other organizations to operate data centers to support customers in their areas of expertise.(38)

##### 12.5.1 Texas Data Centers

When Equimatics acquired United Systems International, it was operating data centers in Ft. Worth and Dallas, Texas, performing batch processing for insurance companies. After the merger with Equimatics, as related in Section 10.2, these services rapidly evolved into a remote processing operation, and two centers were eventually combined into one large center in Dallas. After Richard Lemons was made responsible for Equimatics, the processing for insurance customers was transferred, late in 1982, to the Washington Information Processing Center. The Dallas center was reduced to a size appropriate for supporting the development there of insurance software products.



## 12.5.2 The Washington IPC (Information Processing Center)

When SDA was acquired in 1973 as described in Sections 4.2.9 and 7.5.3, a major part of its business was data entry services. These soon evolved into electronic photocomposition services and eventually the Publishing Services Division (PSD). These services continued to involve a large amount of data entry. The operation consisted of entering huge quantities of input to a computer, doing a small amount of data processing, creating a tape for input to an electronic photocomposition device, and delivering its output to a printing shop. The printer is normally on a very tight schedule, so the service required rapid turnaround for each computer run, and normally each job required several runs. PSD initially obtained their processing from a nearby batch service bureau, which could provide the output tapes with the required turnaround time. During the years from 1973 through 1978 several studies were made of transferring the processing to the Fairfield data center. These showed that the large amount of data transmission of the input to Fairfield and the output to create a tape in Washington (with a small amount of processing in between) was economically infeasible, if the customer requirements for turnaround time were to be met.

During the same years (from 1973 through 1978), the Legal Information Services Division (LISD), as described in Section 7.7.1, was a rapidly growing user of computing. Its software, the RECON IV system, was installed at the Fairfield Data Center. However, incompatibilities between the VM/CMS operating system in Fairfield and the file architecture of the STIMS subsystem of RECON IV resulted in operational difficulties. From LISD's point of view, the service was considerably less than satisfactory. In addition, most of the ISG applications were batch OS oriented and did not coexist well in the Fairfield VM/CMS timesharing environment.

In addition, a substantial part of the business of the Information Services Group was contracting to the Federal Government, primarily in the areas of information clearinghouses and library sciences. Many procurements included a requirement for some supporting data services. Frequently the customer specified that such data processing be performed at a data center in the Washington, DC, area. In such cases, if Information Services Group wished to bid, its proposal would have to contemplate purchasing such data services from an outside supplier.

For all of these reasons, the managements of both DSG and Information Services Group (ISG) made several proposals to install an Information Processing Center (IPC) in Washington, designed to support the local ISG needs in the most economical way. In early 1979 the ISG plan was approved by corporate management. A NAS (National Advanced Systems) AS/5000 computer (compatible with the IBM 370) was installed in a center in Riverdale, Maryland, under the control of ISG. Data communications were handled by Comten computers, the same type as those used in Fairfield and Columbus.

During 1979 all processing for Information Services Group was transferred from outside suppliers and from Fairfield to the Washington IPC. As noted in Section 12.5.1, late in 1982 all the processing for the insurance customers of Equimatics was transferred to the IPC. At the end of 1982 it had grown to two

large IBM 370-compatible computers using the IBM MVS operating system, one NASCO AS/5000, and one Amdahl 470/V6, under the direction of Robert Johnson, vice president and general manager.

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