Electronics

McDonnell Douglas changes its

aim with Tymshare

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Business Writer

Like an actor who for years only played bit parts, McDonnell Douglas Corp.'s computer business never shone in the limelight.

The St. Louis company grew to $8 billion by rolling out fighter jets and other aircraft while for 24 years its computer subsidiary stayed cast as a relatively minor character.


Robert Fischer

But in the seven months since McDonnell Douglas bought Tymshare Inc. of Cupertino, the company has been preparing for the big-time communications and computer market.

In a few years, McDonnell Douglas expects its $1 billion Information Services Group, which includes Tymshare, to reach $5 billion in sales. Then it will fit in as one of 20 to 30 companies providing integrated computer hardware, software and services to a limited number of vertical markets, said Robert A. Fischer, vice president of ISG.


Gary Liebl

Nonetheless, behind the scenes, Tymshare's top executive, Laszlo Rakoczi, argues that McDonnell Douglas is not aiming high enough.

Contrary to the classic takeover situation, McDonnell Douglas hasn't "smashed together" the two companies, said Rakoczi, Tymshare's vice president. There have been no layoffs and no cleaning out of Tymshare's management.

Business cards still bear the Tymshare name, and some employees say there's no sign yet of computer business being "aerospaced," or choked by bureaucracy and paperwork from McDonnell Douglas' conservative middle management.

Rakoczi estimates there is so much duplication of effort between the two companies that 1,000 employees could be laid off without damaging production.

Yet McDonnell Douglas chooses, instead, to keep the workforce intact, betting it will need that number to meet ambitious growth goals.

While Rakoczi, a fiery, opinionated speaker who hurls his hands around to the cadence of a slight Hungarian accent, fumes that Tymshare's directors "became cowards" and "sold out too cheap," he still considers the aerospace manufacturer as "the perfect partner."

Rakoczi expresses his satisfaction with the buyout, despite his earlier pleas that the money-losing Tymshare be allowed to stay independent.

To figure out how to turn its mouse into a lion, McDonnell Douglas studied Xerox and Exxon, "clear examples of big companies not doing well (with computers)," said Gary Liebl, another vice president of ISG.

Both Exxon and Xerox failed as computer companies because top management didn't totally commit to diversification, he said. They made bringing in new businesses into the fold tougher than it had to be "by overwhelming the acquired company and losing whatever momentum it had," Liebl said.

Company President John F. McDonnell is at the center of remodeling the company's computer business to avoid those pitfalls, he said.

McDonnell Douglas paid $307.5 million for Tymshare to obtain ownership of Tymnet, one of two public, "value-added" computer networks in the country. Timesharing, the business that helped Tymshare grow to $288.6 million by 1983, was near death.

Tymnet will be the glue that holds the diverse pieces of McDonnell Douglas' computer

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— Laszlo Rakoczi, Tymshare

business together. To compete against major firms, a computer-communications link is vital, Rakoczi said.

"McDonnell Douglas bought more than a conduit, it bought a germ of system integration," he said.

Until five years ago, McDonnell Douglas's computer business consisted of McDonnell Douglas Automation Co. (McAuto), which does remote data processing and is headed by Fischer.

McAuto's $500 million in sales fall largely to hospitals and engineering firms.

In 1979, the company bought Microdata Corp. of Irvine, a $200 million minicomputer maker, which is headed by Liebl. Since its purchase, Microdata has been left intact as an entrepreneurial-style business tethered to McDonnell Douglas' staid aeronautics world, said Liebl.

"The organization realized it was in an area it didn't know and wasn't tempted to step in and mess it up," he said.

At the same time, the computer industry evolved into a business where hardware, software and remote-computer services businesses are integrated. Top management at McDonnell Douglas realized it had to follow suit.

This year it bought Tymshare and Computer Sharing Services Inc., a $69 million Denver-based supplier of computer services to the telephone industry.

"We needed some new activity that's big, profitable and growing," Fischer said.

The fast growth of computers would counterbalance the steady 5 to 10 percent increase in aerospace, he said.

Industry analysts wondered if the giant would stifle the dynamism that built reputations for smaller computer companies.

"Any concern that we're oil and water is grossly overstated," Fischer said.

Diversification into computers "is a stretch but not like Procter & Gamble going into computers, since aerospace is already high-tech," Liebl said.

Over the past seven months, the team of McDonnell, Fischer, Liebl and Rakoczi have labored to pinpoint which narrow markets the company ought to target.

While the strategy isn't set, it's nearly a sure bet that McDonnell Douglas' deep pockets will finance ventures into health care, financial services and factory automation since it already has a presence in those markets.

Another promising area is wholesale and retail distribution, Fischer said.

While Fischer and Rakoczi agree on a direction, they part friendly company on issues that will determine how big and fast McDonnell Douglas's computer business will grow.

Fischer sees McDonnell Douglas falling into what he calls the "second tier" of companies along with Wang, Digital Equipment Corp. and Hewlett-Packard Co. of Palo Alto.

The first tier, dominated by IBM, AT&T and a smattering of Japanese firms "is a league that, as big as we are, we can't play in," Fischer said.

Rakoczi argues that a proprietary technology would push McDonnell Douglas into the top tier.

He's convinced that McDonnell Douglas should spend "substantial sums even for ISG" to enhance Tymnet.

A big company going after narrow markets is prey for smaller firms that can be even more specialized and pose serious competition, he said.

The solution, he said, is in product differentiation.

"To make use of Tymnet as it is today isn't enough of a product differentiation," said Rakoczi, who helped develop Tymnet in his 11 years with the company.

Rakoczi is fighting for the development of a version of Tymnet that McDonnell Douglas alone would sell.

Today, any company, including potential McDonnell Douglas competition, can buy Tymnet services to link equipment.

Rakoczi wants Tymnet transformed from a blind network to one that recognizes the data flowing through it. The change would make connecting computers even easier and more cost effective, giving McDonnell Douglas a competitive edge, he said.

The powers that be are undecided.

While waiting, Tymshare has stepped up efforts to market "Reveal," an "experts system" for managing corporate finances. It also continues to work on what so far has been the 10-year development of software to enhance Tymnet, which is code-named GNOSIS (Great New Operating System in the Sky).

"It's a big debate . . . should we be a completely integrated provider of all components?" Rakoczi asks. "So far, we're just a loose configuration of independent businesses. It's a question of degree how closely we'll be tied together."