Tymshare gamble pays big dividends
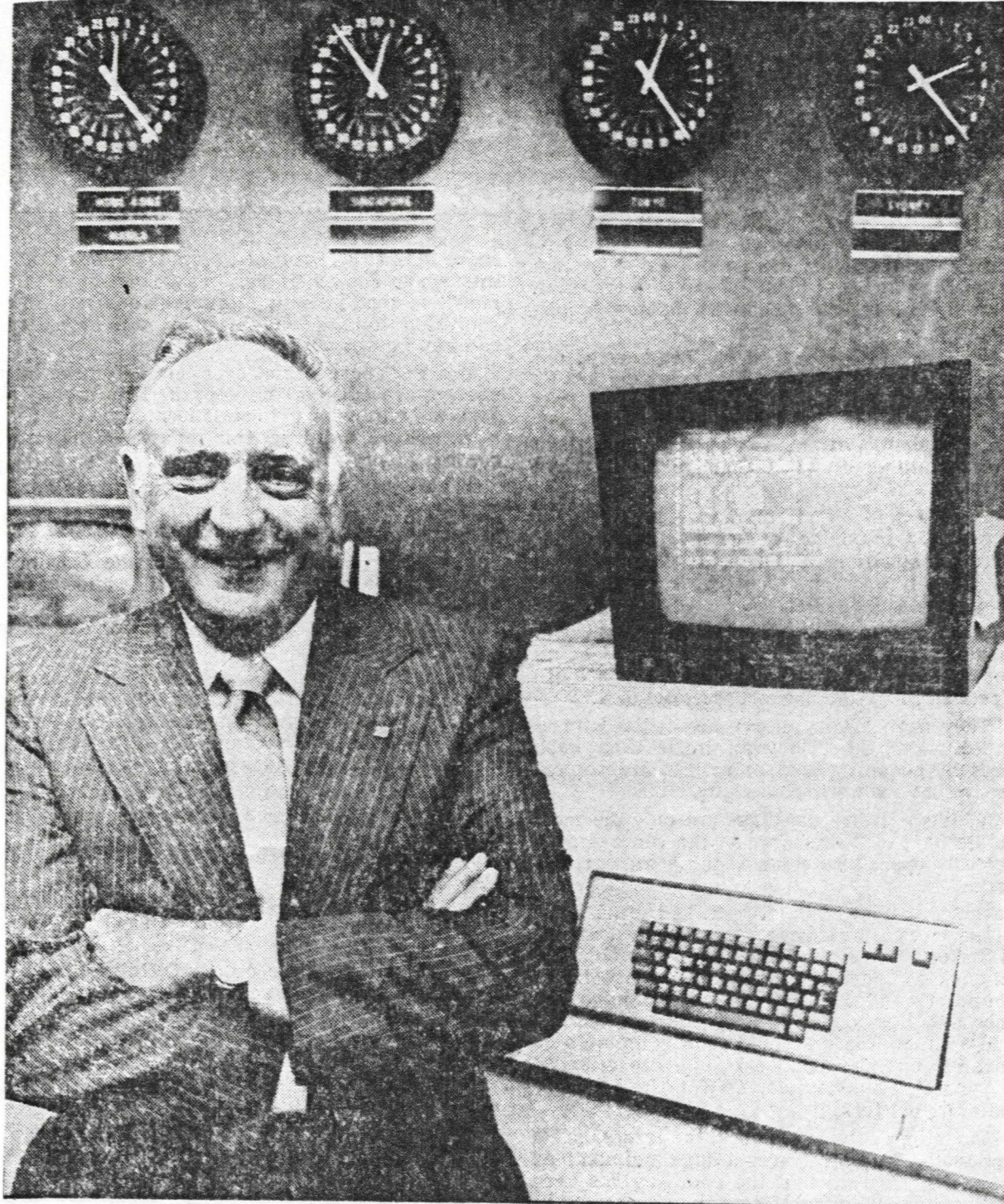
Thomas 'T.J.' O'Rourke has built Tymshare into a $200 million company

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Strategy change boosts profits

By Michael S. Malone
Staff Writer

Ten years ago, Thomas "T.J." O'Rourke put his company on the line just when it should have been basking in the sunlight of success.

At the beginning of 1970, Tymshare Inc. of Cupertino achieved its first profitable quarter after four years of trying.

In that short time, the company already had built a reputation as one of the leading firms renting computer time to scientific customers.

Business was booming, as sales jumped from $1 million in 1967 to $10 million.

The outlook was bright.

Despite a falling stock market, Tymshare was successful in its first public stock offering in September, 1970.

One might have expected Tymshare to have continued along the same path, expanding and diversifying as the years passed.

But O'Rourke and his colleagues noticed disturbing characteristics in the scientific computer services market. The most important was its volatility.

Demand for computer time among subscribers bounced up and down with each contract or research project. And, periodically, the market collapsed as the aerospace industry slumped.

So Tymshare surveyed other prospective markets. It found that while corporate laboratories were unpredictable demand in the marketing and financial areas was nearly constant.

O'Rourke decided to give that other market a try.

And so Tymshare, despite a successful track record, turned on its heels and pursued the corporate management business.

This meant developing an entire library of computer programs aimed at providing executives with tools for business analysis and prediction.

It also meant taking the money off a favorite, an established winner, and putting it on a long-shot — all this despite O'Rourke's acknowledged philosophy: "I hate to bet on things I can't predict."

Despite his fears, O'Rourke's bet paid off better than the daily double.

In little more than a year, the aerospace industry suffered one of its biggest recessions and the 200 computer time rental firms in the industry fell to less than 20.

Safely ensconced in the business market, Tymshare thrived. This year, the firm expects sales to hit $200 million.

While its old competitors were struggling to survive, Tymshare made the first of a half-dozen major acquistions that would provide one-third of its growth in the 1970s.

Tymshare's philosophy has been to acquire talent and market share, even if it means buying a dying firm, rather than to try to generate the same operations in-house. To do this, the firm developed a management team specializing in turning around acquisitions.

Crucial in this process, O'Rourke said, is to have as little an effect on the employees of the acquired company as possible. This care for employee freedom is crucial, said O'Rourke, both because professionals (which once made up 75

percent of the employment) require it and because in the competitive business environment, "if people feel they are being treated badly, they'll go down the street and get another job."

But people are only the beginning. A company also must know how to manage growth.

Tymshare's expansion program has two strategies: capital and software.

Tymshare is a capital dependent company. You can't have a computer network without a lot of computers, both big and small. Thus, through the years, the firm has constantly kept an eye open toward acquiring computer-intensive companies at a discount.

That was the idea of the first acquisition in 1970 — the small firm had many Xerox computers and was willing to sell itself for a low price. Xerox had stopped building the computers two years before, but the machines were ideal for a computer network.

To take care of the problem of servicing the Xerox computers, Tymshare soon bought a company with a warehouse of Xerox computer parts.

Tymshare has added to its computer collection by locating and buying firms with already installed computer centers. In addition, because the necessary deals were always there, Tymshare also bought computers from manufacturers. Finally, needing a specialized communications computer for its network, Tymshare has been building its own computer, the Tymshare Engine.

The result is a potpourri of computer systems, including models from IBM, Xerox, Digital Equipment and Amdahl, as well as Tymshare's own line.

In addition to capital expansion, Tymshare's other aggressive marketing thrust has been in software.

Designing computer programs is one of the most expensive and time-consuming components of the computer business, said O'Rourke. There-

Tymshare wins on a longshot

fore, it is often considerably cheaper to acquire firms that have done the programming.

This is particularly true when the software is designed for a specialty market, O'Rourke said.

Tymshare's software company acquisitions include United Data Centers, a firm that offered income tax and cable TV accounting, and fuel oil delivery scheduling; Western States Bankcard Association (WESBA), which handles credit clearance and billing for more than 300 banks and other savings institutions in the MasterCard and VISA programs; and most recently, a hospital computer service business.

Acquisitions have put severe financial and managerial strain on firms much larger than Tymshare. But O'Rourke claims that Tymshare has gotten the merger business down to a science.

First of all, it buys small companies, he said, and then primarily for stock, not cash. The Tymshare executive staff has been trained to take acquisitions and turn them around with the minimum of damage to Tymshare or the new acquisition.

The program seems to work. The year before Tymshare bought WESBA, that company lost $3 million on $19 million in sales. This year, it is not only profitable, but sales will reach $35 million. Tymshare's income tax business has grown from $3 million to $20 million in the last five years.

According to Joe Kapka, vice president of Birr Wilson & Co Inc. of San Francisco, Tymshare's acquisitions and in-house programming has given it a library of software "that solves what nobody else's does."

Tymshare, he said, "does an exemplary job. They are able to identify a market niche and either develop the software themselves or acquire (a related firm) to make a success out of it.

"They have a very clever acquisition strategy," Kapka said. "They minimize their cash needs by acquiring companies that are not expensive but are worth something."

But the software packages are only the most visible part of Tymshare. At the center of all company operations remains the computer network.

Started in 1969, the network, known as Tymnet, services 250 metropolitan areas in the United States and 30 cities around the world. The network includes dozens of Tymshare large computers and more than 600 Tymshare Engines and other minicomputers.

In addition, there are scores of computers on privately owned subnetworks that are attached to Tymnet. For example, TRW Corp. has a 27 computer network.

Managing this vast network, the largest of its type in the world, requires a huge and complex controller program that the company has been constantly updating and expanding.

By 1977, thanks to such huge corporate customers as IBM and Standard Oil of California attaching subnetworks to Tymnet, "we had more of other people's computers talking on our network than our own," said O'Rourke. So, Tym-

share asked the Federal Communications Commission to designate Tymnet a "common carrier" — that is, a communications network equivalent to the phone company, with regulated rates and government monitoring.

The FCC agreed and ever since Tymnet has been operated at arm's length. This means a separate administrative staff located by itself in a Tymshare building and separate financial records.

"Tymshare has very intelligently developed its network," said Sutro's Kapka, who was once a Tymnet customer.

Present customers agree. Yvonne Gordon, marketing administrator at semiconductor maker Siliconix Corp. of Santa Clara, rents Tymshare computer time and software for use in a management decision support system.

Before using the Tymshare network, management had to wait in line to receive production and sales data for making forecasts, she said. With the Tymshare system, her office has its own data gathering and processing capability.

According to Gordon, Siliconix's Tymshare usage is now $80,000, more than three times the initial level in 1977.

Where does Tymshare go from here? With the present rate of growth and simply through expansion, O'Rourke likes to imagine the firm reaching $1 billion sales by the end of the decade.

But then, one of these days O'Rourke might decide to bet the store again.

After all, he did it once before.

Statistical summary

Tymshare Inc. of Cupertino is a computer service firm that rents to customers use of its international computer network. It employs 3,100 persons.

REVENUES

Year ended Dec. 31, 1979	$193.1 million
Year ended Dec. 31, 1978	$149.6 million
First quarter ended 3/31/80	$63.3 million
First quarter ended 3/31/79	$50.7 million

NET INCOME

Year ended Dec. 31, 1979	$14.6 million
Per share	$3.06
Year ended Dec. 31, 1978	$10.6 million
Per share	$2.31
Quarter ended 3/31/80	$6.1 million
Per share	$1.26
Quarter ended 3/31/79	$4.8 million
Per share	$1.00 cents

COMMON STOCK

Current price	$59.75
Number of shares	4.9 million