Service Bureau Pioneer Workshop
Session 3: Applications and Operations

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Service Bureau Workshop Session 3: Applications and Operations

Conducted by Software Industry Special Interest Group

Abstract: This is the third session in the Service Bureau Industry Pioneer meeting which looks at the companies' operations, applications, and governance. The participants discuss whether they had a board of directors and, if so, the makeup of the members on those boards and how they functioned. The discussion also includes such topics as the companies' corporate strategic planning processes, approaches to mergers and acquisitions, and how they managed risk in terms of product development and management style.

Participants:

Name	Affiliation
Burt Grad	Moderator, Software Industry SIG
Frank Casey	Custom Data Services
Jim Houtz	CyCare
Jim Mann	Dynatax. United Data Centers SunGard
Stu Miller	Accountants Computer Service (later ACS Data Services)
John Rollins	AZTECH Software
Bob Tessler	Data Processing and Accounting Services (DPAS)
Thomas Haigh	Historian
Doug Jerger	Fortex Data Systems, SI SIG
Luanne Johnson	Argonaut Data Systems, SI SIG
Oscar Schachter	Advanced Computer Techniques (ACT), SI SIG

Introduction

Burton Grad: Originally, we had about 10 or 11 attendees signed up, but a couple of the participants dropped out. We did get interviews with Doug Altenbern and George Raymond, and I'm doing Gil Mintz next Monday. We're adding to the oeuvre for this industry, and it's an important one. What's special about having six of you from the industry together and just six is we get a lot more information. We get a lot more depth from each of you than the more shallow discussion when there are more participants, and that's one advantage. We did this with commercial professional services companies where we had just six or seven participants, and we got a depth that was different from when we had those sessions with 18 to 20 people. It's just a different experience, and I'm enjoying it thoroughly. I hope you are also.

Board of Directors at ACT

Grad: Let's talk about your boards of directors. First of all, were all of you corporations? If so, were you C's, S's, what were you? Secondly, did you have a board of directors, and were they functioning? Did they really do anything, or were they just simply on paper? Let me start with you, Stu.

Stu Miller: At the beginning, no, there was not a board of directors. There were just the CPA agencies when we bought the company. We were a corporation.

Actually, we formed another corporation called ACS Data Shares, and that was the holding company for Accountants Computer Service and ACS Data Services. We did have a board. Two of the owners were on the board, and we had four external members. One was from one of the originating CPA firms. The other three were CEOs, one of which was a client of ours. The other two were not clients, but they were all local. They each brought something different to the table.

It was a functioning board. The board was required to develop the strategic plan with management, oversee it. Each board member also was required to be on a committee, and we had a variety of committees, as you can imagine. There was a technology committee, there was a personnel committee, compensation committee, and so forth. It was a working board.

Grad: You were a C Corp during all this time?

Miller: Yes. We did not have an advisory board; we only had the board of directors.

Board of Directors at CyCare

Jim Houtz: We had a real board. I went out of my way to get people who were really knowledgeable about the industry or successful CEOs, and I obtained one of the best CEOs in Dubuque, Iowa, which is a small town. He was CEO of a furniture company, Flexsteel. Also, Bernie Goldstein came on our board. We really had a good board.

Grad: How did they did function? You actually had meetings and so forth?

Houtz: Yes, we had regular meetings. The guys came to just about every board meeting. We didn't have absentee members. It was good for me not only at the board meetings, but when I had issues that I wanted to look at alternatives, I could talk to any one of the board members, and they always had alternatives that were really pretty good.

Later on, as a corporation, Bernie was on it for about seven or eight years. Then he recommended a fellow by the name of Ted Engkvist, who was a super, super board member. He came on our board, and one of the things he recommended, which was really good, was that at least once a year we should have our management team come in and make presentations to the board, which we did. The feedback I got from the managers was, "Hey, the first year, I was scared to death. Didn't know if I was going to get fired right after the meeting or what. But after the first meeting, I found out these guys are really interested in helping us and did a good job of critiquing my plan. I actually looked forward to the meeting the following year."

Grad: That's great.

Houtz: That was very, very, very helpful.

<u>Boards of Directors at AZTECH and DPAS</u>

Grad: John? You spoke about it briefly.

John Rollins: Yes. We had a board of directors as opposed to a board of advisors. I think today many people are scared to be on a board of directors because of liability and whatnot. Actually, given their involvement and the way they helped me over the years, I'd probably call it a board of advisors, but they were my board of directors. We had quarterly meetings. They pretty much all attended. They really gave me terrific advice. You've got to have an outside network for advice when you're the CEO of a small, growing business. It's just critical.

The only network I was part of that I think was more valuable to me than my board of directors was the [ADAPSO] president's roundtable. I was actually a member of four different president's roundtables of ADAPSO over the years. When one would go out of business, I'd join another roundtable and I kept going.

Grad: We're going to discuss ADAPSO, particularly because of the roundtables, in the next work session because that was significant to many of the people here. Frank, how about you? What did you do?

Frank Casey: No board. That's one thing I regret. If I had it to do over again, I would certainly come up with some kind of a board of directors.

Bob Tessler: I had a board of directors, I guess, about 10 years after I started. It was interesting because it started at ADAPSO. There was a fellow by the name of Leon Danco who spoke and his primary topic was succession planning. When I talked to him afterward, he talked about how important it would be to have a board, so I looked up the National Association of Corporate Directors. They had a meeting. I learned all the things that I was supposed to have on a board. I asked all these people to be on the board, and they laughed at me.

Then I finally found people where there was mutual respect. They were extremely valuable. No one understood my business. They couldn't *spell* data processing. It was wonderful. I recall two specific examples. I had a weakness in that we kept opening up branch offices because our interest was in locating where there were large labor pools. I had difficulties with leases and negotiating leases at that time, and one of the fellows was from San Diego and his business was real estate. He was substantial, and he was very helpful.

The second problem I had in opening up branch offices was that I couldn't retain branch managers. A fellow was kind enough to join my board. He had a dozen branch offices in the glass and mirror business, and he said, "Where are these places, and how often do you go there?" I recall telling him that I don't go there a lot. He says, "Well, pick places that you want to go to." For example, his branch offices were in Hawaii, they were in Australia, they were in Palm Springs. <laughter> One of the things I learned from him was to have offices where you want to go and also to home-grow the people.

Board of Directors at SunGard

Jim Mann: Prior to merging with United Data Centers, all of the directors were owners, and we were in continual crisis mode. After merging with United Data Centers, Bernie [Goldstein] and Al [Eisenstat] and I were on the board and three long-time friends of Bernie's. Mark Handler, who was then president of Macy's; Arthur Sarnoff, who's from the RCA Sarnoff family; and another guy whose name I've forgotten. Do you remember?

Luanne Johnson: No, I don't.

Mann: There, we had quarterly meetings. They would look at the financials, and they'd rag Bernie Goldstein a bit about stuff. Then we'd go out and have a drink. <laughter>

Grad: You stayed involved then in United Data Centers after they were acquired by Tymshare?

Mann: Two years' worth.

Grad: Two years. Then you left at that point in time?

Mann: Yes. I took my chips off the table and decided I didn't want to be a corporate executive; I wanted to be an entrepreneur and went into the pizza business. <laughter>

Grad: What kind of pizzas?

Mann: Godfather's pizzas. <laughter>

Grad: Oh, really? You were a franchisee then?

Mann: Yes, that's right.

Grad: This is off topic, but it's much more interesting.

Mann: At one point, the franchisor in the territory I had didn't make any money. The franchisor and I had a parting of the ways <laughs> and then I was a sole proprietor and basically lost all my money in that venture.

Grad: You've been pretty successful at that. <laughter>

Mann: I have a genius for it. <laughter>

Grad: I can see that you have.

Mann: I'm hoping I'm getting old enough I won't be able to do it again. <laughter>

Grad: SunGard never started as a service, what we were calling a service bureau. Is that a correct statement or incorrect?

Mann: Well, yes and no. SunGard was a service bureau prior to 1983. It was a division of Sun Oil company. They created a computing subsidiary, which a lot of big companies did then. Boeing did and Sun Oil, and they immediately were a $120 million a year business because they were doing their own work. A couple of years after they did that or maybe three years, the oil company diversification efforts were not panning out for anyone so they divested it and they looked for a buyer. They were hoping to find a corporate buyer, but the numbers were so terrible they couldn't find one. Bernie Goldstein sold it to Bruce Anderson of Welsh Carson, J. H. Whitney and Company, Mike Brooks, and two other venture firms. The part they spun off, ex-Sun Oil Company, was about $30/40 million in revenue and probably losing a couple or three million if you could have determined that from the records. Bernie referred me to the venture capitalists to run the business. I went in as chief operating officer in 1983.

Grad: That's how you got back into the business?

Mann: Yes. Well, actually, I had another job before that. I was president of Bradford National Corporation for a couple of years.

Grad: Oh.

Mann: I have not been exactly a steady employee. <laughter>

Grad: It's been 25 years. They haven't figured you out yet? Is that what it is, Jim?

Mann: No, they haven't caught on yet, no. SunGard, of course, has the board you would expect for a public company before we went private. SunGard had a typical board. I was the only insider on the board. The rest were outside directors, people you've heard of like Mike Brooks from Venrock. Who the hell else did we have on it? Memory block.

Johnson: Larry Schoenberg.

Mann: Schoenberg was on the board. Bernie was on the board. Albert Eisenstat was on the board.

SunGard Services

Grad: I want to make sure the name goes on with that reference. Help me again, though. At that time, I think of SunGard in terms of products primarily, but were they doing services work at that time?

Mann: Oh, yes. I didn't finish that leg of the story. They had six businesses when I first looked at it. Two of them weren't worth keeping, and we closed one and sold the other. Then we had the disaster recovery business, which was a business they'd invented more or less. And we had three that were in the business of providing software as a service in today's terminology for investment accounting applications. The disaster recovery business wasn't popular with the venture capitalists because it was losing money, cash-flow negative, but I thought it was kind of neat because you didn't have to dislodge a competitor. It was something new so we persevered, and luckily enough, it went cash-flow positive in about eight months. Then all the people who didn't like it before suddenly had been long-time advocates of it. <laughter> The business did well.

Then, after we went public in 1986, three years later, we went on an acquisition campaign, applying the Bernie Goldstein Rule to acquisitions, which is pay as little as possible for the best business you can find. By the time I moved from the CEO job to the chairman job. We had done 150 acquisitions.

Grad: We'll come to that soon, but I think you have the most acquisitions of anybody. I think Sterling Software had about 80. Platinum had quite a few, but I think you may be the number one in terms of total acquisitions.

Stay with us just a minute. They were doing these as a service type businesses. Did you keep Sun Oil as a customer?

Mann: No, no. They were flushed out with the buyout. They stayed on their own. We had a contract to use their computer for a couple of years, but then we had to go totally solo.

Grad: Did you have any other customers who were using you as a service operation?

Mann: Yes. The three businesses who were in software as a service business all had customers, and they had their own data centers. There was one in Chicago. The one in Philadelphia was used by both that kind of a business and by the recovery business. So, yes, they were definitely in the service bureau business.

Grad: Okay. We hadn't really talked about that. We sort of dropped it there with the Tymshare acquisition. We'll pick this back up as we come forward.

Mann: If you can avoid the part where I lost all my money selling pizzas, I'd appreciate it. <laughter>

Johnson: It's already on the table.

Grad: Do you consider that a service bureau business, doing pizzas? <laughter>

Mann: Yes, absolutely. They ordered; we served them. <laughter>

Grad: Sounds right to me. Okay. I want to get to strategy.

Dysfunctional Board of Directors

Houtz: Just one point. I know a lot of us are on boards. The boards I had at CyCare that Bernie was involved with and Ted were great, great boards. I've also experienced, since that time, a board that isn't so good. It can really, really adversely affect the company. This one did.

Grad: Good point.

Houtz: We ended up selling it for about half of what it was worth.

Grad: Don't want to mention the name?

Houtz: Yes.

Grad: And the board, you feel, was destructive in that case?

Houtz: Yes, I do.

Mann: Just to interject, I was on the board of a company in the 1980s where the same thing happened. There were about three different rounds of venture financing and that was the board. Each of the venture investors was in at a different price, okay? <laughter> The company was in trouble, and the last guy in saw he wasn't going to make any money selling the company, so all they did was squabble. Meanwhile, what they should have been doing was finding the best buyer for the business since it was floundering. Instead, they spent most of their time squabbling about how to divide the proceeds.

Grad: This argument is always taking place, though, in terms of do you seed the board with your buddies, who will support you so that no one will get in your way? Do you look for people local or outside who can add special advice? People who give you money, do you put them on the board?

<u>Board Service</u>

Grad: How many of you are on boards of directors today?

Rollins: I usually last about two years on a board. Then I feel I've done everything I'm going to do for them, and I'm out of there or they put me out of there. <laughter>

Grad: Jim, how many boards are you on?

Mann: Two, SunGard and a company called Athena Health that's kind of been Jim's area of business.

Grad: How about you, Bob?

Tessler: I'm on three private boards.

Grad: Private boards but not public. Frank?

Casey: I'm retired. <laughter> None.

Grad: John?

Rollins: I'm on, I guess, five or six. A lot of them are nonprofit boards at this point.

Grad: Intentionally or unintentionally? <laughter>

Rollins: Yes, volunteer things. The National Parks Trust. And yes, intentionally. 501(c)3s. We have a group of hospitals in the Washington, D.C., area, nine hospitals, about a $4 billion company that I helped start and that sort of thing. Community interest.

Grad: That's wonderful.

Miller: I'm on three boards. One is a public company, one is a private company, one's a non-profit.

Grad: Oscar, are you on some boards at this point?

Schachter: Yes, I'm on the board of a software company, private, and on the board of a not-for-profit organization that actually is a French organization that has a branch in New York.

Grad: Just a general question, and then we're going to go on to something else. Do you find it rewarding? Not financially, but in terms of either what you feel you're contributing, the relationships. Are those things important to you? Are they valuable to you?

Rollins: When you're on a nonprofit board that's really doing something good with its mission for the community, it feels great. It's very rewarding, I'd say, in my case.

Miller: I have to agree. I'm chairman of a nonprofit that services severe and persistent mental illness with homeless outreach and a lot of things like that. I've been on that board 12 years. I'm chairman now for the next two years. It's a two-year term as chairman, and then you become emeritus or god knows what. I have a much better, deeper feeling about that one than I do about either the public corporation or the private.

Grad: I've only served on one board, and it was a very contentious experience for me. I was representing an Israeli firm on a company here in the United States, and they bought out the Israeli firm to get me off the board. <laughter> I think you can get some sense of why they'd want me off the board from these sessions. Did any of you get involved with what I would call contentious boards, boards that really were at each other?

Mann: I mentioned one, but the SunGard board that I'm on now is actually something I enjoy. I was on it pre-IPO. Now they've IPO'ed and they're a successful company, but I've kind of enjoyed it because I feel like I've actually been able to change the course of events in the company a bit. They were all venture capital people before I went on. I'm head of the compensation committee, which gives you a little more influence than the normal board member, so it's interesting because I feel like something's happening. If it is a huge company board, like Time Warner or something, sitting there being a spectator, I don't think that's worth the time.

Grad: Yes, it sounds like the things you're involved with are things you can really do something by what you contribute to it or what you can get them. Can you challenge the management in these companies, or do they get upset with you when you do that? Bob?

Tessler: I have a couple of comments. I was on a contentious board. I'd go home and I'd complain to Carol that several people were not qualified as board members, it wasn't run appropriately, it took too long, and the wrong subjects were being addressed. She said, "You know, you've come home from three board meetings and bitched. Why are you still on the board?" She was absolutely right. I sent my letter of resignation the next day, and I was a much happier person.

Nonprofit Boards

Tessler: There are two things I really enjoy about board participation. One is the feeling that I can still make some contribution to society or some contribution to a for-profit organization and the other, which is equally important for me. I'm around young people, new ideas, new thoughts, creativity, out of the box, new terminology. It just makes me feel a little younger, makes me feel good.

Grad: That's interesting, Bob. Frank, did you serve on any boards at any time other than your own?

Casey: Nonprofit boards. I've been on a couple of those, and they were very rewarding.

Grad: Because of the subject?

Casey: Subject, yes.

Grad: Because, generally, I have found, when you work with these things, that so many of those nonprofits, people are there for do-good reasons but don't understand the process of how you discuss, negotiate things in a formal fashion. At least that's the experience I've had. I don't know whether you've had the same experience, or if that was unique to me being a pain in the ass. I don't know.

Miller: Yes and no.

Grad: I see. Which is it?

Miller: I think the problem is, on some of those nonprofit boards, you have board members that have been there for 20 or 25 years. They don't really contribute anything anymore, but they were part of the founding organization. The trick is to develop an ambassador board and roll them off of the active board. Tell them, "Maybe you can come back in two years or serve as a volunteer." There are ways to do that. But you need to diplomatically roll them off.

Houtz: Make them trustees.

Miller: Yes. More or less. That's right.

Casey: I’ve found, in the nonprofit ones, it leads to meeting new people and it’s for a good cause. As an example, in both cases, the nonprofits were for institutes helping brain-damaged people. I served on that for about eight years, and we made over $1 million, which we turned back to brain damaged people.

As a result of my involvement on it, I met people and the reason I’m staying at the Marriott Marquis today is because I know the general manager now and he is a good friend of ours. Every year, we would have a golf outing to raise this money, which also led itself to having fun while you’re doing something. He would contribute a weekend at the Marriott Marquis plus dinner at The View, which was a very nice prize that we’d raffle off and make money for this nonprofit organization. I also met Vernon Hill, who happened to be the chairman of Commerce Bank in our area. I sat next to him because we made him an award one night, and I asked him, was his house bigger than Bill Gates’? He said, “No, it’s not that big.” <laughter> But it was. It’s big. <laughter>

Grad: Was only 20,000 square feet, not 40,000. <laughter>

Casey: I was on the board with a member of the board of Pine Valley, and he got me into Pine Valley, which is a very prestigious golf course in this country. They’re the bennies that you get from being on a nonprofit board.

Rollins: I want to follow up on what Bob said about being in touch with young people. I think it’s very important at this time of our lives to be associated somehow with young people. It’s so energizing and what I did purely by accident. Within a year after I sold AZTECH, I became an adjunct professor at George Washington University. I’d go in and, once a semester, teach a course in entrepreneurship, drawing on case studies and things from my own experience. It’s just so energizing to be around undergraduates, seniors in this case, who are interested in starting their own businesses. We can give them a lot of guidance based on our experiences.

Grad: How many of you have taught? At college level or any others? Almost everybody?

Casey: Inmates. <laughter> Got to count that.

Grad: Have you ever tried to do any teaching, Jim?

Mann: No.

Grad: That’s interesting. All of you have done something like that.

Mann: Well, that’s not true. When I was with IBM, I developed myself an executive course—” Here’s what a computer does” —that I did a bunch of times and generated a lot of interest in Wichita, a small town.

Grad: My guess is you were a very good communicator.

Mann: Well, the thing got good reviews, and I actually showed them how they worked. You know, the ones and zeros and what the programs did and things like that, but I don't know what they could understand. <laughter>

Strategic Planning at AZTECH

Grad: We're now going to go to a much different subject. We're going to talk about your strategic planning. Is anybody going to talk to me? <laughter>

Rollins: Be a short session. <laughter>

Grad: Jim has talked about this, and each of you have alluded to it: Somewhere along the line, you decided about what business you wanted to be in, what your markets were, what kind of applications you were going to do, where you were going to locate. These are the kinds of things. You may not have done it quite as formally as maybe John was doing with some of his MBA background, but you all did it to some extent. I'd like you each to talk about your experiences. I think in your case, John, you had multiple visions and changed your business model and your strategies over time. Is that accurate?

Rollins: We had to, to survive for 32 years, clearly.

Grad: Explain the first time.

Rollins: Punch cards on a mainframe wouldn't keep you going for 32 years at AZTECH. <laughter>

Grad: Tell us about that.

Rollins: Well, we went through six phases in terms of the rewrite of our software. The first was batch processing on the mainframes. Then we evolved that into online transactions, either full online or OTP, Online Transaction Processing. In the second phase, we used either Interex terminals over the 1,200 baud lines for data entry or offered a full database option where they could use our AZTECH-ware software, which was the turnkey software, but on our computer, on our big MP8000.

Grad: Stop a minute. Still the same market?

Rollins: Same market.

Grad: Still the same applications?

Rollins: Same applications. We grew the applications over the years, clearly. Started with just membership, and by the time we sold the business in the year 2000, I think we had 40-some modules, many of which were third party that we'd integrated, which we'll get to later.

Grad: How about geography?

Rollins: Geography grew as we expanded from being a service bureau to being a turnkey provider. When we announced our AZTECH-ware turnkey product, our first sale was in New York City to the Public Relations Society of America. We went national at that point. We had a San Francisco prospect we later sold, one in Chicago, and kept moving across the country. We eventually had customers from Boston to Honolulu.

Grad: Your primary shift, generation to generation, was in terms of your equipment and platform.

Rollins: Exactly. For minicomputer, that was eclipsed in the early 1980s by DOS for PCs. We started doing PCs instead of a dumb terminal that had PC networks. Then, in the 1990s, we rewrote it again. I guess it was the fifth rewrite. It was for Windows. The final rewrite was integrating it on the web for ecommerce.

Grad: Did you ever seriously go after any other market?

Rollins: We had several opportunities. My partner and I would look at those opportunities, but each time, we turned it down and decided to focus and stick to our knitting, basically, on the single market focus.

Grad: Why were you satisfied to stay in that single market and grow at whatever rate you could grow in that market?

Rollins: There was enough opportunity left in terms of we had a relatively small percentage of the market and thought there was enough growth opportunity where we were. It would dilute our efforts if we tried to open up another business and serve a different market.

Grad: I'm going to challenge you on this one.

Rollins: Good.

Grad: What was your growth rate revenue, year by year?

Rollins: Probably, if you look at the whole period, maybe 20 percent.

Grad: Per year?

Rollins: Yes.

Grad: You could have doubled the business if you had added another major market. Why didn't you do it or consider it?

Rollins: What if it had failed?

Entrepreneurs and Risk

Grad: I think you're not a high-risk taker.

Rollins: I don't think entrepreneurs are high risk takers. I think they're not gamblers. They're people who think they have the inside knowledge about something or the glass is half full. They're optimists who really see that they have an opportunity to succeed where other people may think that they're being foolish and gambling. Our inside knowledge is we knew, when we started in this market, that we were the only company serving that market so we tried to keep a low profile and not be mentioned in the press and that sort of thing so we could grow rapidly under the radar screen.

Grad: Let me keep arguing with you. You don't have a high greed factor?

Rollins: Maybe not.

Grad: No, I'm serious. I think it's a very significant difference to some people.

Rollins: Yes.

Grad: You like to make money; you like to grow.

Rollins: Yes.

Grad: There's an ego part of that, I think, with every good entrepreneur.

Houtz: Maybe Rollins has a different idea of an entrepreneur than you do, Burt.

Grad: Oh, I don't have any idea. I'm just asking you what your idea of an entrepreneur is. People think of entrepreneurs as having a high greed factor.

Rollins: Well, they really don't. There was a good article in the *New Yorker* about that recently.

Grad: Comment on it.

Rollins: It was just a couple of months ago.

Johnson: It was by Malcolm Gladwell.

Rollins: Malcolm Gladwell wrote it. Thank you, Luanne. It featured, among other things, our friend, John Paulson, who bet against the housing market in the famous 2007 Goldman Sachs hedge. Actually, it was a synthetic CDO that he invested on the short side of when everybody else was on the long side of because housing had been going up and everybody thought it was just going to keep going up just like computer stocks in the 1990s. The sky's the limit. Everybody was on the long side of it except for John Paulson. John Paulson knew some things that the other people didn't know, and Gladwell, he used him as an example of an entrepreneur who had done his homework. He'd done charts and he knew historically what housing prices were. His conclusion was that this bubble is going to burst, so he put his money where his mouth was. The other people were not as savvy in terms of their research and data.

Grad: Let me take a little different angle. All of you did something useful and useable that had direct value in terms of helping people run their businesses doing something. You weren't betting on the money. You weren't playing that game. You may have made mistakes, you may have gone under, but all of you were providing a valuable service. I think that was characteristic of our entire industry, don't you?

Rollins: I agree.

Grad: You were delivering something. We weren't manufacturing a physical product, but you were creating something that had similar value to a manufactured product. While some of the people I know just got unbelievably rich, I don't think it was necessarily because of an inherent greed factor. I think it was that they wanted to do something useful and useable. Maybe I'm wrong in that, but that's something that I've thought about as I've met the people over the years and we've done these meetings.

Houtz: I think you're right.

Rollins: Absolutely.

Houtz: I thought all entrepreneurs went into business, except me, because they wanted to make a lot of money. But I've found out that wasn't the case. In my case, I wanted to build a business. In other cases, they were out of a job, or they had a hot product that they knew would work. You break it down to about a third, a third, and a third.

Johnson: I've interviewed about 60 people over the course of our project here who were basically entrepreneurs, founders of companies, or close to the origin of the companies. I don't think I found anybody whose reaction was, "I'm going to do this to make a lot of money." The majority of them were, "I want to be on my own. I don't want to work for somebody else. I really want to set the agenda myself, set the strategy myself. That was the main factor as to why people went into their own business.

I really related to the Malcolm Gladwell article because he said that entrepreneurs are seen as risk takers, but they tend to have a very clear and well-established foundation in a particular idea or mostly in a particular market area.

What I found is that, with the people that started software companies, particularly back in the 1960s, where they were risk-takers is that there were no existing business models for how to do these kinds of companies. They had to figure that out as they were going so that was risky, but they all had a very clear idea of the value of what they were providing, whether it was service or software, of the demand. They were very, very aware that there was an intense demand for it.

In that sense, they weren't taking a risk at all. They knew that there was a need out there. Whether or not they could put together a company that would service that need, a lot of them didn't manage to do that, but in that sense, it wasn't risky. They knew that there was a demand and a market for it.

Grad: You all obviously took a risk putting in your own money, your own time, but you weren't gambling in the sense of the word that people typically see. I see a big difference, and this may just be my background, between producing a product and doing a financial service kind of thing, stock market thing, that kind of thing. It has a different feeling to me. Paulson was taking a money risk. It was a different kind. He was betting on something rather than creating something. Let's keep going on strategy. Go ahead.

Houtz: Just one comment. I'm sure some of these guys are risk takers, but I don't look at entrepreneurs as big risk takers. I look at entrepreneurs as very confident people. We feel we're taking a risk but the risk is us, it's nothing else. We'll make it happen.

Tessler: I'd like to comment on entrepreneurs and risk. This is something that's been discussed over and over. When you're starting a business, and you don't have anything, that's a risk. When you're going to start another business, and you have a lot, that's a different kind of risk. What I'm suggesting is, if you have nothing, you're willing to take a risk because you don't have anything to lose. <laughter> When you're successful, or you become more successful, you become a little more conservative in your investment strategies, business strategies.

<u>Formal Strategizing at AZTECH</u>

Grad: Let's go back to business strategy. I digressed and I think it's an interesting digression. John, you went through these different models. Did you basically have the same management team? Did you change that as you went along? How did that work?

Rollins: It was basically the same. Doug Fisher and I were the leadership. We had a third executive who was with us for about 12 years before he left the company to go out and start his own business, not in competition with us but in another area. He was an entrepreneur himself, an MBA from George Washington University, in fact.

The thing I learned from my first several ADAPSO management conferences is that we really needed to have a strategic planning platform at AZTECH. That didn't exist and this was during the middle 1970s. I started getting active in ADAPSO in 1976, 1977, 1978, and, in 1979 for AZTECH. I adopted a plan based on what a lot of people I heard saying in different breakout sessions at the management conferences, which is that you needed to do a strategic plan periodically for your company, preferably once a year. I came up with a model agenda that morphed over the years. But starting in 1979, every November, we would go off site to some place outside of the Beltway to have a management retreat, which would be myself and Fisher and our other key department heads, and update our strategic plan.

Grad: How many years?

Rollins: How many years? It was in detail for one year and in a very non-detail format for the next two years, so it was a three-year plan, but it was really one year in detail because we're going to use that one-year detailed plan to do a budget, among other things. It was a structure where we reviewed the mission statement, saw if we had to update it, change anything in that. If we changed into offering turnkeys, you know, we had to change some words in the mission statement. We did a SWOT—assessment of strengths, weaknesses, opportunities and threats. We did an environmental assessment of all the competition, our marketplace, our associations, and what was changing. What are the trends going on among our customers? What's different next year for them than this year? We looked at the government and regulation, what new things could be affecting the lives of us or our customers. All that kind of strategic stuff.

Grad: So, a very formal process?

Rollins: A formal process. Took two days. By the afternoon of the second day, we were down to looking at specific initiatives that we felt we should undertake the next year to achieve our goals for continued and increased profitability. We were looking at ideas for new software modules that we could market to our installed base, new ideas for improving customer support, any possible reorganization. It was a grassroots process. We got input not only from our staff up to the department heads who come to the retreat, but we also got input from the customers through our user groups. User groups are great. We can talk about those later.

Grad: That's a good one.

Rollins: They gave us some wonderful ideas, including the one I mentioned earlier about the area codes that were splitting; they had trouble updating the area codes on their phone numbers. Ideas from staff members. Somebody suggested once back in 1980-something that we should have casual Friday. We were one of the first companies to adopt that. Whatever it is, it was fair game for this planning retreat and we'd actually, at the end of the retreat, come up with a plan with specific initiatives in writing and task people to be on top of each of those initiatives with quarterly follow-up meetings during the subsequent year to see how we were doing on hitting our goals.

I've learned, since I became a professor of entrepreneurship, only about 14% of companies do an annual strategic plan update. Those companies tend to do better in the end, particularly in turbulent times such as we were going through in the computer industry during this period.

Grad: That's a good point. That's what I was trying to get at, to what extent were these things ad hoc? To what extent was there planning going on?

Rollins: People ask me why AZTECH survived from the punch chard era to the internet era. The number one reason, I'd say, is these planning sessions that we conducted each year.

Grad: There's something else, though, you shouldn't ignore. You stuck to your knitting.

Rollins: Yes.

Grad: There's a strength to that. You don't grow as fast maybe but you stuck to your knitting.

Rollins: That's right.

Strategic Planning at SunGard

Grad: Focus is a major thing. Jim has mentioned that to me in our discussions again with staying with some of those kinds of things. Jim, did you do any formal planning process? Did you have a strategic plan during the 1970s? After the pizza operation.

Mann: The answer is, during that period, no, Things were turbulent. We were growing faster, getting into trouble. At SunGard, we've had not an annual process, but we've had a clear strategy to this day, which is to buy up every company there is that has something worthwhile in our area of investment accounting and support activity.

Grad: You've defined an application area or a market area? Which is it?

Mann: Application area, but it's a market area as well.

Grad: It's the intersection of those two, to some extent?

Mann: Yes. The application is what we call investment accounting, and then the market is varied. It's bankers, it's trust companies, it's brokers.

Grad: People who are in the financial community primarily though.

Mann: Yes. People you see nowadays up before Congress getting grilled about their imperfections. <laughter>

Grad: With SunGard, have you done a formal planning process on a regular basis?

Mann: Nope, because we haven't run out of companies to buy yet. <laughter>

Grad: That's interesting. You've been certainly one of the most aggressive. We have mergers and acquisitions here on the table for a little later, so we can come back to that.

Mann: Well, entrepreneurial tendencies have been what's kept us driving. Fifteen years ago, I figured we'd run out of companies to buy before long, but they just seem to keep popping up in different niches.

Grad: Are you are opportunity-driven rather than the other way around?

Mann: Yes. It's more appropriate to the acquisition discussion phase, but I firmly do not believe in targeting acquisitions. All that means is you're going to pay too much. I think you wait until something pops up, and then figure out what it's worth.

Grad: That's an interesting comment. Oscar?

Schachter: Just a question for Jim. You must have some focus though in your acquisitions? You're not going to acquire a pizza chain, for example?

Mann: No, no. What I'm saying is it has to be computer software service application and it has to be in that general specialty of investment instrument, accounting, trading, control, etc.

Grad: Now, would a company like Jeffries and Company be a client of yours?

Mann: Yes, but I don't know whether they are specifically.

Grad: That's the kind of company?

Mann: Yes. I wouldn't be surprised if they don't have something of ours somewhere.

Grad: Can't believe they don't. Everybody in the world does, almost.

Strategic Planning at DPAS

Grad: Bob, how about with you?

Tessler: Well, you can anticipate my answer. <laughter> In the early 1980s, 1982 or 1983, attending all the classes about what I should be doing, I called my managers together, middle management and above. There were about 25 of us, and we went off-site into a meeting room at a hotel across the street from our headquarters. We talked about strategic planning, we talked about our mission statement. We didn't have a mission statement, so one of the people came up with our mission. If it makes a buck, we're in that business. <laughter> That was our mission statement.

Mann: Good plan.

Tessler: Yes. It served us for a couple decades.

Grad: Did you focus? We're talking about focus: The things you were doing, the kinds of function you were performing. That seemed to be a common denominator across the board.

Tessler: I think so, and that was the basis. But as time went on, particularly in the mid and late 1980s, our existing customers were large and would ask us to do different things, primarily labor intensive. They knew we knew how to manage labor, how to hire large amounts of labor for short periods of time, so we became known with that skill. Apple, for example, asked us to go into the 800-number business and do pick, pack, and ship fulfillment for their gift catalog. That put us in the fulfillment business. Bank of America invited us to come in to do lock box for the 1986 Olympic coin treasury with orders that came in which we would open, process, lock box, and so on. A lot of the questions that are being asked caused me to reflect back, and we were truly customer-driven. Our customers would tell us what business we were in.

Grad: In a sense you were driven by your customers, not the particular application.

Tessler: Correct.

Grad: Except that the applications all tended to be labor intensive.

Tessler: Yes.

Grad: Interesting. The equipment aspects of it weren't particularly important to you; what equipment you used didn't seem to be a major factor.

Tessler: All of our equipment was purchased. It was all used. It would be a relic. It was a relic then. <laughter> As long as it still took cards in and put cards out and you got a report out, we didn't care.

Grad: Geography?

Tessler: Interesting, because geography also was labor-driven. Now, what is interesting is one of our accounts had an advertising agency. The advertising agency asked us to build databases for education and entertainment companies. We ended up doing name and address registrations for retail software. Reader Rabbit I remember was one of the first ones; the little kids would get the software when PCs came out and so on. We would keep the information of the agent who bought it and do direct mail. We were in the direct mail business. We would go, when they came out with a new product three years later, geared toward eight-year olds; we could go to the five-year-old customers and attract them.

Another one, they asked us to convert day visitors to sports events and theme parks to season ticket holders. Branson Missouri Silver Dollar City was our first account; Dollywood was the second one in Tennessee. it was more by word of mouth, and they really didn't care where the work was done.

Grad: You didn't seek out the application. You responded to someone who said, "I need something done."

Tessler: Yes.

Mann: Did you ever turn anyone down?

Tessler: My answer is yes, I did, and that's another story.

Grad: Well, the point was that your strategy was driven very differently from a traditional approach. You were satisfying your specific customers' needs as long as it had this specific characteristic.

Tessler: Yes.

Strategic Planning at Custom Data Services

Grad: How about you, Frank, when you had your own business?

Casey: Our strategic planning was to find a niche as opposed to being a custom data shop all the time. We went out in an attempt not to do payrolls because that had already been done. We were good in the student report card and attendance area, so we decided we were going to tackle student scheduling, which seemed to be a big niche. Everybody needed it. We got programmers involved, and they made nice algorithms, and they did a great student scheduling routine. We tried it with three or four Philadelphia high schools and a couple in New Jersey, one of which almost didn't open. But because of the conflicts, and because we did not do a master schedule, we were unsuccessful in doing student scheduling. What schools wanted was homogenous groupings; they didn't want male guys in female gyms and sticky little things like that. They developed a lot of conflicts in it, so it did not work.

On our second attempt at it, we thought, "Well, we are also in the local municipality area. Why don't we try to do turnkey systems and do all their accounting, do their basic accounting things, and sell them a computer." In those days, we sold them an AS/400 which we were familiar with. We did that successfully in a half a dozen or so municipalities, but then somebody came along and had a better tool than us. We didn't do much after that because that was a competitive type bid, and as soon as they found out our first price, we lost out on that.

Then, finally, the last thing I tried to do is I bought a company in San Diego that already had good software for this multilevel marketing area, and we tried to do turnkey systems for that, sell them the programs, the AS/400 systems, and so forth and so on. That worked reasonably well until we tried to collect our money, and it didn't work. <laughter>

Grad: You didn't have Uncle Guido to help you collect.

Casey: I did but that's another story. Coming from New Jersey, we have a couple of things like that. <laughter> But that was geographically not conducive to doing.

Grad: You didn't worry so much about what geography you were in? Or did you?

Casey: Not really, no.

Grad: Were you actually looking at certain particular markets, and what they would need?

Casey: No, only in those areas that I talked about. Otherwise, whatever came up, we got involved in. Local governments and federal governments and bidding in that area. We got involved in the run of the mill data-processing applications, billing, accounts receivable. For the big insurance company, we did third-party billing for a unique service that they sold as opposed to life insurance. They sold accidental health and all that other stuff through Visa and MasterCard. We prepared tapes, billing all these banks around the country for their activity.

Grad: How did that application come up?

Casey: I don't know.

Grad: Did the customer come to you?

Casey: Yes.

Grad: That's what I was asking. It wasn't something where you said, "Ah, here's an opportunity."

Casey: No, I wish I did but no. It was them and I would say we prepared over 200 magnetic tapes a month for banks all over the country. We'd send them out. This is where the repetitive pricing came in handy, you know? We would make changes because banks always wanted to move this field here to that field there and that was a big change.

Strategic Planning at CyCare

Grad: Mr. Houtz, let's talk about your strategic planning because you spoke at the beginning that you decided, made a conscious decision, to go out of the general-purpose service bureau business and to go into the medical group practice.

Houtz: Right.

Grad: You made some other significant strategic decisions over the years.

Houtz: Yes, we did. That decision was made by myself and one of the other key founders. I was lucky enough to attend ADAPSO. I feel very lucky that I had an opportunity to join that and be a part of that for many years. That was a great experience.

A second great experience I had was when I went to the American Management's President's School. It was unbelievable. One of the things they talked about was the strategic planning system you talked about with the Strengths, Weaknesses, Opportunities, and Threats (SWOT). I must tell you, when I heard about that, I thought, "Wait a minute. You want me to go back to my company and talk to all the people that report to me. I'm always on their rear about things. You want me to have them tell me what are the strengths, weaknesses, and opportunities?" I thought I'll do it because that's what you say I have to do to be a successful president, but I don't think anything's going to come out of it.

Boy, I was dumbfounded. We got not only our managers involved and our other officers, we got every employee in the company to fill out a form, a preprinted form. All they had to do was fill in the blanks, five biggest strengths we had, five biggest weaknesses, five biggest opportunities, five biggest threats. I went through and read them all with the help of a young lady in marketing. We put it all together and then we had the meeting with our managers and we went through and prioritized the things.

It was phenomenal and I found—and I'm sure you guys all knew this, but I didn't know this—I wasn't the smartest guy in the company. Not only that, I wasn't the most creative. We had people who were beginning level programmers. We had one guy who had a tenth-grade education that worked in the maintenance department, could fix anything. We had amazing creative thoughts from all levels of the company. I found out that creativity doesn't have a thing to do with the position in a company or education. Some people are just amazingly creative.

We would take those lists and go through them. We tried to build on the strengths. We'd pick out four or five of them and make sure we emphasized those. We really went after the weaknesses list because from the senior management, you get weaknesses that are global related. From the middle management, you get things that are communications oriented. From the employees, you get everything that's wrong with your fringe benefit programs and what's wrong with your service too, because they're dealing with the customers, especially the people in customer service. We would take the weaknesses list and just hammer that. We'd pick out the top 25 or 30 or however many there were and really go after them and try to come up with a creative plan within that year.

Opportunities, we did acquisitions a little differently. I think we did 17 or 18. We did one or two of them on an opportunity basis as they came up, but the rest of them we tried to do on a plan basis.

CyCare Applications and Market Placement

Grad: You would do targeted acquisitions?

Houtz: Yes. For example, we had a great product for the group practice, but for the physician groups that had one or two docs or maybe four or five, our product was too complicated. So, we wanted to buy a product in that market. We ended up buying, over a period of nine years, one, then another one, then finally the third one that really worked the way we thought it should. Then HBOC bought us and closed it down. <laughter>

Grad: You also went after the hospital market that way? You acquired something in the hospital market?

Houtz: Yes, we made three excursions into the hospital market over 29 years. All of them ended up getting hammered, and we dropped it and went back to our bread and butter, which is group practice.

Grad: You had one tremendous new thing as you went into-- CyData and the clearing house.

Houtz: The clearing house, yes.

Grad: How'd you get into those? What made you do that?

Houtz: Well, our business was going well. We had an outstanding president, had a high level of service. He was running the business. I mean, he was really running it and I said to him, "Ray, I am really bored. What would you think…?" <laughter>

Mann: How about we stir up some trouble? <laughter>

Houtz: Yes. I didn't phrase it like that way, but that's what I had in mind. I said, "We can take that clearing house we have, separate that pretty easily, and take it out and sell to all the 100 to 200 other software companies there are for group practice of small/large size, right at interface, and we could make something out of it." He and I had discussed it for about 10 minutes, and we were all done. He and I agreed that we were going to do it.

Then we presented the idea to our marketing people. Oh, Christ, they went bananas on us. They just said, “You guys can’t do that. You’re selling the company jewels. You’re giving them away.” After a week or so of that, we said, “Hey, guys, we’re going to do this anyway.” Their comment then was, “Well, you won’t be able to sell it to anybody.”

I think, within 18 months, we had 60% to 70% of the top practice management systems signed up. It took us longer to get them converted. <laughter> We got them signed up, but it took us about three years before we really had that thing cooking. We went from the end of the first year with all these contracts. We had 1,000 claims a month from the outside. Second year, we had 40,000 at end of the year. Third year, we had 400,000 a month and then the fourth year we had 2 million. Then, boom, it just kept going.

When we sold that business to HBOC, that business was doing about $20 million. I kept telling them, “You guys ought to be paying us a little more. We got this business over here. “ They said, “Ah, you guys don’t know what you’re talking about. That’s nothing.”

Grad: How big is that business today?

Houtz: About four years ago, it was about $500 million, and they were doing a third of the electronic claims processing in clinics and hospitals in the nation. It was really a great business.

There’s a product called Practice Management, which is the hospital physicians usually want to bill or have somebody to do their billing for them on a percentage basis with Medicare stuff reimbursement going down regularly. That means your business automatically goes down four or five points a year. It was a tough business, and we were in it and we got out. We didn’t really sell too many to hospitals.

Mann: Your theory on how to cope with that was to sell at the apex.

Houtz: Yes. <laughter> The hospitals are buying a lot of group practices, and I think you need a slightly different product.

Mann: I don’t think the long-term trend for healthcare in general is good to have hospitals owning all aspects of it, personally.

Houtz: I happen to concur with that for a lot of reasons.

Mann: Well, hospitals, I mean, they’re like universities. They don’t spend money on a rational basis at all.

Houtz: No, and what you find happening is, when you have a group of physicians that own the clinic and they’re running it, they make decisions based on patient care. When you have a clinic and a group of hospital administrators owning it, they make decisions based on numbers. There's a big, big difference. I agree with your comment.

Mann: Don't charge me a consulting fee for the advice, please. <laughter>

Grad: Wait until you see the bill.

Targeting Markets Geographically and by Application at ACS Data Services

Miller: We actually had a strategic plan, believe it or not. There was a geographic piece of it, which was: do not acquire any companies further than we can drive to them. We were in Nashville so that meant Tennessee, Mississippi, Alabama, and Arkansas primarily. Areas that we could get to by driving. We didn't want to have anybody flying. If you can drive to it in four or five hours, that was a good acquisition, and we did that. We bought practices or a small service bureau in Tupelo, Mississippi. We bought them in several other cities, in Birmingham, in Huntsville, in quite a few.

Another thing that we were targeting as a strategy, because we were very good at what we did in terms of payroll, was blue collar companies. Some of the companies I'm going to mention don't sound like blue collar but Truck Stops of America was one of our very largest clients.

Grad: What made them a blue-collar company by your definition?

Miller: They were not a professional organization. They were not a manufacturing organization. These were truck stops where you had waitresses, and you had fuel and what have you. It was just a gold mine, and at the time, their headquarters was in Nashville. What could be better?

Another company was Tractor Supply Company, also in Nashville. It's very good to stick with your knitting and stick with people who knew you. Because we did Truck Stops of America, which had restaurants, we became very good at dealing with tips and how tips are calculated in payroll. We did pick up a Waffle House franchise, a group that was called Tree Top that owned 110 Waffle House franchises in our surrounding area, again Kentucky, Tennessee, Alabama, Mississippi.

The focus was, we knew what we did well. We do payroll maybe as good as ADP, but we were certainly customizing. We knew how to handle tips. Sounds like a small thing, but it's a big deal and it's complicated. The taxing part of it, the 941's and everything that goes with it is not easy. Then we also decided, if the right product came long, we would be a VAR, a Value-Added Reseller. And along came the Series 1 from IBM. <laughter> Actually, a good little box. Had a peculiar little language all of its own. I think it was TAL, Terminal Application Language. I don't know, whatever it was. It was a great little process device; Federal Express was even going to use it.

Well, we were a VAR and we had three states. We acquired a company in Shelbyville, Kentucky, called Mid-American Control Corporation, that had a software product called PROMPT. I can't remember what that was; it was an acronym for something. They had all the financial and back office applications that ran on a Series 1, your AR (accounts receivable), AP (accounts payable), general ledger, payroll, inventory, and so forth. By getting something like Truck Stops of America for payroll, we also got their inventory. We began to work vertically through there. What else can we get? Can we get fuel? Can we get anything that had to do with Truck Stops of America? Until they got their own.

Grad: You were running those on your own systems?

Miller: We were running those on our own systems.

Grad: You said you had a Series 1 VAR. Were you installing those in their locations?

Miller: We were installing those in Kentucky, Tennessee, and in Alabama, yes. I had a group of people that were installing those. We looked at other devices. We were looking at DECs. We were looking at other things, but because we knew IBM and we'd been an IBM shop, we stuck with IBM and the Series 1 product.

The other part of the strategy was, and this was just a SWAG [Scientific Wild Assed Guess], if you will, either merge or sell in the 12- to 15-year period. We were too dumb to know how good that was in the early to mid-1970s. We knew we either had to get bigger through merging, or we had to just get out and do other things, but that was our strategic plan and we did have a board. As I said, we had six members on the board who contributed mightily to that.

In regard to what Jim and others said, we did realize that the smartest people in the company were the ones in the trenches. Even when we went out to places like some of our big clients like Truck Stops or the others, and we had systems for them to use, we would find that, in their desk drawer, they had the subsystem. They knew how to work our system better by using their own little book and their own little series—you know how that goes. We would take advantage of that. We would bring user groups or another thing, but when we found out they weren't using our systems the way we thought they were going to be using the systems, we didn't get angry, we got excited.

Entrepreneurial Spirit and Company Size

Miller: The comment about entrepreneurs—I can look at this room, and I know everybody in here of the six of us have had 80-hour weeks, 100-hour weeks where you slept on your couch. That's the true entrepreneur. It isn't just to make money; it's to get the job done and have a really good time doing it.

Grad: Did you feel you couldn't do that in a big company, or wouldn't do that in a big company?

Miller: I've worked in some huge companies.

Grad: And?

Miller: <laughs> Well, one of my bosses is doing 25 years in jail. <laughter> I worked for Bernie Ebbers for nine years. <laughter> I had worked in CBS; I had worked for Columbia Records in New York for a good number of years. I didn't think it could be done in a big company the way we could compartmentalize it. Our employees bought into it as much as the owners did.

Grad: As the company gets big enough, you think that doesn't happen any more?

Miller: I think it doesn't happen any more. I think what happens to the entrepreneur, once he takes his finger off the pulse, something's gone in the effort.

Grad: Does that mean there's inherently a size limit?

Miller: I think so. I don't know if it's dollars or people.

SunGard Acquisitions Strategy

Grad: SunGard's a pretty damn big company.

Mann: Well, I may have shortchanged the description of SunGard's lack of a strategic plan because, when we acquire companies, it's changed a little bit lately, but we leave the companies pretty much intact and install a very rigorous financial control system. I knew every line item in every business every month. We just required them to make a suitable amount of money. Some of the guys we acquired couldn't cut it, and we probably lost 20% of the presidents of the companies we acquired. The other 80% were good executives because they could deliver under pressure. It was their job to figure out what we would call strategic things, how to expand their product, how to make it better, how to do this and that with it. To give you an idea, at one point, I had 20 people reporting to me.

Grad: Oh, my goodness.

Mann: There were actually two or three I talked to, and they were the two or three that weren't doing well. <laughter> The rule in the company was, if you never heard from the boss, you were doing good. <laughter>

Grad: You did sort of the opposite of what Computer Associates did then when they acquired a company.

Mann: Oh, absolutely.

Grad: Talk about that a little bit. I think that's significant.

Mann: Diametrically opposed. Computer Associates bought companies, would strip them down to what they really needed to run it and they did it up front. They were very candid about what they did. I kind of admire that. In fact, one time, Charlie Wang gave a speech at an ADAPSO or ITAA meeting and said that's what they did. I admired his candor because usually people will waffle about stuff like that, but not Charlie.

Johnson: Yes. I'll just make a comment on that. I forget which company it was they acquired in the Washington, D.C. area, a company that had many hundreds of employees. Of course, the first thing they were going to do was get rid of 450 of them, and they did. Then Sanjay Kumar came in to meet with the remaining people, and he held up a shoe. He said, "It's not going to drop. The other shoe isn't going to drop. It's done. It's over. What's here is what we're working with now." That was a real good way to approach it. The remaining people knew that they were solid; they just did it all at once.

Mann: The upshot of that was that, in my judgment and also some internal indices, SunGard has got a lot of very highly qualified, and by that, I mean effective managers. A demonstration of that is that some of our graduates like Bob Greifeld, now president of NASDAQ, came from SunGard. It's not that there was no strategic plan. It was that it was delegated to people who hopefully, as a result of that, still thought of themselves as entrepreneurs because they weren't stifled by huge corporate bureaucracy.

Grad: To my mind, this is very, very different. I worked a great many of those years with Sterling Software and Sterling Commerce. Sam Wyly and Sterling Williams had exactly that same vision. They acquired, either strategically or not, but they wanted them to run their businesses. That was their responsibility, and they hoped people would work weekends and nights because it was their business. They rewarded them well. They recognized what they did, and they got rid of the ones who didn't make it, but that was a totally different strategy. Computer Associates, CA, wanted to go just the opposite way. Interesting question: did you ever compete against CA in trying to buy companies?

Mann: No. Of the five companies SunGard started with, two of them were turkeys, and one of them I managed to sell to Sanjay before he was with Computer Associates. <laughter> I think he got better at due diligence as he went along. <laughter>

I wanted to add another thing about what you said about the people in the trenches knowing what's going on. In one of my interim jobs, I was president of Bradford National, which was a full-service transfer agent, and they were in chaos. I got the job primarily because they thought they needed a real computer expert, a hands-on computer expert. I don't know whether I qualified or not, but I discovered that wasn't what they needed. If you had a customer in that business complaining about something they weren't getting, I would go down to the customer services area and mill around. Lo and behold, there would be someone down there that would know how to get that out of the existing system. No writing code, no nothing, just using something they already had but that no one at the top knew about. Previous to that, the IT guy would look at it, he'd write a bunch of new code to do something they could have done without writing the code, you know? It's the people down in the trenches that know what's going on in big companies.

Acquisition Models

Grad: You made a number of acquisitions. Did you centralize? Did you keep them as independent operations?

Miller: We kept them independent.

Grad: You felt you maintained the entrepreneurship?

Miller: Yes. These were all owned by entrepreneurs, and we left them in place. They had established the relationships with their clients. We didn't want to disrupt that. We didn't want to touch the customer any more than we had to, and as long as we could get to them quickly, we did. They got some interest in the business.

Grad: Sterling Williams' comment here was that they, in many cases, were competing because they were into the system software world. They were competing against CA for acquisitions. They never won one against CA because CA could afford to pay more for the company because of its financial model. Over 20 years, it'd be a different world, but in the short term, CA could afford to pay more than Sterling which was going to keep the people, train the people, and get them to grow organically rather than to grow the other way. It's fascinating that you apparently had that same kind of model at SunGard, that same direction. Any others have heavy acquisition businesses?

Houtz: We did, and we did it both ways. I really believe that Jim's is the right way, almost to the point that, if you look at a company and you want to acquire them and they can't stand on their own, you either have to send some of your own people in to run it or you got to walk away from the acquisition.

Grad: You said, in some cases, you put your people out there and salvaged things.

Houtz: We did salvage it. The ones where we just tried to integrate it, that entity, whatever was left of it, kind of lost its spirit a little bit.

Mann: Yes, I would add another footnote. Not to interrupt, but our number is 153. It's gone up three since... <laughter> In the disaster recovery area of our business, which is a whole lot different, we did buy companies that you would call stuffer deals—just buying a bunch of business and putting it in. There, I followed the Charlie Wang model. We would figure out who had to go at day one, tell them that this was it. I didn't take my shoe off and drop it <laughter> I wasn't as dramatic as Sanjay. I think it depends a little bit on the kind of business, and the kind of acquisition you're doing.

Grad: I'm sure. Different kinds of things need different kinds of models. Any further comments on this subject? Go ahead, John.

Rollins: Yes, we had one acquisition that we made that increased our size by about a third in 1982. It was the Washington, D.C. division of NLT Computer Services. I was negotiating with the guys in Nashville, Doug Altenbern, Tom Collins, and that group, but this was an operating division that had only Association customers located in Washington, D.C. All the back-office accounting, payroll, and administrative was handled out of headquarters. When we acquired that, they really wanted to sell it pretty badly. They agreed, number one, to give us a good price and, number two, to finance it so we could pay them off over four years at a reasonable interest rate, even though interest rates were pretty high in 1982. It was the integration approach by default because they really had no back office to run it. They'd been running remote batch from Bethesda, Maryland, a suburb of Washington, into a mainframe at NLT headquarters.

Grad: Did you keep the people?

Rollins: We did except for a few. There were a few redundancies. We let them know right up front that they weren't going to be part of the acquisition, but we kept all the others. Consistent with what Jim was saying, it was really tough integrating it. Different culture, different backgrounds.

We ended up not keeping all the customers. Some of them would walk at a certain point. If we'd lose one of the account managers that had been with NLT, we'd lose customers at that juncture. Fortunately, we paid so little for it, it was actually a good deal for us. We had just recently, a couple years before that, purchased this five-story small office building on Dupont Circle in D.C. so we had room to put them in the offices, and we had capacity on our mainframe, so it was relatively easy from that point of view. But cultural differences and assimilating and integrating a staff from another company is not easy.