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SHAKEOUT

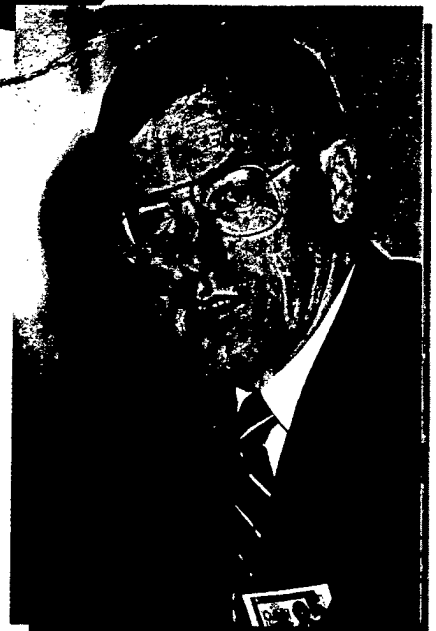


"Look as far ahead as your clients can see, and you had better be a step ahead of them"

—Charles Computer

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—Dennis Strigl, President and CEO of ADR Corp.



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—John Cullinane, founder, Cullinet Software Inc.



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SOFTWARE SHAKEOUT

"There is a shakeout occurring in mainframe software and it's our guess that there are some who won't make it." So says Dennis Strigl, president and CEO of Applied Data Research. And, indeed, this oversaturated market is experiencing growing pains as business shifts from the traditional leaders to upstarts that can recognize changing needs.

This Darwinian struggle is made more complex by mergers, acquisitions, and strategic alliances. But while it remains unclear which vendors will be shaken out, it is obvious that the torch has passed from traditional leaders such as Management Science America and Cullinet Software to hungry, newer firms like Computer Associates.

Strigl's sentiments echo industry observers during a week in which MSA reported a \$71 million loss for fiscal 1987. By most accounts, industry leaders continue to hold strong cash positions, meaning that they won't be driven out immediately. But plump financials make several firms attractive takeover targets.

"There'll be acquisition by large companies of medium companies,

and by medium companies of smaller companies," predicts Charles Newton, whose research firm, Newton-Evans, has just completed a study of the mainframe software market. "You're also going to see the big companies acquire companies that might even be larger than themselves." Newton believes that any of the larger companies could make an acquisition or could be acquired.

Shakeout, Fallout

Companies outside the market may also be set to acquire a software company, according to Newton. GM's purchase of EDS could prove just the first of many. AT&T, for one, has stated its intentions to purchase a software manufacturer (*InformationWEEK*, January 25), and it may be reexamining its shopping list.

Two of the more attractive targets are MSA and Cullinet, with the latter recently reporting a third-quarter operating loss of \$18.4 million. And, according to David Eskra, the CEO of Pansophic Systems, his competitors are themselves to blame for their current predicament. "MSA has stuck to a particular area and it's a dying

one," he says. "Cullinet stumbled because a technology came along that they were locked out of, and the customers suffered because they were locked in to Cullinet."

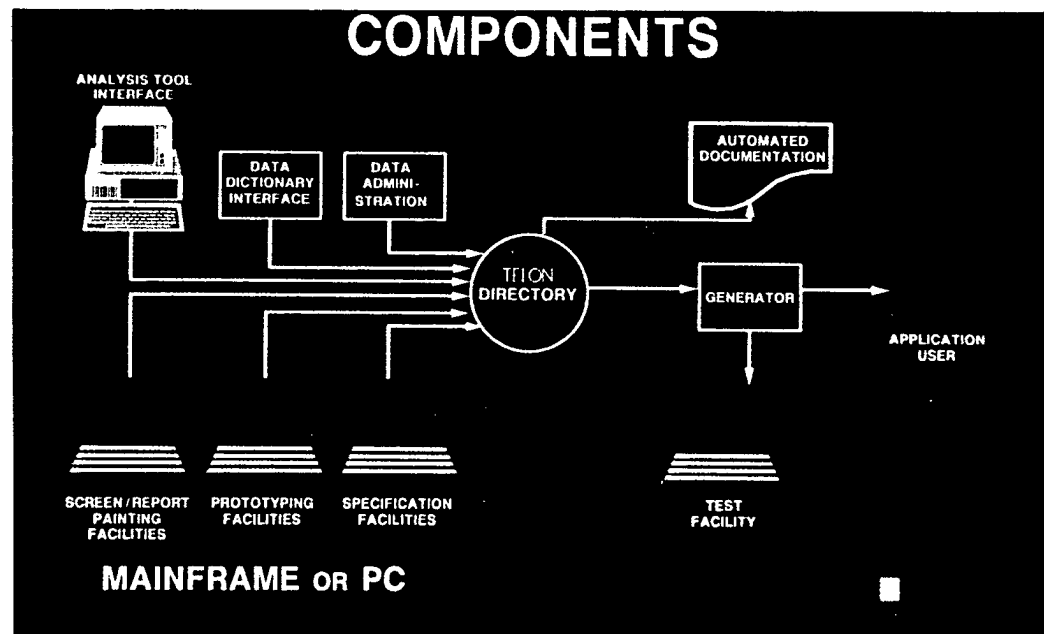
"I don't think some vendors had a clear view of what was going on in the industry," notes Dean F. Redfern, corporate vice president at McCormack & Dodge. M&D, he says, has turned a profit in each of its 19 years through long-range planning.

"I think you have to look as far ahead as your clients can see," says CA chairman Charles Wang, "and you had better be a step ahead of them." Cullinet and MSA, notes Wang, recognized the shifting requirements of the software market but they didn't execute the metamorphosis effectively. Wang believes these vendors failed at acquisitions, which happens to be CA's strength.

From its very beginning, CA's strategy has been to move in any direction that offers strong revenue potential, which has led it into areas that include IBM midrange applications, PC hardware platforms, and the DEC VAX environment. "We want to be the ones that can solve all of the software-related problems in data processing," explains Wang. "That's impossible, but that's our goal."

Wang refuses to comment on whether CA will try to acquire or merge with a traditional leader in the field. But Lawrence Ellison, president and CEO of Oracle, states, "There will absolutely be a shakeout, and among the likely acquirers will be CA."

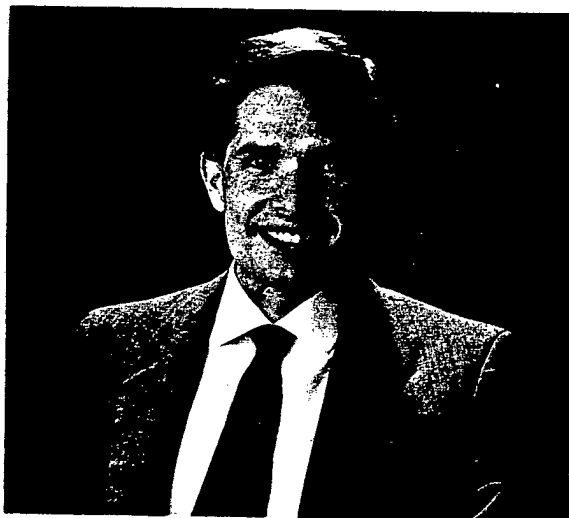
CA's track record serves to back up Ellison. During its 12-year history, it has gone from a one-product firm to the



Sign of the times: Pansophic is writing its popular Telon program to run on multiple platforms

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Redfern: Some vendors didn't see what was happening

largest independent software vendor in the world, with much of this growth fueled by acquisition. CA could swallow not only a small vendor, but a large one.

Center Of The Quake

One of the main forces driving the industry shakeout is MIS executives' demands for business solutions. Software that doesn't meet that criterion doesn't get bought. So MIS is turning away from the more established, but slower moving, developers and looking to the newer, more aggressive manufacturers or bringing development in-house.

"We need a bigger concept than what's out there," explains Gary Watson, director of information systems at Georgia Tech and a user of MSA software, which he says "has all the financial applications and they do most of those very well. But it's too narrow a scope. We need more integration in products."

That's an area MSA has yet to fully address and one that has left the 25-year-old Atlanta firm in a state of flux. Last week exemplified its troubles: Along with its dismal financial report, MSA announced the resignation of yet another high-level executive, Phil Ross, vice president of application technology and research.

Manufacturing Division president Dennis Vohs resigned last month and Marketing and Development division senior vice president Larry Smart announced his departure two weeks

ago. In addition to its huge loss, MSA's total assets fell from \$261 million in 1986 to \$207 million last year—including a drop in cash from \$48.2 million to \$24.1 million.

MSA, however, is just the latest in a string of companies stymied by MIS demands for vendors to support multiple platforms, provide integrated solutions, and, basically, do more than just push software.

Those vendors that have relied strongly on one product are feeling the effects. One is Cullinet, which played to its strongest hand, IDMS/R, and is still reeling from the release of IBM's DB2.

Cullinet continues to be hindered by its heavy investment in the IBM mainframe database market and the fact that its own relational SQL-based solutions were brought to market late. "If you look at our history, there have been a lot of crises—one about every two years," acknowledges John Cullinane, who founded the company in 1968.

Cullinet is now moving toward multitiered, multivendor integration. It has gone through a major internal restructuring and has spent \$100 million in the past two years on

acquisitions and internal product development. But can Cullinet bounce back? "If they can pull it off, their DEC VAX applications will be their savior. If they can't, they have no other insurance," says Jeff Lee, senior marketing manager at Focus Research. No savior, no rebound. In that case, a company such as Cullinet may survive only if it's taken over.

A Brave New World

Some mature vendors, however, have coped well with the changing tides of computer software requirements. "Software AG has had 22 profitable quarters in a row, so I don't see us in the same boat as these other companies," says E.L. Pearce, executive vice president of systems marketing. He says the four key factors in the 17-year-old company's success are "a good architecture, a good product, the ability to adapt to change, and excellent services."

Pansophic's Eskra agrees, adding that his company's goal is to not tie its users to its technology. He expects Pansophic to deliver portable technology, using languages such as C and Pascal, to its users in the next three to five years. The company's fastest-growing product, Telon, is being rewritten to run on multiple hardware platforms. According to Eskra, "Users want to continue to take advantage of new technology and they can't if they're locked into a single vendor."

And users strongly agree. "Single-source vendors become insensitive to feedback, they get wrapped up in their immense size and they don't have the time or resources to listen to the customer," points out David Godfrey, assistant director of data processing at Travelers.

But when the dust settles, the shakeout in the mainframe software industry may leave fewer vendors from which MIS can choose. If the larger companies continue to falter, there is a stronger possibility of more mergers and acquisitions—creating a situation in which a company like CA thrives. And when it comes to acquisitions, predicts Focus Research's Lee, "CA isn't done yet."

—John J. McCormick with Christopher Maynard, John P. McPartlin, Mike Fillon, Atlanta

THE ISSUES:

- ▶ MIS chiefs, vendor executives, and industry observers see a shakeout in the saturated mainframe software market.
- ▶ Users are turning away from single-source vendors and demanding product integration.
- ▶ MSA, in the wake of Cullinet's announced third-quarter loss of \$18.4 million, posts a loss of \$71 million for fiscal 1987.
- ▶ Aggressive firms such as CA may see potential takeover targets among the established software vendors.