

I.B.M. Battle Is Joined

Antitrust Suit Challenges the Giant In World's Fastest Growing Industry

By WILLIAM D. SMITH

The other shoe has finally fallen for the International Business Machines Corporation.

Although the giant company had been expecting antitrust action against it for several years, its executives had nonetheless hoped against hope and worked doggedly to prevent a Government move. When

Economic Analysis

the Justice Department filed its antitrust suit against I.B.M. last Friday there was almost a sigh of relief

from some parts of the company's headquarters at Armonk, N. Y. The mood was, "Well, the battle is finally joined so let's get to it," according to one source close to the situation.

The outcome of the suit may be one of the most important and far reaching of any antitrust action in history. The reasons follow:

¶The computer industry is the world's fastest growing and someday will be the largest.

¶I.B.M. is the nation's seventh biggest company in terms of sales and in the not-too-distant future it should be the largest commercial organization in the world by any measure.

¶The company is the most highly valued by investors of any company in the world, with a total market value of about \$42-billion.

¶The computer, by its nature, permeates almost every aspect of life in the United States from Apollo 8 to the ghetto. Without the computer the very

fabric of modern life in this country would be dislocated.

Everyone is sure of what is at stake. What the long- and short-term implications of the suit are is open to a multitude of readings and questions.

Chief among the questions posed are: Can I.B.M. be effectively broken up and, if I.B.M. is effectively broken up, will it be to the benefit of the industry and the nation?

In recent months a number of companies have been clamoring for Government antitrust action against I.B.M. Two companies, the Control Data Corporation and the Data Processing and Financial General Corporation, have in the last month initiated their own antitrust actions against I.B.M.

Viewpoints Vary

This would indicate that I.B.M.'s competitors are all for breaking up the giant. But this is not quite so.

Although most competitors in the computer hardware, software and peripheral equipment fields are not talking for the record, it is hard to find many that are advocating a complete break-up of I.B.M. In addition, several question whether a major reorganization would be possible or beneficial to the industry.

Dick Brandon, head of Brandon Applied Systems, a management consulting and computer programming company, commented: "If I.B.M. was going to be broken up into smaller companies it should have been done 10 years ago. I don't think it is possible now to seriously break up I.B.M. from

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the viewpoint of the impact the company has on industry and country.

"They can force it to spin off certain services that are presently offered free. These spin-offs will then become very hard-marketing hardware merchants, software merchants, education merchants and maintenance merchants."

Nonetheless Mr. Brandon concluded that some "well-reasoned reorganization of I.B.M. would be beneficial to the industry."

EDP Industry Report, a well-informed trade publication, has commented: "From an interesting phenomenon just 10 years ago the computer industry has grown to one of the most important in the country. During the last decade United States manufacturing as a whole grew 65 per cent while the computer industry grew by 511 per cent. And one reason for this dramatic growth was that the industry was protected by the umbrella of one large company.

"I.B.M. early grasped the potential of computers and, with aggressive marketing techniques, virtually built the industry. Other companies could possibly have done it. Indeed one, Univac, was originally in a much better position to do it than was I.B.M."

Competition Stressed

Harvey Goodman, head of Data Processing and Financial General, which began a private antitrust action against I.B.M., would disagree about I.B.M.'s being protective of the industry. "Anyone who is looking for a big brother umbrella is making a mistake," he says. "Everyone would benefit from a truly competitive environment."

Mr. Goodman does not want I.B.M. broken up, but he does want it reorganized so that it would be just a manufacturer of equipment. Companies like his own would be retailers. "I.B.M. is an admirable company, but it has been calling all the shots its own way," he says.

William C. Lucas, president of Wellington Systems, Inc., a New York software company, contends that the actions against I.B.M. will be a boon to the computer software industry. Software concerns prepare the instructions that enable the machines to perform the desired tasks.

Mr. Lucas said: "Forcing I.B.M.'s software division to stand on its own feet, without the backing of I.B.M.'s giant hardware division, will open up the whole software field. Right now, if I.B.M. sells a customer \$10-million of hardware and

tosses in software worth \$500,000, how can we compete?"

"I.B.M.'s position as leader in the computer industry won't be threatened. They will still be No. 1, but others will be better able to compete."

Computer Exchange, Inc., sees the antitrust action giving data-processing customers the opportunity for the first time to shop for equipment. "Under the present I.B.M. method of marketing, the user must buy the complete package without ever knowing what the individual components cost," a company official said.

Richard G. Canning, who runs a well-informed trade report. EDP Industry Analyzer, is of the opinion that I.B.M. may be forced to price its hardware and software separately and that it will probably reform some of its marketing practices.

Wall Street's reaction to the suit was mild considering the jittery nature of the market. I.B.M. stock fell 7½ yesterday to 300.

Bob Sullivan, computer analyst for Paine Webber, Jackson & Curtis, commented, "The suit is bound to put some stigma on the stock, but I.B.M. will continue to have a very bright future no matter what happens."

'Umbrella' Cited

S. Vernon Ellerthorpe, analyst for Eastman, Dillon Union Securities & Co., does not hold to the proposition that an I.B.M. break-up would necessarily be good for competition in the computer industry. But he does think it might be beneficial to I.B.M. stockholders.

Mr. Ellerthorpe said: "I.B.M. holds an umbrella over the industry by maintaining price levels. If the company is completely forced to divest itself of certain operations, these spin-off companies would likely become giants in their own right but without I.B.M.'s traditional fear of the antitrust implications of price cutting."

The analyst suggests that a present I.B.M. shareholder could receive a portfolio of issues of the spin-off companies that might eventually be worth more than the stock of the single giant concern.

Isaac Auerbach, president of Auerbach Associates and a former president of the International Federation of Information Processing Societies commented that a break-up could "create a situation where instead of having one I.B.M. you have two or three."

Most legal and computer industry sources are of the opinion that the suit could be very long. Many contend that it will be settled by consent decree, as was the Government's last action against I.B.M. in 1956.