THE PLACE FOR THE INDEPENDENT OPERATOR IN THE COMPUTER INDUSTRY

By L. Richard

(Mr. Louis Richard is Managing Director of Datacard Computer Systems Pty Ltd and a Director of Datacard Computer Services Pty Ltd. This address was given to a meeting of the New South Wales Branch of the Society on 3 March 1971.)

In preparing for this talk today, I have made several assumptions. Firstly, that you know as little of the industry in which I am involved as I know of yours. Secondly, that there was little point in presenting a vast array of facts and figures relating to the EDP Industry - I am sure that your resources for the accumulation of data are far more impressive than mine. Thirdly, I have assumed that your Association's prime purpose in inviting me here today is one of economy - that is economy of time - your time and my time.

Given the opportunity I would like to bore each one of you privately with my personal, purely subjective views of the function, place and need for local and independent operators in the data processing industry. Quite fortuitously, I now have the opportunity to bore you - en masse as it were - with those same purely subjective, personal views.

I do not point out that the views I express are subjective by the way of an apology - far from it. I simply point this out because I would otherwise feel personally responsible if my talk led to a boom in the stock of independent EDP organisations. Having made the point, I can now "pass the buck" to you gentlemen who are charged with the responsibility of supporting my subjective claims with objective evidence. I commend you to that task.

The EDP Industry, in all its aspects, is quite diverse. Independent operators are in evidence in every aspect. I have been using the word "independent" without explanation. To my mind, the "independent" organisation is one which is owned by local shareholders and relies largely on local entrepreneurial and managerial resources. The group of companies in which I am involved is a prime example of such an organisation. Others probably known to you are Computer Accounting, Idaps Computer Sciences and Adaps. Please note that I have not excluded Square Computing because of any lack of independence - but rather because there is some doubt as to whether Square is in fact in the EDP Industry. As I have said, independent organisations operate currently in every segment of the industry. It is worthwhile, I believe, to approach my subject on the basis of a broad categorisation of the industry.

The first such category is the 'Services' segment. This segment is characterised by ease of entry and consequent extreme competition. This segment would certainly embrace the bulk of the independent firms, both privately and publicly subscribed, due I believe to this ease of entry. To commence business in the services segment little more is required than, say, $1,000 in capital, lots of guts and a dream.

Unfortunately, to operate in this currently over-saturated area on anything much more than a "man and a dog basis" requires substantial management talents - especially in the area of financial control - and ready access to funds. Our experience is that to make even "subnormal profits" in this area, a comparatively large revenue base - say, $750,000 revenue per annum - is needed. In the light of the easy entry to this area by new firms, the segment tends to parallel the life cycle of the turtle. Many organisations are borne but very few have sufficient "strength" and "directional stability" to reach the sea. Many have perished and many will perish.
It is becoming increasingly apparent that this segment of the industry is passing through a "shake-out" phase. Almost certainly, this segment's future in the short term will be characterised by takeovers and mergers, with the more soundly based independents absorbing their more vulnerable competitors. In the medium and long term, the question is one of whether this reconstructed independent segment of the services industry is capable of successful competition with the machine houses and the computer utilities "implanted" from overseas and supported by local institutional investors - of course I refer here to organisations such as Computer Sciences of Australia.

I and my colleagues firmly believe that independent firms will successfully survive the immediate reconstruction and amalgamation phase on a long term basis, not as a result of very substantial investment in sophisticated equipment - but rather as a result of specialisation in effectively meeting the EDP requirements of selected industries. Our service bureau for example, concentrates on the advertising, share registry, bulk mailing and motor vehicle spare parts industries, while Idaps concentrates on insurance and building societies and Cal on distribution accounting.

However, it is almost certain that a second day of reckoning will face the independents, when they will be forced into time sharing and its associated requirement for substantial investment (say $5,000,000 and upwards over perhaps 2 or 3 years). At that time, if we are to maintain the ideal situation of the needs of Australian businesses being met by other Australian business, which pay dividends to local shareholders, a full measure of financial support will be essential.

The desirability of locally based, independent organisations being predominant in such a vital area as EDP services is, I believe, of national importance and completely self evident - an issue in fact of equal importance as local ownership and involvement in the exploitation of natural resources.

I have spoken at length of the EDP services segment. I now will quite quickly express my views related to the "futures" of the remaining major segments of the industry - EDP related products, EDP hardware, and equipment financing (or computer leasing.)

Treating the leasing area first - it is probable that the independents will predominate here. Because the potential of the area is perhaps too small to attract major overseas financial houses and because substantial local knowledge is required to reasonably assess the business risks involved. Provided that local entrepreneurs can accurately assess the effects of obsolescence on the long term leasability of equipment and successfully market equipment coming off initial leases against yet to be announced "new product" from manufacturers, the muscle of money - bought by computer financiers at the right price - should enable normal profits to be made.

It should be remembered that many of the major pitfalls of this area can be avoided by careful observation of trends in this infant industry overseas. In the U.S., for example, firms in the equipment financing area are currently encountering the competitive marketing problems to which I referred earlier. Equipment taken on lease perhaps five or six years ago, is now becoming available for re-leasing, and this equipment must be marketed in competition with recently announced equipment with improved cost-performance resulting from technological advances.

You may be aware that equipment leasing companies generally rely heavily on second and subsequent leases of a piece of equipment if profits are to be made on the investment in that piece of equipment. Of course to evaluate
the marketability of a piece of equipment purchased and initially leased today, in competition with equipment which may be available in perhaps 5 years, is difficult to say the least. It is on the accuracy of just this form of prediction that the independent equipment financiers stake their futures.

The EDP hardware area, in which I personally have little experience, is very much one of reliance on effective research and development, access to substantial capital, effective control of manufacturing costs and aggressive marketing.

A saving grace of this segment is the possibility of achieving profit objectives through careful selection and imitation of products launched by overseas manufacturers. We can not contemplate the appearance of a true independent manufacturer, even on a nationalised basis. The subscription of the 2 or 3 hundred million dollars necessary for the establishment of such a concern would be, to say the least, difficult to justify. This is particularly so, given the enormous accumulated trading losses of many existing major computer manufacturers. It seems that we face the long term prospect of continuously depleting the world-wide predominance of big brother in the hardware manufacturing segment.

Finally, we come to the EDP related products segment. At this very moment a large number of independent firms are profitably manufacturing and distributing a vast range of products ranging from punched cards and continuous stationary through to computer room furniture. As with the computer hardware segment, control of manufacturing costs and effective marketing are key factors.

Given that independent companies have been active and successful in very similar markets for many years, there is no reason to suppose that equal success will not be achieved by the independents in this relatively glamourless but never the less very significant segment of the EDP industry. Given effective management with an orientation towards profitability, a reasonable investment in product development and sufficient working capital, independent firms with a total dedication to the EDP related products (of which Datacard Australia just happens to be the only living example) will continue to grow, prosper and pay dividends.

To sum up then, each segment of the EDP market faces its own challenges and its peculiar essential ingredients for survival and success. My talk has perhaps over-emphasised the significance of the services market in terms of time allocated to it. However, this seems valid in terms of the bias of public subscription to this area. I hope that my personal and subjective opinions of the industry are of interest to you. I can assure you that your personal and objective evaluations of the industry will be of interest to me.

I hope that I have been successful in making 3 points today - one, that the EDP industry is a diverse and demanding area of commerce. Two, that locally owned and managed firms are active in all areas of the industry. Thirdly, and very importantly, that in order to retain an essential measure of local ownership and control in what is an essential industry capable of paying handsome profits to the wise and wary, a full measure of financial support will be mandatory. I am confident that every effort will be made by the independent firms to provide trading results which attract that full measure of support.