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There He Goes Again
MERGER MANIA
Big Bucks and Boardroom Battles

MARK KAUFFMAN

**The chairman presiding at a regular staff-management meeting: "Why, you little demon, you."**

# The Zinger of Silicon Valley

## *Morgan uses drastic measures in an attempt to save Atari*

*Few companies have risen so fast or crashed so rapidly as Atari, the onetime king of video games. From 1977 to 1982, annual sales zoomed from $200 million to $2 billion. But last year Atari lost $536 million in just the first nine months. Atari's collapse has left its parent company, Warner Communications, so weak that Warner is fighting for its life in a corporate takeover battle with Press Lord Rupert Murdoch. James J. Morgan, 41, then a vice president of Philip Morris, was hired last summer to rescue the ailing company.* TIME *Correspondent William McWhirter, a Princeton classmate (1963) of Morgan's, spent a week with Atari's chairman and filed this report:*

The company Morgan found when he arrived in California consisted of a dozen separate corporate satrapies devoid of planning or consultation. At least 49 Atari buildings were spread around company headquarters in the Silicon Valley sprawl of Sunnyvale, Calif. Often the heads of those far-flung divisions were not even located in the Atari headquarters building. The company had to call in a management firm to locate some 48 engineering groups in the U.S. It found a one-man operation in Louisville, apparently there because that was where the engineer preferred to live. The company had five finance departments, each with its own legal and personnel offices, three model shops and three mechanical-engineering units. Three or four sections worked on the same project, independent of each other. Since there was no standard pay scale, salaries and bonuses were dispensed as largesse.

The company was "a minefield of personal intrigue and corporate politics," according to newly named Atari President John Farrand. Concurs Atari's top scientist, Alan Kay: "For a while, the company was playing 'Ha, ha, your end of the boat is sinking.' " But when the bad news became clear last fall, it turned out that everyone was in the same boat.

The choice of Morgan, a marketing wonder but a complete outsider to both Atari and computers, at first seemed like another bizarre Warner decision. Morgan was an Easterner in a Californian's game, a traditionalist in a rootless industry, a believer in long-term growth in a market hooked on quick profit and instant gratification, a technological skeptic among scientific true believers. Morgan had run the Philip Morris tobacco-marketing division, whose products included such fast-rising brands as Virginia Slims and Merit, with an almost ostentatious lack of computers. He preferred writing meticulous longhand notes on legal pads to punching numbers into a machine.

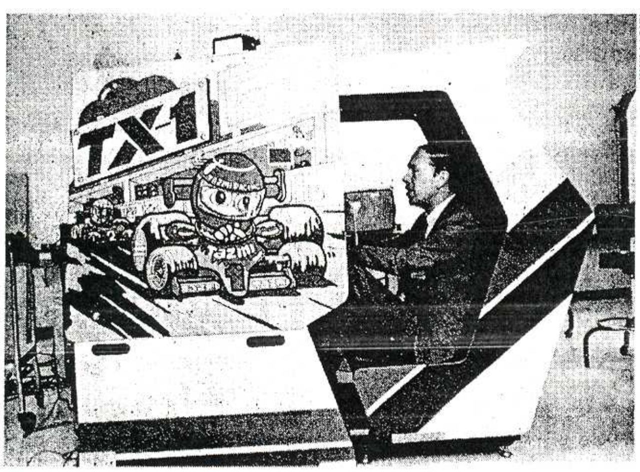
If Atari's offer seemed baffling, Morgan's acceptance was even more unexpected. By all accounts, he was on a very short list for the presidency of Philip Morris. Yet Morgan, who had previously never even listened to outside offers, resigned 48 hours after having lunch with Warner Chairman Steven Ross.

Morgan remains as surprised by his decision to leave Philip Morris as his former associates are. There was, of course, the classic lure of rescuing and running a company on his own and the undeniable mystique of the technological future. "The Atari name did it," says one go-between who arranged the Morgan and Ross meeting. "Morgan never would have gone if it had been Coleco." He also got one of the most lucrative safety nets ever written into a business contract. Although Morgan will not comment on it, Atari insiders place his guarantee at more than $8.5 million over the next seven years. Moreover, sweeteners could raise it to $25 million or more depending on his success in turning around Atari. At Philip Morris, Morgan was making $300,000 a year.

Even so, it was a surprising jump. Morgan, the son of a successful oil executive, had aimed at the top of a business career from the time he left college. He had a single-minded determination that was often concealed beneath an exterior of rumpled suits and scuffed shoes that might have been more appropriate for a distracted economics professor rushing to class. Yet after 20 years with the same company, Morgan left. He says he looked at himself in the mirror after accepting the job, smiled and thought out loud, "Why, you little demon, you."

Morgan does not hide his disdain for the management style that flourished under ousted Chairman Raymond Kassar. Says Morgan: "The way Atari did business is dramatically opposed to the values I live by and believe in. There was an incredible arrogance at Atari. It was a rigid, unchallenged and unchecked giant, and it has paid every penalty imaginable for its mistakes."

Morgan was surprised, then agitated, to discover that many of Atari's senior executives who were working to develop and sell personal computers had no use for them in their own homes. Admits Marcian E. Hoff Jr., Atari's executive vice president for product development: "I don't use a computer for home finances, and I don't know anyone who does. It's just easier to balance my own checkbook. Home computers have been a wonderful solution looking for a problem." Morgan concluded that the industry was




KAUFFMAN

**The boss gets behind the controls of one of the newest games**

*A lucrative safety net made it easier to leave Philip Morris.*

heedlessly unloading upon an unsuspecting public technology that served no purpose, almost as if it were indulging in consumer deception. Says Morgan, who is determined to make home machines more useful: "Seventy-five percent of these sets are being bought for home entertainment or by parents who are made to feel guilty about not further enhancing their children's computer skills."

Some other Morgan zingers:

▸ "I'm trying to make Atari a humble company in the right sense of the word. Being humble in business means your customer is more important than you are. No one has to pay for flamboyance, arrogance and flashiness."

▸ "Americans are mazed out and shot out. They're tired of video games. Atari must compete against movies, novels, TV, anything that makes up America's six hours a day of leisure time. It is criminal in my mind that Atari did not think of a game like Trivial Pursuit first. I don't believe the industry will be a hit again until it rekindles its imaginative resources. If not, it's bye-bye to the industry."

▸ "Not one company in the home-computer business has yet given the American public any compelling reason why it should buy a home computer."

The immediate problem Morgan faces is Atari's financial survival. To achieve that, he has been slashing on all sides. Atari's U.S. payroll has already been reduced from 9,800 people to 3,500; 3,000 manufacturing jobs will be added in Hong Kong and Taiwan this spring. By late next year it will centralize most of its operations in a four-building complex in San Jose, Calif.

The company's laid-back Californian managerial style is also going. Morgan began regular staff meetings with his senior executives. Last week he announced a total reorganization of the company with the aim of reducing corporate bureaucracy. "A lot of what Morgan has done is just fairly standard business basics," says Arthur Gemmell, vice president for administration. "We just somehow became a $2 billion company without any of them."

Morgan is cutting back on the products Atari manufactures. He simplified its computer line from five proposed models to two and delayed introduction of a series of new Atari telephones. But he is still adding new video games.

Can these changes save Atari? Morgan promises that the firm will be profitable in 1984, and next month Atari is expected to announce substantial progress in paring losses. But others are skeptical. Said one former Atari executive: "Morgan is determined to walk through the hurricane, but it is a shrinking company dependent on an industry that is itself declining. We know Morgan can cut, but can he create?" Morgan insists he can. "I don't have fun cutting budgets," he says. "I have fun running a company and dreaming." It is now up to him to see how soon his dreams can follow his radical surgery. ■

# Dividends

## End of a Boycott

It was a strangely ideological protest that seemed to array impoverished Third World mothers and their babies against a multinational corporation. It went on for 6½ years, but last week it ended. Officials of Nestlé, the biggest supplier of infant formula, and the Infant Formula Action Coalition of Minneapolis, among others, agreed that the boycott of Nestlé products would be stopped if the Swiss company changed its marketing practices.

The boycotters complained that Nestlé's aggressive marketing of the formula contributed to poor health in less-developed nations by encouraging mothers to give up breast feeding. Illiteracy, plus lack of refrigeration and clean water, the protesters charged, caused widespread misuse of the products and resulted in poor diets and illness.

Nestlé says its sales were never measurably hurt by the boycott, which was well organized in ten countries. When the World Health Organization set guidelines for the marketing of formula in 1981, Nestlé endorsed them.

The beginning of the end for the protest came in December during a chance meeting between Niels Christiansen, Nestlé's director of research, and Douglas Johnson, head of the principal boycott group, on a Philadelphia–New York train. They concluded that their differences were slight. In the final agreement, Nestlé promised to promote breast feeding as superior to formula and to warn of the hazards of misuse on graphic labels that can be understood by people who cannot read.


## Coors *vs.* Corr's

When Robert Corr of Chicago began making natural-flavor sodas in 1978, he decided that his family name would have a familiar ring to Windy City buyers. His great-uncle Frank was a mayor of Chicago in the 1930s and founder of a football team called the Corr Flashes. But by putting the trademark Corr's on bottles and cans, the soda maker uncapped the rivalry of another proud name: Coors.

The Golden, Colo., brewer showed little concern about the sound-alike name until last year, when Corr's started showing up in grocery stores in 50 states. The beer company sued in a Denver federal court, demanding that Corr's change its name. Coors claimed that the tiny soda maker was trying to trade on the brewer's identity. As evidence, it cited one of Corr's slogans, "Made with pure Rocky Mountain water," which barely differs from the beer company's famous motto.

When the two sides met in court last week, Judge Sherman Finesilver asked them to try to work it out themselves. But the talks may resemble a family feud. Said Corr: "This is a basic principle, and I'm prepared to fight for it."

## Expensive Divorce

The breakup of American Telephone & Telegraph into eight pieces on Jan. 1 was more than history's largest divestiture. It was also the most expensive: A T & T calculates that it cost $1.23 billion. That includes the salaries of 10,000 people involved in the breakup, the cost of new letterheads, signs and trucks, and advertising to get the word out. Last week the bill showed up in the company's earnings report for the fourth quarter of 1983, the last for the Bell System as an entity.

So did an even bigger cost: $5.5 billion, mostly for write-offs on aging telephone equipment that was returned to A T & T by the old Bell operating companies. As a result, A T & T had a quarterly loss of $4.9 billion, the biggest ever for a U.S. corporation. Bethlehem Steel had the former record: it lost $1.15 billion in three months during 1982.

A T & T Chairman Charles Brown said investors need not worry: "The results are not predictive of future earnings performance of A T & T and the Bell companies." Analysts noted, however, that A T & T's income from operations before the write-off was down 17.8% from the 1982 total, disappointing for a year in which economic recovery should have shown up more on A T & T's bottom line.