

What Ever Happened to...

Power Without Price? The Atari Story

BY STAN VEIT



On January 5, 1985, Jack Tramiel was having one of the most enjoyable days of his life. At COMDEX in Las Vegas,

he was standing in the Atari exhibit which had been roped off and covered with cloths. The Atari exhibit was the only part of COMDEX that was not yet open on the first day of the show. It was awaiting the arrival of the governor of Nevada, who would formally open the exhibit by cutting a ribbon and allowing the show attendees to see the long-awaited Atari 520ST, a new 68000-based computer with the GEM graphical user interface.

The Atari 520ST was reputed to do everything the Macintosh could do and then some, and for half the price. In fact, it was referred to by the press as "The Jackintosh." The Atari 520ST included color, MIDI sound, and the GEM GUI. The new computer was the rave of the show, and the Tramiel family and their loyal retainers, who had left Commodore when Jack resigned, basked in the glory.

WHEN PONG WENT PING

The Atari company, founded by Nolan Bushnell (the inventor of Pong), had grown to become the largest manufacturer of video games and was later sold to Warner Communications. Sales hit \$2 billion in 1982, but then plunged to less than \$1 billion in 1983 as the public turned to home computers instead of video games.

This decline represented a \$580 million net loss to Warner. Steven J. Ross, Warner's chairman and CEO, wanted to unload the business, which he now felt was a drag on Warner and not compatible with the rest of his company. However, it was not easy to find a buyer who was both able to rescue Atari and willing to take on the job.

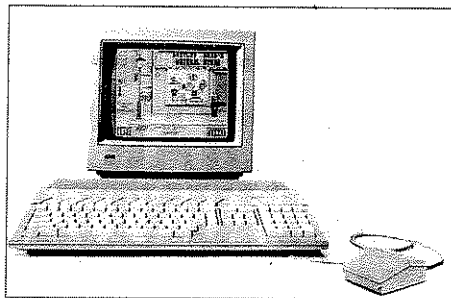
Tramiel had started Commodore Business Machines, presided over its growth, and now wanted to bring his sons into the top management of the company. In this, he was opposed by Irving Gould, who had rescued Commodore from bankruptcy in the lean years and who was, at the time, the chairman of the board and

principal stockholder.

Although Gould seldom interfered in Tramiel's direct operation of the company, he strongly felt that Commodore needed more experienced business direction, and he opposed the creation of a Tramiel dynasty. The arguments resulting from Gould's opposition led directly to Tramiel's resignation from the company.

PRESIDENT OF THE MONTH CLUB

Within a short time, many of the people responsible for Commodore's success followed their leader, as the culture of the company changed under the direction of the new management. For a long time,



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Commodore was said to have "The President of The Month Club."

When Tramiel left, Steven Ross saw an opportunity. What better person could purchase Atari than Jack Tramiel, whose success with low-cost, home computers was partly responsible for the decline in simple video games?

After leaving Commodore, Tramiel took time out to travel around the world with his wife. Upon his return, he and his sons formed a new company, Tramiel Technology Limited (TTL), with the stated intention of developing new electronic products. Steven Ross approached Tramiel with the idea of taking over Atari and they entered into negotiations. By the beginning of July 1984, Tramiel Technologies and Warner Communications became shareholders in each other's companies and TTL bought Atari.

ATARI FOR A SONG

Tramiel got most of Atari's assets for only \$240 million in notes at a reported very low rate of interest. To give Tramiel time to reorganize Atari, interest payments were not due to start until 1985. Wall Street viewed the deal as Warner selling Atari to Tramiel and loaning him the money to buy it! In addition, Jack got 5-year warrants for 1 million shares of Warner stock, executable at \$22 per share, the market price of Warner when the deal was made.

With the Atari drain removed from Warner, its stock price would rise and Tramiel's profits would further sweeten the deal. In return, Warner got warrants for 14.3 million shares of TTL stock representing over 30 percent of TTL. Warner also agreed to assume obligations for past Atari debts. It was a sensational deal for Tramiel and the end of a costly adventure for Warner. All Tramiel had to do was make Atari into a profitable business once again.

CLEARING THE DECKS

He wasted no time and flew to California to take over the bloated Atari organization and reshape it. Tramiel installed his sons at the helm and set to work to cut away the fat and dead wood.

In one month, they reduced the staff from over 5,000 to 1,500. Atari occupied 40 buildings. Tramiel canceled leases, cut the number of buildings to seven, and turned a profit by selling the furniture that filled them.

The warehouses at Atari were packed with over

100,000 8-bit computers that Atari built but couldn't sell. It was 1985, and 8-bit computers were considered very obsolete, as the 16-bit IBM PC and the Apple Macintosh were far more popular. Tramiel believed that everything would sell at the right price.

Atari went on an ambitious project to find the best price at which the Atari 8-bit machines would move out of the warehouse. Since Tramiel had paid only \$80 each for them—a fraction of their original cost—he could afford to sharply cut the price. Moving them out was not difficult. The new Atari team managed to clear the decks for the next generation of computers.

Commodore was suffering from the loss of key people who had left with Tramiel, as well as by the Atari price-cutting. It quickly filed a lawsuit charging Tramiel and his associates with taking valuable designs and information when they left Commodore. Tramiel immediately retaliated

with a \$100 million lawsuit against Commodore.

The suit charged that Atari had a previous understanding to purchase the Lorraine Amiga Company because Atari had lent it money to develop the Amiga Computer. Jack charged that Commodore snatched Amiga from Atari by offering a better deal. This suit was without much merit, however: The events happened before Tramiel took over Atari and Warner had never pursued its claim. Nonetheless, the countersuit did serve to discourage Commodore from continuing its action against Tramiel and his team.

COOKING UP A NEW DESIGN

While all these legal maneuvers were underway, the new Atari crew was working on a design that would outdo both the Amiga and the Macintosh and undersell them by 50 percent. The result was the Atari 520ST. This computer, without the monitor, was priced under \$1,000, incredibly low for a 0.5Mb computer. This gave rise to the motto that Atari used to identify the company: "Power Without the Price."

If price and capability were the only criteria for computer business success, Atari would have become one of the giants of the industry. Instead, it managed to make management decisions that, in the long run, proved to be unwise. It was said that Atari managed "to snatch defeat from the jaws of victory."

At the time of the Tramiel takeover of Atari, there were many computer dealers who specialized in Atari computers. There was also a sizable user community; dealers and owners of Atari computers must be counted among the most loyal of all families of computer users, being almost fanatical in their allegiance.

The Atari Forums on CompuServe led by Ron Luks were among the largest groups of organized computer users. All of these, plus a large contingent of Apple II and Commodore users who had been priced out of the ability to upgrade to 16-bit graphics machines, looked forward to buying the Atari 520ST, and represented a huge potential market.

Some of the best graphics software was being written for the Atari 8-bit machines, and developers were more than anxious to write for the new Atari 520ST. The potential market seemed almost unlimited.

HOW ATARI DROPPED THE BALL

In retrospect, it is hard to understand some of the counter-productive management decisions made by Atari, even though they might have seemed correct at that time. Today, it is axiomatic that new computers

must be put into the hands of software developers as soon as possible; companies like Apple employ evangelists to encourage this.

Atari, on the other hand, made it as difficult as possible for software developers to get into the 520ST software game. Atari initially charged them up to \$5,000 for a Software Development Kit consisting of a computer and some manuals. Since in the initial stages there would not be many computer users to buy the software, the developers would be unable to recover their large investment for a long time. This discouraged many software developers from writing for the Atari ST.

Wynn Rostek, writing in *Computer Shopper* in October 1985, described how Atari had made another bad decision: It squeezed out the loyal, existing Atari dealers and decided to distribute the new computers through manufacturers' representatives who had to qualify as new dealers.

This policy eliminated many dealers who had supported Atari in hard times. As the dealers dropped away to sell other lines, Atari turned to the mass merchandisers and discount mail-order houses. This further antagonized the dealers who remained and did little to bolster sales. Atari then went back and tried to recruit a new dealer organization. The company kept bouncing back and forth between mass merchants and specialty dealers until neither wanted to do business with Atari.

BOUNCING CHIP DISASTER

There were also severe quality-control problems with the early machines. Due to poor packaging and long shipping routes, the chips in the computer tended to become loose and the computers would not work. The failure rate in the first few shipments was almost 50 percent. This was not serious in the case of experienced dealers who burned in their computers before selling them, but with mass merchandisers who sold sealed boxes, it was a disaster. It took strict application of quality control to cure the problem.

The second computer Atari made was the Atari 1040ST with a full megabyte of RAM and a built-in single floppy drive. The older 520ST did not have room for internal drives, but could support two external floppies. It also had a port for an external hard drive. Provisions to support two floppies and an external hard drive were built into the TOS operating system from the beginning of the first 520ST.

One problem with adding hard drives to the Atari ST machines was the non-standard interface known as the Atari Computer

Systems Interface (ACSI), which was a modified SCSI-type interface. Third-party vendors enabled users to get around this when they developed boards that converted ACSI to standard SCSI and allowed any SCSI hard drive to be used with an Atari ST.

DROPPING FROM SIGHT

Since 1985, when the Atari ST line was introduced, the Intel-powered MS-DOS computers and the Apple Macintosh have com-



BUILT AROUND THE GEM GRAPHICAL INTERFACE, THE ATARI WAS CAPABLE OF FAIRLY SOPHISTICATED DESKTOP PUBLISHING.

pletely dominated the industry in the U.S. Commodore's Amiga ran a poor third, and the presence of Atari's ST and Mega was hardly felt except among the most loyal fans.

Apple, IBM, Compaq, and countless clone manufacturers spent millions of dollars on advertising. Commodore advertised in spurts when a new president took over, but Atari spent hardly anything. Even when the company did advertise, it used Atari magazines, and thus was preaching to the converted. With few dealers and no ads in general computer magazines, Atari gained few new buyers. Its answer to declining sales was always to cut prices. However, with the huge growth of the AT-clone market, it could never match the features and prices offered by the clone manufacturers.

Since the population of Atari ST and STE and Mega ST and STE computers was small, and the operating system was unique, there was no incentive for standard software developers to offer Atari versions of popular software. Only the game-software developers featured Atari versions. There were, however, some excellent Atari software systems that did offer users some excellent programs, but little choice.

LOOKING OVERSEAS

The more Atari's business declined in the United States, the more Atari turned to overseas sales. In Europe, the situation was completely different. There were fewer distributors and they tended to specialize in one type of computer and one country.

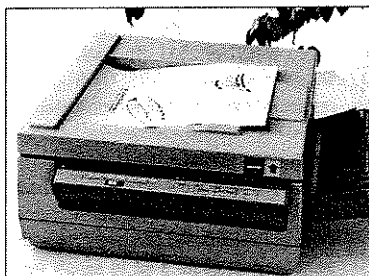
The prices for machines and software in Europe were also higher, and Tramiel directed most of Atari's production and marketing efforts into European sales and development. The machines proved very popular and sold very well. Soon, all of Atari's production and support was devoted to Europe, and the U.S. market declined even further. To this day, 85 percent of Atari's income is derived from outside North America. This foreign success was achieved at the expense of the North American market, and has caused a lot of resentment among domestic users and dealers.

Basically, Atari did very little development work on new computers and very few updates to the TOS operating system. Atari did come out with machines like the portable laptop Stacy and The 68030 TT line, but very few machines became available in the U.S.

MOVING TO THE HAND-HELD ARENA

Atari must be credited with marketing one of the first practical palmtop computers. The Atari Portfolio has an excellent keyboard and a good display. It comes with five built-in applications, a PC card drive for uploading and downloading files to a desktop PC, and 128K of RAM.

Originally, the Portfolio sold for about \$500—much less than competing palmtops—and was well received. Again, howev-



THE LASER PRINTER INCLUDED WITH AN ATARI DESKTOP PUBLISHING SYSTEM WAS NO MATCH FOR THE MORE POWERFUL LASERS ON THE MARKET.

er, Atari failed to come out with new models featuring provisions for expanded memory or the new standard flash cards for application software. Instead of offering upgraded models with increased MS-DOS compatibility and new features, Atari lowered the price. Moreover, as new palmtops come on to the market at competitive prices, the sales of Portfolio will continue to decrease.

BACK TO COURT

Atari's most glaring failure recently took place in the courts rather than in the

stores. In a \$150 million lawsuit, Atari sued Nintendo for domination of the industry, charging Nintendo with being a monopoly and operating in restraint of trade. Here was a setting for the biggest Atari potential victory since it introduced the 520ST.

There was little doubt that Nintendo had a near monopoly of video game machines. Nintendo's software policies were very exclusionary and had managed to edge out Atari's share of the business. In addition, here was an American company suing a Japanese one in a U.S. court. To make matters worse for Nintendo, there was a strong bias against Japanese business practices. It looked like Atari's case was guaranteed and a \$150 million victory would revive the faltering company.

The trial was a long one. Nintendo admitted it dominated the market and was a monopoly. However, its defense was that it had not acted in restraint of trade: Nintendo simply provided a better product. In addition, Nintendo claimed that the many negative business decisions Atari had made cost it its position in the industry. Nintendo was not to blame for Atari's problems—Atari was.

In the end, Nintendo was able to prove its claims and Atari lost the case. Not only did Atari fail to receive \$150 million in damages, but it also had to pay the costs incurred in defending its case. Ultimately, this could amount to an additional \$1 million, on top of Atari's own legal costs.

HOPE ON THE HORIZON

Things look very bleak for Atari. The loss of the Nintendo lawsuit and decrease in its European business has hurt the company. The large PC manufacturers are building clones abroad and prices are falling. However, Atari has not given up. It may have one more chance.

Atari is reputed to be working on new machines, which, it is said, will feature 68030 CPUs, more memory, and standard SCSI interfaces. It is rumored that one of these machines will offer all these features at a price of about \$700. This will compete with the lower-priced Macintosh computers and should attract a lot of attention.

The rumors also claim that the second machine will be a fast 68040 machine with a large complement of memory and standard SCSI interfaces. With these new computers selling at traditionally low Atari prices, the wounded company could get back into the business. It may be Atari's last hurrah. ▼

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