

ASHTON-TATE: A HIGH HURDLE FOR A FRONT-RUNNER

IT MUST CREATE SOFTWARE FOR A NEW GENERATION OF PERSONAL COMPUTERS BEFORE RIVALS GRAB THE MARKET



ESBER AND FOLK: SOME CRITICS SAY ASHTON-TATE HAS GROWN TOO BIG TO BE FLEXIBLE

You would think things couldn't be better for Ashton-Tate Corp. Chairman Edward M. Esber Jr. At 34, he heads the world's third-largest personal computer software company. Its sales are expected to grow 80% this year, to more than \$200 million. Its 13% net profit margin has elated Wall Street. So why are such longtime fans of the company as Rick G. Sherlund, an analyst at Goldman Sachs & Co., saying things like, "I have reservations about Ashton-Tate's long-term market position"?

The reason is a new generation of personal computers driven by Intel Corp.'s most advanced microprocessor, the 80386. By 1990, experts believe, 386-based machines will start supplanting minicomputers as the heart of departmental systems whose central task is data-base management—retrieving and arranging information stored in big data banks. Compaq Computer Corp. brought out a 386 machine last fall, and International Business Machines Corp. plans one as well.

That's where Ashton-Tate comes in. The Torrance (Calif.) company gets 60% of its sales from the dBase series of data-base programs for personal computers. But the 386 machines will require a new generation of more sophisticated data-base software. The result: new chances for competitors to challenge Ashton-Tate's best products. "People are coming at them from all directions," says William H. Gates III, chairman of rival Microsoft Corp.

In short order, Esber's original team turned a little startup into a grown-up company. But part of the price is that "they're not aggressive, fast, and flexible enough anymore," declares C. Wayne Ratliff, the inventor of dBase. Ratliff quit as Ashton-Tate's vice-president for new technology a year ago and is now being sued by the company for alleged misappropriation of trade secrets.

FROM SCRATCH. Ashton-Tate will need flexibility—and a lot of creative programming—to keep its rivals at bay. Even its executives concede that developing software for the 386 will be tough. The company's new programs will have to be designed from scratch, because dBase's basic structure isn't powerful enough to handle the complex processing the new machines allow. With the 80386, for example, several managers will be able to work simultaneously with the same files.

Worse yet, several companies are closer to such a product than Ashton-Tate. Both Relational Technology Inc. in Alameda, Calif., and Oracle Systems Corp. in Belmont, Calif., have announced personal computer versions of their data-base programs for minicomputers. Unlike Ashton-Tate, these companies are experienced in catering to data processing managers who buy big computer systems. And since their existing programs were designed originally for more powerful machines, they have a head start on adapting them for the 386 machines. "If [Ashton-Tate] can do in one year what we did in nine, they deserve [to take] our business," says Oracle President Lawrence J. Ellison.

Add to the list of Esber's problems Lotus Development Corp. and Microsoft, the No. 1 and No. 2 personal computer software companies. "They are certainly formidable, and we don't take them lightly," says Executive Vice-President Roy E. Folk. Neither company sells data-base software now, but both are developing it. In fact, Lotus founder Mitchell D. Kapor heads its design team.

Esber concedes that the new technology opens opportunities for new competitors. "But PC users are loyal, and we're not asleep," he says. Indeed, Montgomery Securities software analyst William H. Shattuck figures that Ashton-Tate will probably spend about \$7 million this year on development of the new-generation software, due in about 18 months. Folk doesn't rule out buying a minicomputer software company to speed the process.

MARKET SAVVY. Ashton-Tate has other edges. The several generations of dBase it has introduced since 1981 have set the industry standard. According to analysts, dBase sales are running 68% ahead of last year, and the total market is only 30% penetrated. So even if Ashton-Tate has trouble perfecting its new program, it will still have a sound business: The current generation of personal computers is expected to remain a big market. Moreover, the company is becoming a major player in other types of software, such as word processing and graphics.

It's also true that many companies may have a hard time matching Ashton-Tate's well-established marketing, distribution, and personal computer software acumen. And the anticipated delay until 1988 of new operating systems for the 386 computer—the basic software the machine needs before it can make any use of faster data-base programs—should give Ashton-Tate an opening to develop an advanced product.

Still, the cost of failure would be higher for Ashton-Tate than for any other maker of personal computer software. If Esber can't meet the 386 challenge, it's unlikely that he'll ever reach his goal of making Ashton-Tate No. 1.

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