

Shenanigans in the market place

Anthony Sampson

Big Blue: IBM's Use and Abuse of Power. By Richard Thomas DeLamarter. *Dodd, Mead & Co., New York/Macmillan, London: 1986/1987. Pp.393. \$18.95, £14.95.*

"How worried are you about the Japanese competition?", I asked a director of the British General Electric Company recently. "I'm not worried by Japan or any other country", he replied, "I'm only worried about IBM". It summed up the fear that many industrialists have about the computer giant — that it is now above the control of nations and can fortify itself to maintain a permanent semi-monopoly in the most critical industry of all.

How real is that bogey? Richard DeLamarter can present an authoritative and detailed view: for eight years he was a senior economist working for the Antitrust Division of the Department of Justice in Washington on their mammoth case against IBM — until President Reagan's new antitrust chief William Baxter abruptly dropped the case in 1982. DeLamarter was exasperated by the decision, convinced that IBM was exploiting its dominant position in computers against the national interest. "It is perilous", he says, "to trust a single company with such power". *Big Blue* is his own attempt to prove what the Antitrust Division were prevented from establishing.

It is a conscientious book, austerely and stiffly written, with little characterization or narrative drama and a good deal of repetition. But it provides unique evidence of how a giant multinational can exclude competitors in a fast-changing industry; and it bears the stamp of a professional investigator who has been exhaustive — even obsessive — in pursuit of his prey.

The most illuminating and vivid ingredients are the statements and memos, obtained through the antitrust case, from IBM's own executives and lawyers, as they strove to obliterate the competition while remaining legally correct. "Tell de Carlo" (an IBM memo instructed a marketing chief who was confronting rival manufacturers) "that we want him to blast anything and anybody out of his road who gets in the way of his accomplishing his mission." The IBM lawyers advised the use of much more circumspect language:

Avoid such phrases as 'containment of corporate threats' and substitute instead 'maintain position of leadership...'. Avoid references to the inexperience or naivete of IBM's customers or to their dependence on IBM.... Avoid implying that you might suppress technical

improvements unless competition forces your hand.

The lawyers' anxieties gave the clearest indication of what was going on. Behind the statesmanlike images of the great multinational — its dedication to progress, its concern to be a good citizen, its 'class act', as the author calls it — we have insights into the real and ruthless priority on which it had depended for its wealth: the destruction of competition wherever it emerged.

DeLamarter painstakingly records the means by which IBM has maintained its remarkable domination since its foundation in 1924. It was controlled by Thomas Watson Senior, who had already had his own searing experience of antitrust law.

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He had been a master-salesman for the National Cash Register company which had pioneered both cash registers and price discrimination to eliminate competitors; and in 1912 he was one of the first people to be convicted of restraint of trade under the new antitrust laws, after which he was fired from NCR. Watson was thus well suited to direct the new rival, IBM, which soon overtook NCR. By 1932 IBM had 85 per cent of the tabulating market, and it was sued by the antitrust division in the first weeks of Roosevelt's administration.

Computers provided far bigger scope, and a greater need to eliminate the competition. The author insists that IBM's own technology was frequently mediocre compared to that of its rivals, particularly when it hastily unveiled the 360 series mainframe computers in 1964. "Because we've been operating in a fortunate position all through our technological history compared with our competition", said Thomas Watson Junior, the son of the founder who also became the boss, "we have been able to generally take safe, conservative steps, and our percentage of wins has been exceedingly high". The 360 series was rushed to the market to forestall more enterprising innovators including Honeywell and Control Data. Once customers had installed the computers, they could be 'locked in' with software and interfaces which excluded competitors' products.

IBM steadfastly rejected the kind of standardization that would enable customers to connect up with other machines, and used its high profits periodically to

bring down prices in areas threatened by competitors. It might seem no more serious than Gillette's old trick of selling very cheap razors in order to commit shavers to their blades. But the IBM systems dominated a major industry, and the monopoly has (claims the author) "effectively frozen the commercial structure of the technically dynamic computer market".

This book provides a formidable indictment of IBM. Tantalizingly, however, it stops short in 1985, and most of the evidence comes from before 1982 when the antitrust case was dropped. To be fair, it was published last year in the United States; but the scant attention paid to the arrival of the personal computer in 1982 is disappointing, because the PC provides a critical new field of expansion in which to study IBM's behaviour. In some ways this story fits in with the author's thesis: the personal computer was first developed by the upstart Apple company, and IBM was compelled to set up an entirely new division to counterattack swiftly with its own PC. Apple then devised its new version, the Macintosh, and IBM have recently counterattacked again by announcing a new range with a new operating system which, in the usual IBM style, seems to be designed eventually to prevent rivals from being compatible with it.

It is doubtful whether IBM will be able to dominate the fast-growing area of personal computers as effectively as it has dominated the rest of the industry, and already its profits have taken a serious knock. But the real contest of the future, as DeLamarter suggests, is likely to be in the area of global communications systems, where IBM is competing with the giant telephone company AT&T as well as with other computer makers. Indeed, there are some signs that foreign competition, particularly from Japan, may be bringing an end to the fat years of IBM's monopoly: and the closer the computer becomes involved with global telecommunications, the more IBM will come up against constraints imposed by national governments. But this book reveals all the determination and ingenuity that IBM can mobilize in defending and extending its territory. Anyone who reads it will understand why those initials can conjure up such dread among the company's would-be competitors. □

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