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PROFILES

EXCLUSIVE ANTIC INTERVIEW

JAMES MORGAN

Atari Chairman and C.E.O.

by JAMES CAPPARELL ANTIC publisher

"For someone to walk out of this industry now would be crazy. What it takes is imagination and guts."

The year 1983 was a dramatic one for Atari, Inc. After a meteoric rise through the late 1970's, interest in video gaming peaked and began to plummet. The growth of the company, once fueled by seemingly endles profits, soared beyond the support of sales. Quarterly losses of many millions of dollars began to be posted.

Atari had to economize. Assembly line workers were laid off and computer manufacturing was moved to Hong Kong. The crisis deepened,

and white collar workers, too, began to feel the pinch. In one year, Atari cut its work-force almost in half, and it is still pruning selected branches from its organizational tree.

In the late summer of 1983, Warner Communications, Warner Communications, Atair's parent corporation, announced that Atari Chairman Raymond Kassar would step down, and be replaced by James J. Morgan, 41, then a vice president of Philip morris, Inc.

Morgan, a Princeton graduate (cum laude in American history), had worked for Philip Morris all of his professional life. He joined that company in 1963 in the advertising department, and rose steadily through the marketing ranks. Parliament, Virginia Slims and Marlboro cigarettes have all been products under his direct management.

Last September, James Morgan arrived at Atari to take over as Chairman and Chief Executive Officer. His job, clearly, is to turn the company around, to chart the proper course in an industry that doesn't seem to know where it is going. His position is enviable, he says, because Atari's woes were caused by others, and he has no ego investment in past decisions. But the judgnient of the future will be upon him soon enough.

Can a marketing manager from the East with a liberal arts background successfully guide this promising but troubled western computer company? Our interest is more than casual. The following interview was conducted last Thanksgiving by ANTIC Publisher James Capparell in Morgan's Sunnyvale office.

Antic: At the Consumer Electronics Show in January, 1984, will you be showing any new products?

Morgan: First of all, let me tell you that Atari will introduce new products in 1984. However, you won't see them at this CES because we are not yet ready to ship those products.

For your background, Atari has decided as a matter of policy that we will not show new products anywhere unless we can ship them almost immediately. This industry, including Atari, has shown products in the past and then delayed shipments or cancelled the products altogether. That operating style does not build credibility with retailers, with customers, or with the media, so Atari won't have any part of it.

Antic: What is your view of the current state of affairs at Atari?

Morgan: I see Atari as a company that has bottomed out, that is on its way back. It is on its way back in two respects: 1) sales are improving, 2) its ability to run its business in an intelligent manner is improving. Therefore, as Atari repositions itself in the home computer and video game businesses, it will do so as a much better-run company than before. The excesses of the past are getting purged out of the organization.

Antic: What are the excesses? Or what were the excesses?

Morgan: Spending. Atari spent money loosely, in a way that demonstrated that Atari felt that it could be everything to everybody, rather than be a well-focused company.

Antic: You've had the reins now since September of 1983. If you were to state the positive actions you've taken to correct what's happened in the past, what would you say they are?

Morgan: We are focusing on product strategy, making certain that we define what we do with our products. Also, we are getting a very talented and capable group of managers to work together, as opposed to merely existing in somewhat isolated surroundings with no coordination or communication. Third, we are applying tighter standards on how we spend our money and were making sure that the dollars we spend relate more closely to making our products better. On top of that, we're investing reasonably in the future within a defined strategic arena.

Antic: I'm glad you mentioned the future. What do you see as the future of Atari? And what is Atari's commitment to computing and computer products?

Morgan: Without a doubt, Atari is in the computer business to stay. There's no reason for us not to be. In my judgment, the home computer companies have not treated the consumers with the respect and consideration they deserve. The real issue is this: Which company will be the first to go to the American consumer with microprocessor technology that makes the consumer say, "Gee, I didn't know a computer could do that," and second, "I have to have one." So far (other than word processing, perhays), the computers offered to the public really do not do anything much easier than you can do by hand.

This industry is very challenging, and for someone to walk out of it right now, I think, would be crazy. The opportunity is too great. What it takes is imagination and guts.

Antic: Do you see a real need for a computer in the home, or for people to be computer literate?

Morgan: Well, if you want to do computation, a calculator is easier than a computer. If you want to type a letter, I suppose even today a typewriter is easier than a computer. Again, the balance of the responsibility shifts to the manufacturer to provide consumers with a machine or a device, which either makes life more entertaining, assists learning, makes life more efficient, or in some other way enhances life. To date, I don't believe anybody has really addressed that issue satisfactorily in terms of the home. Clearly, for the office there are superb pieces of equipment which accomplish great tasks, but in a home environment I'm not at all sure that anybody has come forth with the ultimate product, or anything that's even close to being the ultimate product. We, at Atari, are committed to that task.

Antic: Prior to your coming to Atari, had you brought a computer into your home?

Morgan: I had not purchased a home computer because I couldn't answer the question, "What will this do for me?" I had decided that there was really nothing that it could do for me, other than word processing. Since I'm a businessman and have a secretary, I don't really need word processing capability in the home?

As a parent, I might justify it on the basis that I would be terrified that my children would be left behind in society by not being computer literate. But that's not really an appropriate way to sell your product, nor is it an appropriate consideration from a consumer standpoint.

Antic: What`s Atari doing about it?

Morgan: We are focusing a substantial part of our resources on that issue. I believe that the computer keyboard is already an outdated and archaic device. Other than word processing, you don't really need it for anything. There have to be more appropriate and imaginative ways for the user to interface with this piece of equipment.

Antic: Can you name some?

Morgan: Well, clearly voice recognition is one. And beyond that there are various devices such as light pens, mice and other vehicles, but I'm hopeful that Atari will come up with other really unique ways.

Antic: Let's change the subject for a moment. Atari started as the premier company in video games and still has that image, somewhat - do you see the video game industry as having peaked?

Morgan: No, not at all. I see the video game industry going through the same kinds of phases that other forms of entertainment goes through from time to time. You know, we not only compete with other video game companies; we also compete against movies, we complete against television, we compete agaist roller skating rinks, we compete against miniature golf courses, we compete against magazines and novels. What we compete for is our share of the six hours a day that the consumer does not work or sleep.

Unless your product is constantly an entertainment crescendo, you tend to fall behind other forms of entertainment in terms of being exciting and new and different ... something that people would want to spend one or two hours a day with. I believe that the video game industry has tremendous oppertunity to rekindle the kind of involvement and excitement it had in its early days.

Antic: That's an interesting concept.

Morgan: Let's take it one step further. You know, in the middle 1970's movies were said to be on their last legs, and then "Star Wars" came along. Not only was "Star Wars" exciting as an individual movie, but it rekindled the American consumer's belief that it was appropriate to spend two to four hours a week at the movies, and all movies benefitted from it.

The same thing has happened in the record business, where all people could talk about was piracy and how records were on their way out. Then MTV came along as a new, creative medium by which people could listen to records. Now, record sales are booming because American teenagers have been reconditioned to spend time listening to music.

I believe that an analogy exists for the video game industry, and Atari

has a rightful role, almost a birthright, to be the company that goes to the American public with the next generation of games.

Antic: What are the reasons, as you perceive them, that people have purchased computers to date?

Morgan: Number one is fear of not having one. Number two is the novelty. Number three is that manufacturers have sold them at such palatable prices that you can hardly afford not to experiment with one. In some cases, the cost didn't represent much more of an investment than going out and getting a really terrific jar of wax for your car. Those reasons are transitory, though. Those are not permanent reasons why an industry should survive. I believe that it is incumbent on manufacturers to find real, tangible reasons why someone should consider a computer. Everybody talks about why someone should own one. I don't care about why people should own a computer; I care about why they should use it.

Antic: Would you describe Atari as a recreation-oriented company?

Morgan: I would say that Atari is a company that tries to enhance people's home lives through interactive electronics. That enhancement can take the form of straight entertainment, learning, or functional ease. In any event, that's my idea of Atari's business arena.

Antic: I know that Atari has spent a lot of money on R & D but I don't think that's been publicized -- to our readers, especially. Atari has hired some engineers and scientists who are excellent. Can you tell us anything about what they are doing, what they're up to?

Morgan: First of all, you're right about the high calibre of our R&D staff. The R & D group is headed by Dr. Ted Hoff, who invented the microprocessor that has made the home computer and the video game industries a reality. Our chief scientist is Dr. Alan Kay, who is generally considered the father of the home computer. Now, let me tell you about my philosophy on research and development. I believe that for every hundred dollars you spend on R & D, eighty of that hundred ought to be focused on your business, and the other twenty you spend as your top research people see fit. Good research people need the flexibility to chase down any idea, any scheme, even though only one out of ten or twenty of those ideas actually leads to a product. I'll tell you why we devote eighty out of every hundred dollars of R&D money to products related directly to our business. I believe it is important to understand that Atari exists at the will of the consumer. It's absolutely nonproductive to sell something just because you can make it, as opposed to selling something because someone wants it.

So, this research group, which is composed of absolutely outstanding individuals, is being refocused to look more closely at the consumer's wants and needs, not just at what technology can produce. The consumer is king, and no one understands that better than we do at Atari.

Antic: Is the games image something that hurts the company, do you feel?

Morgan: I believe that people have a built-in preconception of Atari as a games company. That, on one hand, hurts us a little in the computer

business because we're not taken terribly seriously, even though our computers are superior products that don't get the credit they deserve. On the other hand, if you're viewed as being excellent in something, it should have a positive impact on other parts of your business.

I believe that the Alan Alda commercials will be exceptionally valuable to this company in terms of having people come to understand that we are committed to the computer business, that we're committed to it in a way that's oriented toward the consumer. The products we come to the marketplace with will be consumer-related products that focus on doing something positive for the consumer.

Antic: Like word processing or home tax or ...

Morgan: Way beyond that. That's what I call standard stuff. That's taking numbers and words and rearranging them. That certainly has a place. But the kind of products I'm talking about go well beyond that in terms of imagination and creativity, usefulness, excitement, and really compelling relevance to the consumer's everyday life.

Antic: We've spoken about the game image, whether it's good or bad, but we haven't really used the term "education" at all. Do you see education as being a subset of, say, recreation or games?

Morgan: I don't like the word "education." I believe "education" stands for institution, which stands for mass curriculum. I prefer the word "learning." And I think Atari has an enormous role to play in the learning area. I question the degree to which Atari belongs in the big institutional education area. First of all, it's not an area where one can make a large profit. And secondly, the business procedures one finds in the institutiunal market are not terribly inviting. So I believe that what Atari has to do is stay extremely prominent in the learning area, and deal directly with the consumer in that area.

Antic: Prominent in the learning area in the home?

Morgan: Just in the learning area. Focused straight to the consumer.

Antic: That's an interesting distinction. Iots of people are throwing around the word "education."

Morgan: Education is what's done to you. Learning is what you do to yourself. There is, in my mind, a very big difference between the two.

Antic: Off the subject a little bit - what are your thoughts about software standardization, compatibility problems, etc. Do you have any?

Morgan: I have two thoughts, and they're somewhat conficting. On on hand, I think that people have to be pragmatists and realize that neither the consumer nor the distribution system will be able to support a multiplicity of non-compatible software lines. That issue has to be addressed, it has to be reconciled, and today's popular wisdom has it that IBM will be setting the standards for that.

On the other hand, if one accepts my belief that nobody has gone to the consumer yet with a really compelling presentation, I would suggest to

you that software compatibility is not that important. Because software compatibility assumes that the computer of the future will be the computer of today, i.e., a central processing unit where you just pump in your software and it runs it.

I'm not so sure I agree with that definition of what the computer of the future is going to be. I'm not sure that the computer of the future will in fact be a CPU off which everything's driven. It might well be, on the other hand, a series of semi-dedicated microprocessors which do specific tasks.

Now, let's say someone has a robot that can vacuum your house by starting at one corner, and it has sensors so it can get around and clean your entire house in an hour. If that's what its function is, it hardly matters whether that software is compatible or not; the vacuum is its own unit.

Antic: Do I hear you saying, between the lines, that Atari will attempt to identify the consumer market, address itself to that, and produce products that will, in fact, become a new standard, IBM notwithstanding.

Morgan: Standard might be too big a word. It might be the standard of what it does, but it might not do everything one wants. In order to do everything one wants, you might have to buy a series of products which cumulatively, or in aggregate, become the standard.

Antic: Have you thought about any nicknames for these products? I've often thought that as long as we called them "computer," we are stuck.

Morgan: Oh, I believe that. In fact, think of them as microprocessors. The critical issue in this business is: how does one take microprocessor technology and make it relevant to the consumer?

In the short term, we are selling every computer we can make. We cannot deliver all our orders, and I think that's because there is incredible recognition of the quality of the Atari computers. The Atan 800 might be, pound for pound,dollar for dollar, the best computer that's ever been built in this country. While the general public's not aware of that, there is great recognition regarding the quality of that computer.

Antic: And that's after three years, three and a half years; it still maintains that. What about the XL line of computers?

Morgan: The XL series is at least two to three years ahead ofwhat the average consumer is even aware that a computer can do. So it seems to me somewhat foolhardy to invest in "normal upgrades" of equipment, especially if you sincerely believe that the answer for the future is not necessarily another CPU with another keyboard and more memory.

I would rather take our resources and go further out and try to find for the computer or the microprocessor that same niche and that same quality that the Video Computer System (VCS) had when it was introduced in mid-1977.

When the VCS was introduced people sort of said, "What's this strange little machine?" It was way ahead of its time; then it caught on, and all of

a sudden everybody wanted one. I believe you can do the same thing with computers, and hopefully, sometime in 1985 or early 1986, Atari will come to the market with a product that people will have trouble figuring out. Is it a computer, or what? It will be there, and it will sell in limited quantities to a number of people who have the imagination to see what it's all about. Then, as time goes on, the market will come to it because Atari will have correctly forecasted what the microprocessor technology of the late 1980's is going to be like.

Antic: You're obviously not leaving the computer business and kissing your position good-bye. Atari has an excellent name.

Morgan: Well, having suffered all the pain, why would one pull away when the rest of the competition is abating! The level of competition is substantially less than it was six months ago, and less than it was a year ago.

Antic: What are your priorities at Atari?

Morgan: One, is to make a profit for the stockholders of Warner Communications. And number two is to do that by providing reliable, high quality, imaginative products to our customers.

Antic: What's the biggest problem you see affecting Atari's future?

Morgan: I would say the biggest problem is demonstrating in a reasonable time that the company is a healthy company; I'd like to stop all the funerals that are being held for it. Those funerals tend to upset Atari employees, upset Atari customers, upset Atari retailers. It makes life just that much more difficult. I would say that's the single biggest problem. At Atari, we're focusing our sights on th future.

Antic: We are just waiting for Atari to do what we've always expected it to do, on the product side.

Morgan: This company is poised to be a reliable creator and manufacturer of products that the consumer wants. That's the only essential question that faces this company. I believe that there's no-reason why this company can't do that. It has the people to it, it has the products to do it, and it also has the track record.

Its probIoms were not its products. Its problems were the strategies of its products, the timing of its products, and the way the products were marketed. It was not the technology of the products. Atari makes superb products.

Antic: What does Jim Morgan say about himself? Do you feel that you are getting up to speed personally and professionally in high-tech Slllcon Valley? Does this environment feel good to you?

Morgan: I'm the Iast person who shauld answer that. But, there is one thing I'd like to say, which is that the image of a high-tech, high-speed, incredibly complicated Silicon Valley is a vastly exaggerated phenomenon. While it's true that this is an industrious area - hard-working and fast-paced - the business issues that one deals with, are not special to this industry. The business issues in this industry are as

common as they are in many other industries, and in that sense I've been surprised because there was so much hullabaloo about Silicon Valley and the high-tech business.

I think it's important to remember that Atari is not a defense contractor, nor is, Atari an industrial, high-tech company. Atari is a consumer products company, and the same consumer who decides what kind of frozen vegetables he's going to buy, what kind of beer he's going to buy, and what kind of car he's going to buy, what kind of airline he's going to fly, is the same consumer making decisions on Atari products.

In fact, one of my major criticisms of this company and this industry in the past has been that it has moved too fast and been to much in love with the speed of getting things to market without paying enough attention to the strategy of the products that it's brought to market. Speed for speed's sake can be a very damaging thing, particularly when you remember it's the consumer who's making the ultimate decision.

Antic: If you wanted to leave Atari computer owners with a thought, what would it be, about the company and about its prospects for the future?

Morgan: Quite simply that Atari's in computer business, and it intends to stay in the business. Our commitment is to continue to build computers and/or semi-dedicated microprocessors of the highest quality with the greatest relevance to their everyday lives. And that if we can do that and satisfy them, then there is nothing but bright days ahead for both Atari and for our consumers.