STC Sees $20M Loss, 1,500 Staff Cut

By Larry King

In the latest blow to its efforts to compete in the IBM plug-compatible storage market, Storage Technology Corp. (STC) announced last week that it would report a loss of about $20 million in the third quarter of fiscal year 1984, instead of breaking even as it had hoped. The company also said it expected a loss in the fourth quarter.

In the first two quarters of this year, STC lost $5.4 million on revenues of $659.7 million. Coupled with the announcement of the expected third-quarter loss, STC, a vendor of large disk and tape drives, said it would lay off about 10 percent of its work force, 1,500 employees out of 15,681, worldwide. The cuts will come mostly among white-collar workers and are an attempt to cut "indirect overhead" by 20 percent, according to a statement issued by the Louisville, Colo., company. A spokesman said users' maintenance and service should not be affected.

The company also said the losses, which it said were caused by "competitive conditions," apparently will cause it to violate the terms of loan agreements it has made with several banks. A company spokesman declined to elaborate on the precise nature of the violations. He did say STC officials had begun meeting with bank representatives early last week to work out waivers of the terms. As a result, officials were unavailable for comment.

Conceivably, the banks could push STC into seeking Chapter 11 protection under the Federal Bankruptcy act and draw up a reorganization plan to pay off its creditors, according to one analyst, Martin Ressinger, vice president of Duff and Phelps Inc. in Chicago. He said, however, that the banks would be more likely to feel that STC would have a better chance of repaying the loans if waivers were granted and the company allowed to operate unimpeded.

STC's chairman and chief executive, Jesse Aweida, said in a statement that the firm's difficulties were due to "competitive conditions and price cutting in our industry." He also said users who were buying newer disk drive systems from the company had traded in more older equipment than the company expected, cutting into its profit margins on the new machinery.

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STC Net Dips After IBM 3380 Price Cuts

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Specifically, STC was forced to cut price of its IBM 3380 compatible 8380s by 10 percent last month after IBM cut 10 percent off the 3380 price (see *ISN*, Sept 10). The new price of the 8380, $335,695, is less than 2 percent lower than the 3380 price of $342,370; STC said the company tries to maintain prices about 15-percent lower than IBM.

The company's most immediate problem, a spokesman said, is that it has lagged behind IBM in volume shipments of the latest generation of disk drive systems. STC did not begin volume shipments of its 8380 disk drive until November of 1983, more than a year after IBM began shipping its comparable product, the 3380.

"We've just reached peak production of the 8380," the spokesman said. "IBM has been there for a year or a year and a half."

Analyst Ressinger said that while IBM's actions obviously hurt STC, he did not think they were evidence of any concerted attempt to drive plug-compatible vendors out of the market. Rather, he said, IBM was trying to expand the market for its own disk drives.

That market, he said, is "price-elastic"—all other things being equal, users will buy the least expensive drive. By the same token, if new models are too expensive, users will keep older models longer.

Therefore, IBM must cut prices to sell to more users. "It's not aimed at STC," Ressinger said. "Of course, [STC must] cut prices, too, and their prices are already lower, so that's probably going to cut into their margin. But that's not IBM's problem."

And for STC, there have been a series of other problems besides keeping up with IBM's pricing. An earlier disk drive, the dual-density 8650, was plagued by head crashes resulting from changes in the disk surface, leading STC to spend $17 million in the fourth quarter of 1982 to make field repairs to the drives.

Not long afterward, the company took a $2 million write-down when it abandoned a project to develop an 8370 drive compatible with IBM's 3370. A year later, the company gave up on a project to build and market an IBM plug-compatible mainframe computer that would have competed with the high end of the IBM 4300 and the low end of the 308X systems.

Dropping the project cost STC at least $14 million (see *ISN*, Feb. 6). It also led to lawsuits by investors in the limited partnerships STC had formed to finance the mainframe development. One group of investors filed suit for $50 million; another for $10 million (see *ISN*, April 2). The suits are still pending.

STC's 8380, was not the only competitive product that was slow in getting to market. Late last month, one of those vendors, Control Data Corp. of Minneapolis, announced it was getting out of the plug-compatible market altogether, saying it could not sell its 33800 drive in sufficient volume to compete (see related story, Page 36).

STC's problem, according to its spokesman, was not that it was selling too few drives but that it was costing it too much to make those it was selling. High production costs, coupled with the IBM price cut and STC's matching cut have led to lower profits, he said.

The layoffs were the first step toward reducing STC's overhead, the spokesman said, adding that no further staff cuts were planned. Field service and sales personnel would not be affected, STC said, so users should see no effect on service and maintenance because of the lay-offs.

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