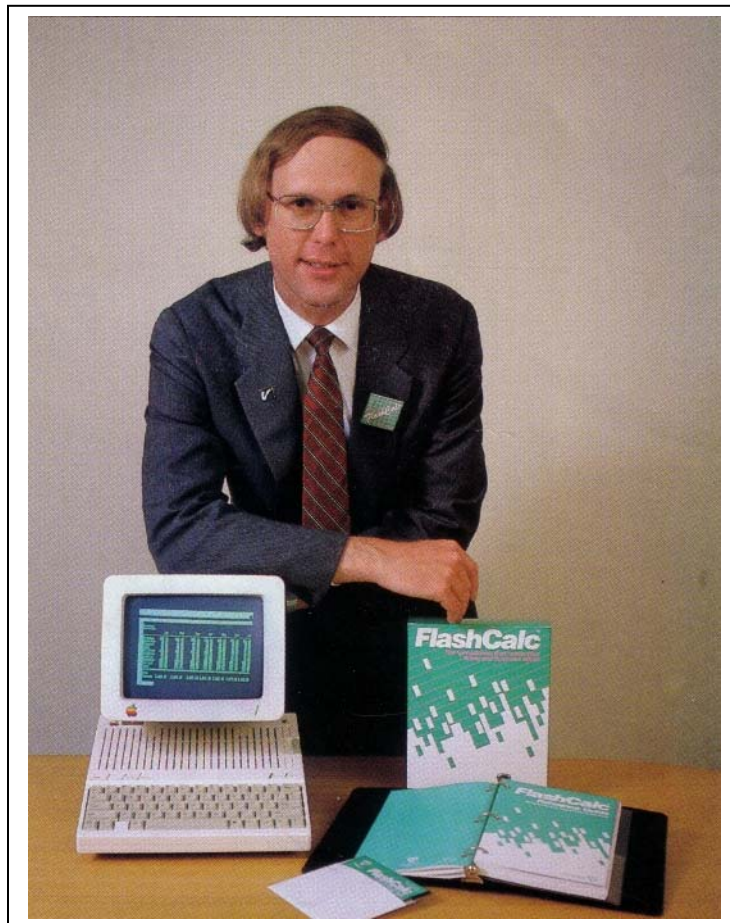


EXCLUSIVE:
**CAN VISICORP
COME BACK?**

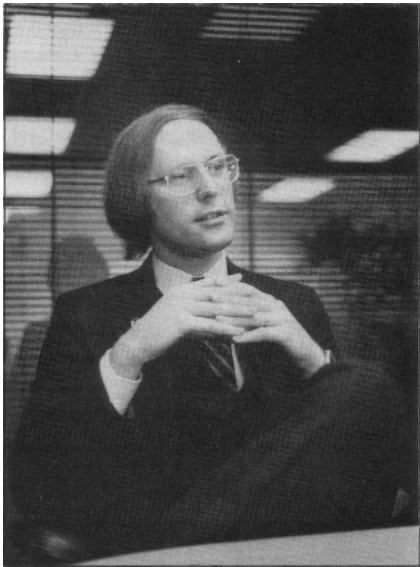


**It's been a rough year for Dan Fylstra, founder and chairman of VisiCorp
in San Jose California**

CAN VISICORP COME BACK?

Company regroups after corporate version of the Civil War

BY DENISE CARUSO *Reporter*



Dan Fylstra, cofounder and chairman of VisiCorp, sits waiting for his chicken teriyaki at Theo's, a quiet and elegant restaurant in Palo Alto, California. Theo's is frequented by the more well-to-do of the Silicon Valley set. Passing by, someone says with a chuckle, "Hey Dan, how ya doin' ? Been reading about you in the papers!"

Fylstra grimaces. "I wouldn't wish these past six months on anyone," he says. "It's been really difficult on me, personally, as well as the company. People stop and say things like that all the time."

VisiCorp, the San Jose, California, company credited with starting the micro-computer software industry in 1978 with its introduction of a spreadsheet

program called VisiCalc, has been suffering for more than a year. Sales of VisiCalc began to drop sharply in June 1983, putting the company in the red by year's end, for the first time since 1979. A nasty legal imbroglio with Software Arts, the company that developed VisiCalc, slowed sales even more and has preoccupied Fylstra and other company managers, diverting their time from management of the company. And buyer acceptance of Visi On, the company's groundbreaking integrated applications environment, has been slower than the company had hoped.

When, in late May, the company had a "reduction in force" (the oft-used euphemism for laying off employees a company can no longer afford to keep), rumors that began circulating months earlier — of bankruptcy, acquisition, raiding by headhunters, even money funneled to Swiss bank accounts — increased exponentially in intensity. Within upper management, the rumors enhanced an already established dislike for opening up to the press about the company's operations. "We were talking, but it was all reactive," says Fylstra. "Over and over and over we would get a call on the day of somebody's deadline and they'd say, 'I heard thus and so and I want to get your comments before I close the story in the next three hours.' There wasn't much we could do."

There was, however, something the company could do and is doing about remedying its problems. VisiCorp is not yet VisiCorpse, say some industry analysts. The betting within industry circles is that VisiCorp has a clear shot at not only surviving as a company, but also at making a comeback as an industry leader.

The consensus is that VisiCorp is making some very smart moves. The company's former mainstay product line, the VisiSeries, has been repriced and repositioned. The Visi On Applications Manager, three Visi On applications, and the mouse have been bundled at a temporary package price. And VisiCorp has introduced a new spreadsheet pro-gram — FlashCalc — for home and casual business users, finally demonstrating to observers that it's not willing to leave its future in the hands of the courts.

More important, perhaps, are some further moves the company has up its sleeve, moves that should overcome some of the most virulent objections to Visi On and make the entry price of the system more affordable to new customers. Over the next few months, VisiCorp plans to make a floppy disk version of Visi On available, to start bundling the Visi On Applications Manager with single applications, and to open a "window" within Visi On to MS-DOS, so that customers can continue to use their existing applications within the system (though not concurrently).

"They've stopped beating their wife!" says analyst Esther Dyson, publisher of RElease 1.0, an industry newsletter. Dyson says she's followed the fortunes of VisiCorp since 1979, when the first orders for VisiCalc were being shipped. "They're pulling up their socks and taking some steps that are emotionally tough to do, but make a great deal of sense."

Among those things, says Dyson, is the "quick and dirty" approach the company is taking with Visi On, which was the first windowing applications manager announced and, until recently, the only one actually being shipped. (DesQ, from Quarterdeck Office Systems, began shipping in April.) A short-term promotion cut the price of the whole Visi On system from more than \$1,000 to \$795.

"The aim right now is just to sell the stuff," says Dyson. "Even though Visi On has more capabilities than [other, similar products announced recently], sometimes you have to position a product more clearly and less dramatically just to get people to buy it."

This reflects Fylstra's sentiments exactly. "In the short run we've created this special price, since Symphony and Frame-work [integrated applications from Lotus Development and Ashton-Tate] are being released in the \$695 to \$795 price range," he says. "Later we'll have new component prices that reflect new versions of the software, but we haven't settled those yet."

The company has also settled the issue of the slower selling VisiSeries products by slashing prices on VisiWord, VisiTrend/ Plot, VisiFile, VisiSchedule, and the rest of the line (except VisiCalc for the Apple II, which still retails for its original price of \$250), and by repositioning the company's oldest software technology to target home and casual business users instead of the high-end office market. Vern Raburn, longtime industry





Gerald Diamond (left), Terry Opdendyk (center), and Ron Fisher of VisiCorp: the management team for Visi On in 1982. Diamond is no longer with the company.

participant and president of Symantec, in Sunnyvale, California, calls the company's announcement of FlashCalc and the repricing of the Visi-Series "a brilliant move."

But in the same way that pleasure and pain are defined by their opposites, that brilliance is especially noticeable in

comparison to VisiCorp's performance in the past year. According to many observers, VisiCorp began to lose its way in 1981 when it began designing what came to be known as Visi On, and when it began to focus on developing all of its products internally, instead of publishing independently authored products, as it had in the past.

Even though Fylstra is adamant that many of the company's problems have stemmed from a vicious circle of bad publicity and industry rumor mongering, there are many indications that VisiCorp's problems were central to the management of the company itself.

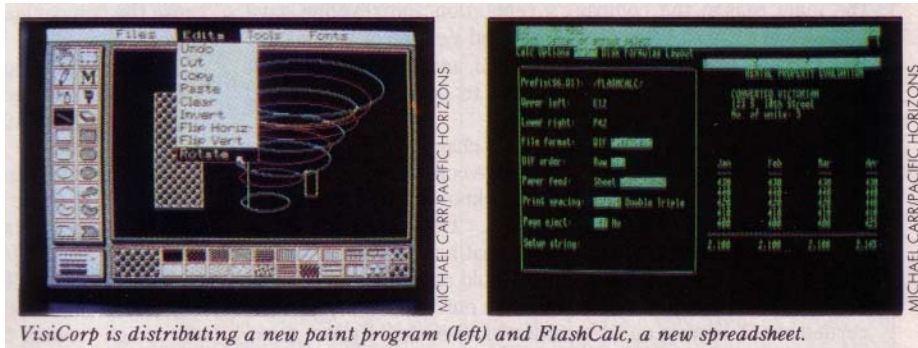
VisiCorp started out in 1978 as a publishing company, focusing on product marketing and distribution. When it decided in 1981 to begin developing its own products, the company had to put it-self through a massive internal reordering of priorities, hiring dozens of software engineers, learning how to manage and organize those engineers, and gaining experience at the complicated process of specifying, designing, coding, and testing products.

Many analysts and observers believe that the company's problems can be traced back to that change in corporate charter. The prevailing view is that the company has been through a corporate version of a civil war, with the marketing executives on one side and the engineering executives on the other side. And the nearly universal opinion — within the company, within the ranks of former VisiCorp employees, and among analysts and competitors — is that the problems created by that civil war can be laid at the feet of company president Terry Opdendyk, who joined VisiCorp as president and chief operating officer in the summer of 1980, two years into the company's history.

Fylstra, with partner Peter Jennings, had started VisiCorp, under the name Personal Software, as a software publishing company marketing game programs by independent authors. MicroChess, written by Jennings, made the company its first million dollars.

In October 1979, the company began marketing VisiCalc, designed by Dan Bricklin and written by Bob Frankston of Software Arts. Shortly after VisiCalc was introduced, when it was clear the product was a hit, the company stopped marketing games and shifted its emphasis to the burgeoning office productivity market. VisiTrend/Plot, authored by Mitch Kapor and purchased by VisiCorp for more than \$1 million, solidly established the company's image in the office marketplace.

The marketing department at VisiCorp gave birth to concepts that changed the face of the software industry while establishing VisiCorp's reputation as a marketing company. Before MicroChess was introduced in 1978, packaging for programs consisted mainly of plastic baggies with photocopied documentation. Personal Software's games came in colorful cardboard boxes. But the big innovation came with VisiCalc, packaged in a brown and gold binder with typeset, illustrated documentation. "It was a business product and it had an extensive manual, so we needed to come up with something different," says Fylstra. "It also needed a diskette holder and needed to be small enough to fit into a briefcase."



VisiCorp is distributing a new paint program (left) and FlashCalc, a new spreadsheet.

The can-do atmosphere in the marketing department, according to former employees, began to change shortly after Opdendyk took the helm in the summer of 1980. Opdendyk, according to former VisiCorp employees, was brought on because his vast experience in product development at Intel would help VisiCorp make the difficult transition from a marketing-only company to a development-and-marketing company. At Intel, Opdendyk had been charged with a variety of responsibilities, ranging from managing software development to managing all software and systems to a year of running the human resources department.

Although Fylstra denies a connection between Opdendyk's appointment and VisiCorp's change in focus, the design of Visi On was undertaken shortly after Opdendyk's arrival by the two principals of Rosetta Inc., Scott Warren and Dennis Abbe, with whom Opdendyk had worked at Intel. And in the two years after Opdendyk's arrival, according to Securities & Exchange Commission records, VisiCorp's research and development expenses increased much faster than revenues, growing from 11 percent of revenues in 1981 to 25 percent in 1983.

Former employees say that, as a result of heavier emphasis on development, marketing suffered. "It was the engineer-manager combination they wanted," says one former executive. "Terry was one of those engineers who thought he knew everything about marketing, too. So engineering got everything, marketing got nothing."

"The tragedy is the number of talented people that Opdendyk forced out," says Ed Esber, a former marketing vice president for VisiCorp and still a major stockholder. "A year ago, VisiCorp had a better marketing team than any company in the industry. And it's gone."

(The roster of VisiCorp's former marketing executives is lengthy. Richard Melman, cofounder of Electronic Arts and now a private consultant, was once a marketing executive. Tom Towers, president of Knoware, a software company in Cambridge, Massachusetts, was once vice president of marketing and sales. Roy Folk, president and founder of Optisoft, a software company in Sunnyvale, California, was once product marketing manager of Visi On and worked under Towers. And Ed Esber, now vice president of marketing for Ashton-Tate, in Culver City, California, was once marketing vice president at VisiCorp. Even Mitch Kapor, president of Lotus Development, was once a product marketing manager.)

But employee turnover and the stories of disgruntled former employees do not account for the severe crisis VisiCorp has been through in the past year, nor for the seemingly lengthy time it took the company to react to bad news. "Naiveté?" Opdendyk asks during a telephone inter-view. "No, I don't think so. Our actions were genuine efforts based on how important [we thought receiving the upgraded] product from Software Arts was."

VisiCorp's primary contention in its suit against Software Arts (see related story on page 5) is that the developer was late in delivering a new, promised version of VisiCalc for the IBM Personal Computer, thereby preventing VisiCorp from responding to competitive products.

"Every time there was a spreadsheet clone, we lost market share," Opdendyk says. "To continue to grow, we had to start a variety of businesses — Visi On, books, communications — which started generating revenue in mid- to late 1983. The sad thing is, if VisiCalc had even just maintained its sales level, instead of dropping, all these other activities would have been viewed as very insightful. As it was, the situation put enormous pressure on the other areas to grow at an irrational rate."

Declining sales of VisiCalc, however, were not the only problem that VisiCorp faced during 1983. In December 1982, when VisiCorp announced Visi On at Comdex Fall, the company was riding high. Sales of VisiCalc were still soaring: nearly 40,000 units of the product went out the door the next month. The other products in the VisiSeries represented one of the few fully developed product families on the market, although none of the other products had been as successful as VisiCalc. Visi On got rave reviews at its announcement. In fact, Fylstra remembers most of his competitors standing in front of his booth at the show, shaking their heads and wondering how the company had pulled the product off.

VisiCorp hadn't pulled it off. What it demonstrated at Comdex was an incomplete Applications Manager and very simple prototypes of two applications. The company announced that the product would be ready for shipment by late in the summer of 1983. But the product was far more difficult to complete than the company had anticipated. During the next year, VisiCorp not only redesigned the original Applications Manager but also designed and coded three complete applications for the system.

Fylstra says he, Opdendyk, and marketing vice president Tom Towers had made the decision to announce Visi On at Comdex Fall '82 just a few weeks before the show. "If I'd known a priori that we weren't going to receive the upgrade to VisiCalc and had I known a priori a few other things — if I had the benefit of that hindsight now — I would have announced it later. Probably at NCC [National Computer Conference] in the

summer, and maybe even later than that," says Fylstra. "I think the preannouncement hurt a fair amount, but we had a lot of things on our minds."

By the time Visi On was actually shipped on December 16, 1983, dozens of competitive or seemingly competitive products (including 1-2-3, DesQ, Apple's Lisa, and Microsoft's Windows) had either been announced or shipped, and the market for such integrated products had been diluted enormously. At the same time, VisiCorp's primary product — VisiCalc — had virtually disappeared from the market, and the company was embroiled in a legal dispute with VisiCalc's developer.

The combination of VisiCalc's decline (fewer than 6,000 units were shipped in December 1983) and the massive development effort the company engaged in to get Visi On out the door very nearly sank the company. "Going into this year, things began to look fairly dim," says Fylstra. "I really do believe it was in this first quarter that we began to get the feedback effect on sales of all the negative publicity. It's a vicious circle."

"Senior management is responsible for the bad things when things go bad, and when things go good, it's because of the company as a whole," Opendyck says. "That's what we get paid for, to make tough decisions."

(Despite rumors to the contrary, Opendyck claims he is not looking for another job. "I have no plans to leave the company," he says. Both Fylstra and director Hank Smith of Venrock Associates, one of VisiCorp's leading venture investors, insist that Opendyck is not being asked to leave. "Terry has made a tremendous contribution to this company during the entire time he's been here," says Fylstra. "We expect no change in management responsibilities," says Smith.)

Whatever the past failures of Visi-Corp's management team, the company is definitely gearing up for a blitz of well-planned successes. And, most interestingly, the actions currently being taken were decided on personally by Fylstra. "At some point I took a number of ideas that were brewing, and in this case I personally decided we were going to do a set of these things," says Fylstra. "I feel like we are at last on solid ground."

Company executives say that VisiCorp is going back to its roots by publishing good products rather than by developing an integrated family of products. VisiCorp will still develop products itself, but most of its development effort will be focused on Visi On, while its publishing efforts will be focused on home and personal products.

Fylstra says that FlashCalc, introduced just before Comdex Spring '83 in Atlanta and developed by Nereid Systems of Manhattan Beach, California, has already generated one order for 10,000 units from one distributor. And in April, for the first time in a long time, Fylstra says the company beat its projected revenues. Those projected revenues are far more conservative than in VisiCorp's heyday, but, as Fylstra says, "At least we've got something to go from."

One of the things he's "going from" is feedback from dealers and users about the first release of Visi On. The floppy disk version of Visi On will be out in August or September, says Fylstra. A new hard disk version, which will allow its applications to run faster than the original and will include an MS-DOS window so that users can run stand-alone, non-Visi On applications, will be released shortly thereafter.

Fylstra still believes that the issue of whether an applications environment allows a user to run stand-alone programs is "largely artificial." Fylstra says the up-grades are designed to make such reservations about the Visi On "go away just by changing the

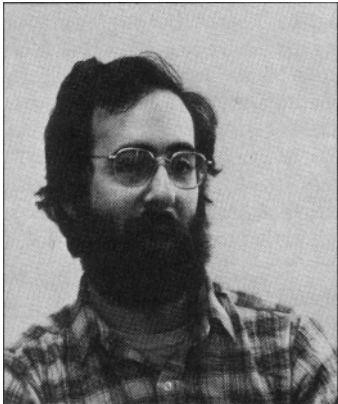
product. We could spend a lot of effort trying to communicate the nuances [of Visi On], or we could just change the product and eliminate certain arguments."

Fylstra says the company is also looking into the feasibility of making Visi On's now-required mouse optional. Other mouse-related news is the company's new paint program, which resembles MacPaint and was developed by Mouse Systems. It will be packaged with a mouse and a "device driver" (a program that enables non-Visi On applications to use a mouse within Visi On) to give customers a reason to buy the mouse, other than for its usefulness with Visi On.

Fylstra continues to be a bit miffed, and a bit puzzled, by industry opinions about Visi On. "Certain developments in the industry make things at VisiCorp be viewed a certain way, right or wrong," he says. "The whole view of Visi On is conditioned by what everybody else is saying and doing — about window managers, operating environments, standards, some of the most abused terms in our vocabulary. People have a hard time separating out the hype.

"The fact is that Visi On is the only system that is real. One of the problems we've had to deal with is our reality vs. everybody else's promises. Promises are always better than reality."

A SOFTWARE TRAGEDY PLAYS OUT IN COURT



There's a tragedy at VisiCorp, really, traced back to its relationship with Software Arts," says a former VisiCorp employee, who requested anonymity and still works in the software industry. "I think that Terry [VisiCorp president Opdendyk] could be criticized here and there, but the real fundamental tragedy, almost in the Shakespearean sense, is the relationship between VisiCorp and Software Arts."

The relationship between the companies began in 1979 when each signed a marketing agreement that gave VisiCorp rights to market the product. The agreement was basically that VisiCorp would market the product to the best of its ability — paying Software Arts royalties of 35.7 percent on retail sales and 50 percent

VisiCorp — amidst a whirlwind press tour to promote its product strategies for its new FlashCalc spreadsheet and a Visi On upgrade — is working to make it perfectly clear that the failure of Software Arts to provide "timely upgrades" to VisiCalc is the main reason the company's reputation and revenue have suffered in the past year. (The Advanced Version of VisiCalc for the Apple III was introduced in fall 1982, and VisiCorp says that the IBM version of the product was to have been delivered shortly thereafter.)

Specifically, according to both chairman Fylstra and president Opdendyk, they wouldn't have considered announcing Visi On at Comdex Fall '82 if they had known that VisiCalc Advanced Version wouldn't be delivered. "Everything we did at that time was predicated on the fact that next month, and next month, VisiCalc Advanced Version

would come out, and by the end of the summer Visi On would come out. We were very concerned about shoring up the position of VisiCalc," Fylstra says.

Daniel Bricklin, chairman of Software Arts, takes exception to this, although he's hesitant to discuss the case with the press while in litigation. "They're telling you some things, but they're leaving out an awful lot," he says.

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Both sides say they are ready to settle out of court, but can't agree on terms. The firms are fiercely trying to discredit each other. They are even disputing who named VisiCalc, although the legal issue involves whether the original marketing agreement was violated.

"It's difficult for either company to really go its own way," says the former VisiCorp employee. "The two were bound together emotionally, psychologically, contractually. It's a strange relationship. The marketing-oriented VisiCorp was unable to get the technically oriented Software Arts to do what the market needed. Software Arts was unable to find a way to get along. What happened is [that] VisiCalc became obsolete because the companies couldn't figure out, together, how to make it work."

The case is tough to call. Fylstra says VisiCalc Advanced Version was late because Software Arts wrote TK!Solver first, then the new VisiCalc. Bricklin says: "God, no! We didn't finish TK!Solver first."

Bricklin says that VisiCorp didn't market VisiCalc aggressively. "Were there any ads [for VisiCalc] to speak of recently? That's a good question," he says. Fylstra says: "We tripled our advertising budget for the VisiSeries last year."

The courts will decide which side will prevail. More important, it seems, is the significance of such posturing and how much trouble the dispute has caused for each company. "VisiCorp was always considered a marketing company because of its relationship with Software Arts," says the former VisiCorp employee. "It hurt VisiCorp's feelings not to be considered competent technically. The engineers took over the company with Visi On, and it became this technological white elephant. And Software Arts wanted the world to know it understood marketing, so it tried to sell TK!Solver. They couldn't honor each other because they were jealous of each other. Now they're both in danger of collapsing by the sheer weight of their envy." □

