

MEMOREX SEEKS NEW RECOVERY

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Eight years after a sudden turnaround saved it from the brink of bankruptcy, the Memorex Corporation has encountered sluggish sales, mounting competition and deep losses.

The company, a major manufacturer of data storage equipment and audio tapes, hired Clarence W. Spangle as its chief executive officer in March 1980 to reverse the slide. Since then Mr. Spangle, a former president of Honeywell Information Systems, has eliminated Memorex's unprofitable product lines, trimmed its sales force and pumped new money into research and development.

Despite those moves, Memorex had a loss of \$29 million in 1980, in contrast to 1979's profit of \$31.5 million. Sales remained steady. Results of this year's first quarter have not yet been reported, but the company estimates that it had a loss between \$8 million and \$13 million.

"I'm finding that you can't just wave a magic wand," Mr. Spangle said in an interview. He declined to predict whether Memorex would show a profit for 1981 as a whole.

Consensus of Analysts

Analysts of the electronics industry say the company's outlook appears grim. "Spangle inherited a turkey," said Robert G. Gutenstein of Kalb, Voorhis & Company in New York. "He may turn it around, but he's going to have to overcome some very serious difficulties."

Memorex, established 20 years ago, is perhaps best known for its stereo cassettes, advertised with the slogan "Is it live or it is Memorex?" They account for less than 15 percent of total sales, however. Most of the company's revenues come from highly sophisticated computer accessories.

The largest single product line at Memorex, accounting for one third of its sales, is Disk Memory Systems. These devices store and retrieve information recorded magnetically on disks. Most of Memorex's disk products are "plug compatible," meaning they can be used with computers made by the International Business Machines Corporation. They sell for less than I.B.M.'s products.

Memorex executives and outside analysts agree that the company's problems are rooted in the drastic reorganization that followed its \$90 million loss in 1973. The cost-cutting was done by Robert C. Wilson, who was hired as Memorex's chairman that year.

Changes Swiftly Imposed

His impact on Memorex was dramatic. Within four years, it was earning \$56 million a year while its debt was reduced by two-thirds, to \$113 million. At the same time, however, the company's investment in research and development was held far below the levels of its competitors. And Mr. Wilson's shake-up resulted in what some analysts call a "revolving door" of engineering and executive talent.

"Wilson focused almost exclusively on the short term, and what it meant was that the company lost its innovativeness," said Frederick H. Cohen, an analyst with Citibank in New York. "It may have been what was required at the time, but they are paying the price for it now."

The company was also buffeted by vigorous competition. Memorex was the leading "plug compatible" manufacturer until 1970 [sic 1980], but it was overtaken that year by the Storage

Technology Corporation, which introduced a new generation of disk storage equipment six months ahead of Memorex.

In 1971 [sic, 1979?] I.B.M. cut prices for some of its own disk storage equipment. Memorex was forced to follow suit, lowering its profit margin.

"This is a fiercely competitive business, and when you're living at the sufferance of I.B.M. you are always threatened," said Peter Lieu, an analyst with Arnhold S. Bleichroder Inc. in New York.

Actions Taken by Spangle

Now Mr. Spangle has been brought in to try to rescue Memorex. Among the actions he has taken are these:

- He has reduced the company's employment, which stood at 12,600, by 1,500.
- He has consolidated what were nine divisional sales offices into four.
- He has increased the company's research and development budget by 22 percent. Of the 17 top executives who sat on Memorex's corporate operating committee at the beginning of 1980, eight have been dismissed or have left voluntarily. Analysts say they are impressed by the abilities of Charles S. Strauch, a former executive vice president of Gould Inc., who was appointed president of Memorex by Mr. Spangle, but they suggest that the quality of management below that level is thin.

"It is obviously easier to attract the people you want when things are going well," Mr. Spangle acknowledged, but he insisted that he had assembled "a solid management team."

A stern, self-effacing 55-year-old executive, Mr. Spangle said the company's problems were complicated by high interest rates. But he added that the disappointments of his first year had not diminished his confidence that the company could be turned around.

A Delay at I.B.M. Helps

"There was a lot that needed to be changed when I got here," he said. "We've made changes. We haven't seen that translated into profits yet, but I'm sure we will."

Memorex found encouragement in a recent announcement from I.B.M. that it was postponing for six months a new disk storage system, the Model 3380, which utilizes a "thin film" technology. It is expected to be able to store four times the information at twice the cost of I.B.M.'s present system.

"What it means for us," said Remi Nadeau, a Memorex spokesman, "is that at least for the next six months we can sell as many of our own units as we can make."

Illustrations: Photo of thin film head arm by Memorex Photo of Scientists at Memorex Graph of Memorex's EARNINGS