

Annex Newsflash

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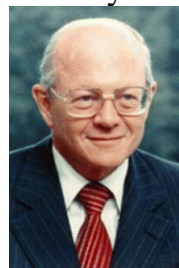
Updated 1/04/06, 7:00PM MST (adds [Photo](#))

In Memoriam

Frank Cary Dies

Most Admired AND Most Overrated IBM Leader in History

MAUI, Hawaii, Jan 4 - Former IBM CEO Frank Cary died in obscurity on January 1. It took three days for the news story to break. We could not even find a recent Cary picture on the Web. The one at the IBM web site (right) is probably more than 20 years old. That's how fleeting a business leader's fame can be. Or infamy. The once high and mighty are nearly forgotten a quarter of a century after leaving the Armonk throne. And Cary certainly qualified as a mover and a shaker in his prime.



"MEET THE LEAN, MEAN NEW IBM," read the FORTUNE headline on the cover of the magazine's June 13, 1983 issue. "Competitors have felt the ground treble," FORTUNE continued. "Their nemesis from Armonk has revolutionized the way it does business, from grand strategy, to the finest tactical detail....."The company is running on all 16 cylinders,' former DuPont chairman, Irving Shapiro, an IBM director, was quoted in FORTUNE's lead to the article. 'There are no limits to its aspirations,' he opined.

A week before this FORTUNE article, BUSINESS WEEK's June 6, 1983 issue also lauded IBM's performance in a story entitled "HIGH-FLYING IBM STILL HAS OPEN SKIES AHEAD."

(Annex Bulletin 85-43, Aug 1985)

We were skeptical at the time...

The preceding were only two of the many stories which carried upbeat themes about IBM's prospects. Most of the business and the trade media in early 1983 were in awe of IBM's financial performance, and predicted great future growth for the company.

Contrasting such uniform bullishness at the time, ANNEX COMPUTER REPORT's April/83 issue called for caution in a story headlined "IS IBM MORTGAGING ITS FUTURE?" (see Section 2). At the time, ours was a lone voice of dissent warning against over-optimism about the growth in demand for computers.

(Annex Bulletin 85-43, Aug 1985)

And this is what we actually said a few months *before* the FORTUNE and BUSINESS WEEKS stories ran in June 1985...

The latter half of the 1980s, therefore, promises to be the nail-chewing time for IBM executives. Their belief in a seemingly ever-increasing demand for IBM's products, has taken a gigantic company on a huge gamble. Even the gamble which Watson Jr. undertook in early 1960s (when the System/360s obsoleted IBM's previous products), pales in comparison to the size of the risk which IBM undertook this time. It is ironic, that those whose gamble this really was (i.e., Frank Cary and John Opel) will only be watching from the sidelines when the time comes for IBM's new chief executive, John Akers, to pay the piper (see [ACR Mar/84](#)).

(Annex Bulletin 85-16, Mar 1985)

As it turned out, there was no limit to IBM's folly. Instead of limitless demand and open skies that Frank Cary and his hand-picked successor John Opel had expected, IBM hit the wall of open and commoditized systems. First, the proprietary midrange systems succumbed to Digital Equipment Corp. and Unix in the 1980s, then the mainframes crumbled in the 1990s.

But it was John Akers, not Cary or Opel, who took the brunt of the blame (had "to pay the piper," as we put it in 1985). We did not think this was entirely fair.

By the time (John) Akers became the IBM chairman (*in 1985*), this was not a time for a "slick salesman;" it was a time for a "corporate wrecker," who would quickly dismantle the unrealistic wishful thinking which envisaged a \$180 billion corporation by 1995, conceived by Frank Cary and/or John Opel, the two former IBM CEOs who set the "Big Blue" on this disastrous course.

(Annex Bulletin 93-07, Jan 1993: "[Akers: A Nice Guy Who Lost His Compass](#)")

That is why we were perplexed by today's [Bloomberg report](#) that alleged that Cary "helped drive the development of the personal computer as head of International Business Machines Corp. in the 1970s." It perpetuated some IBM myths from a quarter century ago. It was reminiscent of boundless undeserved accolades laid at Cary's feet by IBM employees and the media at the time he ran Big Blue.

There was nobody *more opposed* to the PC market than Cary when he was the CEO. He thought it was beneath IBM to deal in what he saw as "a hobbyist market."

How do I know that? Because I quit IBM back in 1978 because of such shortsighted views by Cary and other top IBM leaders at the time (and have thanked him for it in my mind many times since).

Tom Watson Jr., who picked Cary as his successor in 1973, also faulted him for that and other blunders, such as the "Great IBM Lease Sale:"

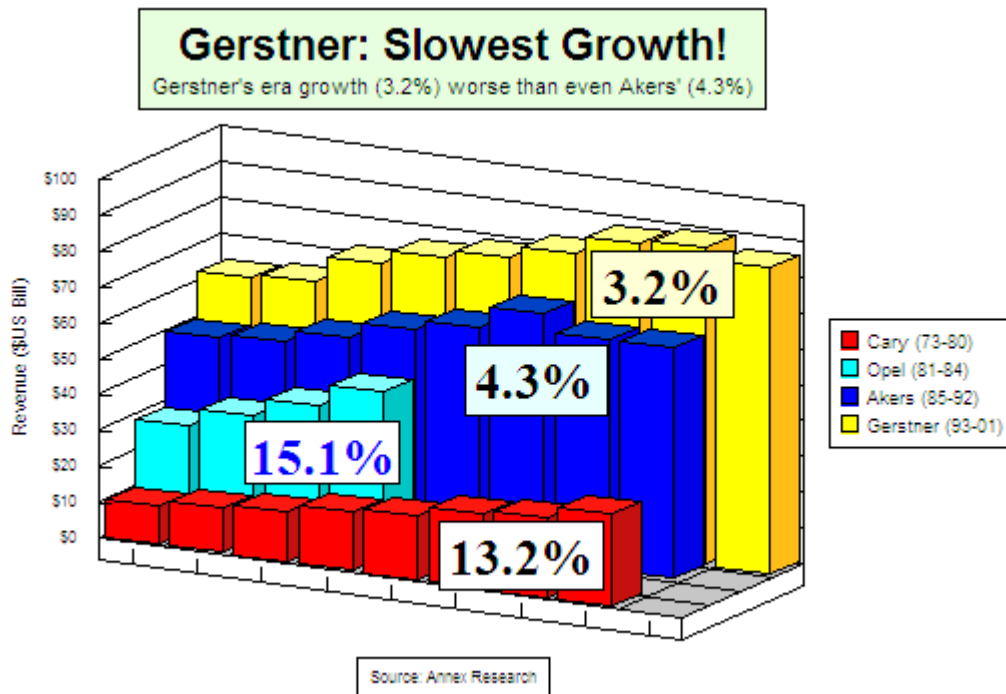
[How Cary/Opel Sent Watson Jr. Sailing](#)

"...One particular example stands out (in Tom Watson Jr.'s 1990 book) as an exception to his generally milquetoasty criticisms. TW Jr.'s true feelings about (Frank) Cary eventually bubble up to the surface as he talks about IBM's shift from rent to purchase in the late 1970s and early 1980s.

'In particular I was alarmed when he and his eventual successor John Opel rapidly phased out the rental system, shifting billions of dollars worth of business to outright sales,' TW Jr. writes. '...It bothered me because rentals traditionally had been crucial to IBM's success. Rental contracts wedded us to our customers, gave us a powerful incentive to keep the service top-notch, and made IBM stable and essentially depression-proof. Once the stream of rental payments dried up, IBM became far more volatile and vulnerable to fluctuations in demand.'"

(Annex Bulletin 90-40, 7/19/90 and "[The Last Emperor](#)," June 1991)

At first blush, however, it looks like both Cary and Opel produced very good results for IBM.



But only at first blush. The above double-digit growth numbers are padded by over \$35 billion in revenues that Cary's and Opel's one-time sale of assets produced ("Great IBM Lease Base Sale" - see "[The Last Emperor](#)," June 1991). Worse, their wishful thinking demand forecast set up the failures for which Akers was later blamed.

When Akers departed in January 1993, we summed up his tenure at the IBM helm as "[A Nice Guy Who Lost His Compass](#)". If we were to write Cary's epitaph, it would be, "most admired *and* most overrated IBM leader in history."

Happy bargain hunting!

Bob Djurdjevic



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