

Annapolis firm to enter microcomputer market

Hopes tied to low-cost Chameleon

By Ann Cooper
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Annapolis — In an old brick firehouse west of this city's historic center, a group of young men have prepared their entry into a crowded race for some very high stakes: a share of the booming microcomputer market.

Seequa Computer Corporation says its Chameleon will officially enter the microcomputer race April 25. About 100 computer retailers have placed orders for the machine, according to Seequa officials, and T.A. Associates, a Boston venture capital firm, has provided financial backing.

Though Seequa is just one of nearly 200 companies in the microcomputer run for the money, the company feels it offers a machine and a price that will stand out in that crowded field. But industry analysts, who see new product announcements all the time, are skeptical about some of the company's pre-release publicity. Most are adopting a wait-and-see attitude about the Chameleon's odds for success.

The Chameleon, according to one Seequa press release, has "broken through the compatibility barrier" because it can be operated with "virtually any applications software that's available." The machine has already taken one computer show "by storm" and earned high praise from an analyst specializing in microcomputers for business use, according to Seequa press releases.

Analysts point out that other companies' computers already have made the compatibility "breakthrough." Chris Christiansen, the Yankee Group analyst quoted in Seequa's press releases, says he has never seen the Chameleon and did not know he would be quoted when he responded to a description given to him over the telephone.

And though the Chameleon did attract interest at the computer show, those who saw it were reacting to what the company said it planned to build. Actually on exhibit at the show was the shell of a computer, without internal parts.

Seequa is not the first company to attend a trade show with a nonfunc-

tioning machine. Nor is it the first to start touting its product months in advance of actually putting a microcomputer on the market, say industry observers.

"We get new product announcements, and we say, 'Oh boy, that's exciting. And then we realize the product isn't available yet,'" says Dan Sullivan, managing editor of *Desktop Computing*, a trade magazine. "The hype in this industry is very high."

Mr. Sullivan believes promoting a prototype microcomputer, rather than one that's ready for the market, raises some ethical questions. But the reason for the eager push to market is simple enough, he says. The microcomputer market, which didn't exist before 1975, had grown to \$3.7 billion in retail sales during 1982, according to Future Computing, Inc., a Dallas market research firm. Future Computing says sales will more than double this year and reach \$27 billion by 1988.

Entrepreneurs attracted by those figures have created what one analyst jokingly refers to as the "computer of the week club." In 1975, there were five microcomputer manufacturers, according to Future Computing.

Today, *Desktop Computing* counts nearly 200 manufacturers turning out 300 different versions of what the magazine refers to as desktop computer hardware — ranging from \$100 machines popular with home users, to sophisticated equipment used for office jobs like accounting and word processing.

Those numbers don't daunt Seequa's 25-year-old marketing director, Jim Hoffman, who says there is room for dozens of microcomputer manufacturers to make a profit.

"This is not a dog-eat-dog industry. It's a growth industry that hasn't even started to grow," says Mr. Hoffman.

Industry analysts agree there is plenty of room for growth, but they say there will be many casualties along the way. The most likely survivors are companies already established in the field, they predict.

A major problem for new entrants is landing space on retail shelves in department and specialty computer stores. Most stores have room for just a handful of brands, and their space is already crowded with popular models made by Apple, IBM, Osborne and others.

Five years from now, only 25 or 30 microcomputer manufacturers will still be in business, predicts Bill Me-

serve, a senior member of Arthur D. Little, Inc.'s Information Systems Section. Mr. Meserve's division of the Cambridge (Mass.) firm acts as a consultant for companies in the computer industry.

"The bloodbath in this industry is going to be terrible," agrees Kenneth J. Burke, an analyst with Alex. Brown & Sons, a Baltimore brokerage firm.

Whether Seequa survives or drowns in the bloodbath may depend more on how the company markets its machine than on the machine itself.

Industry analysts say three brands, IBM, Apple and Radio Shack, account for one-half to two-thirds of all microcomputer sales in the United States. A small company looking for a share of the remaining market needs a "niche orientation," focusing its sales efforts on small, well-defined markets, says Mr. Meserve.

Mr. Hoffman's strategy for selling the Chameleon is just the opposite. The machine will not be targeted at a particular market, he says. The under-\$4 million advertising budget Seequa plans for 1983 will pay for ads in trade magazines, as well as broad-readership publications such as *Time* and *Newsweek*, according to Mr. Hoffman.

Seequa, like most of its competitors, makes its microcomputer by assembling screens, disk drives, keyboards and other components produced by a handful of companies that supply the entire industry. Using those components, it's not difficult for anyone with good engineering skills to design a workable microcomputer, say industry officials.

The Chameleon designed by Seequa, a 28-pound portable computer, contains two processors that are supposed to enable it to work with a wide variety of software — including programs designed for the prestigious PC model (for personal computer) introduced by International Business Machines Corporation in 1981. Software programs give computers instructions for performing particular tasks, such as accounting.

The Chameleon's dual processors, its portability and other features are not unique, say industry officials. "They're not doing anything special," says Don Bingman, sales manager of Advanced Consumer Technologies, a San Diego computer store.

Nevertheless, Mr. Bingman plans to sell the Chameleon. The attraction of the machine, he says, is its price. "It's a hell of a buy at \$1,995. They're going to sell as many as they can crank out."

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Seequa chairman David Egli agrees that, "The compelling reason to buy the Chameleon is the pricing." Comparable IBM-compatible machines cost several hundred dollars more than the Chameleon, according to Mr. Egli. The Chameleon is cheaper because of its "unique architecture," he says.

Though industry analysts are intrigued by the Chameleon's price, they caution that it is too early to tell whether Seequa and the dealers carrying its product can actually turn a profit on the machine.

"That's an attractive price for an IBM-compatible," says Mr. Meserve. But until the machine has been on the market for awhile, "I don't think I'd get terribly excited. I'd just wait and see what happened."

"What's on paper is not necessarily what the product is," says Mr. Sullivan, whose magazine reviews microcomputers for its readers. Although the Chameleon was briefly described in the most recent issue of *Desktop Computing*, the magazine will reserve judgment on it until it can test the machine, Mr. Sullivan says. "You expect advertisers to make things look glossier than they really are. That's why the products have to be tested and reviewed."

Mr. Egli and another partner who set up Seequa in 1980 also were founders of Computers Etc., a five-store chain of retail stores begun in 1977. That retail experience was one factor in T. A. Associates' decision to invest in Seequa, according to Andy McLane, a general partner with the venture capital firm. "We were very impressed with the market savvy" of Mr. Egli and others at Seequa, he says.

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Before developing the Chameleon, Seequa made computer terminals under private labels for other companies. The company, about 90 percent of which is owned by Mr. Egli and other managers and directors, had sales of "under \$5 million" in 1982, Mr. Hoffman says.

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Like dozens of other computer firms, Seequa saw IBM's development of a personal computer as an important milestone that would help the young microcomputer market take off.

Analysts say IBM, already well-established as a manufacturer of large business computers, has become the leading seller of microcomputers

since it got into the business 18 months ago. About 20 other computers introduced since then are "IBM-compatible," meaning they can be operated with some of the software designed for the IBM PC.

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Mr. Egli says Seequa began planning the Chameleon in January, 1982. In November, it took a prototype machine, without internal parts, to an important trade show for computer retailers.

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The company did have a working prototype at the time, says Mr. Hoffman, but it was not the portable version that Seequa planned to market. Seequa officials decided to take the nonworking portable to the show and try to sell dealers with a description of what it planned to produce.

Though other companies have done the same thing, some industry

analysts are uncomfortable with the idea of exhibiting prototypes.

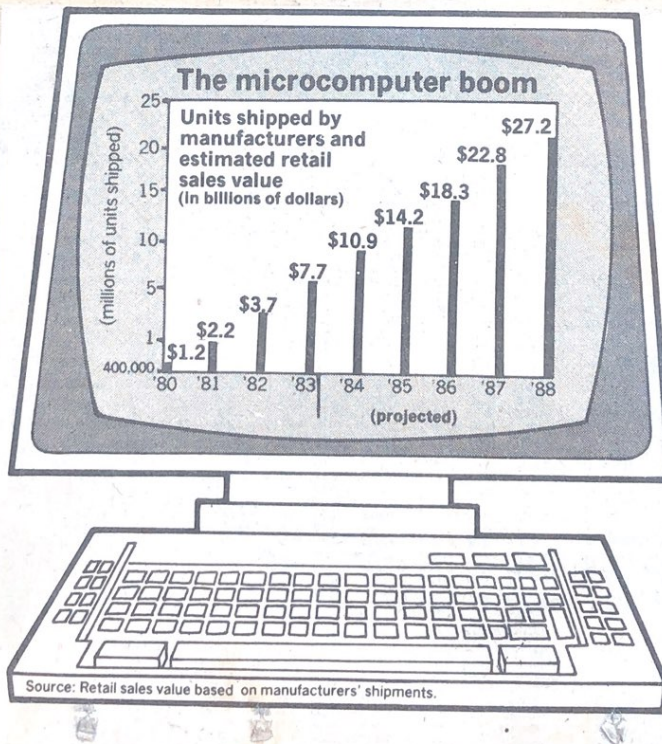
The issue is particularly sensitive since the Securities and Exchange Commission's recent charges against the Paradyne Corporation, of Largo, Fla. The SEC alleges that Paradyne won a \$100 million computer contract with the Social Security Administration by showing the government agency prototype machines that were not actually in production. Paradyne has denied the charges.

No one has accused Seequa of deception in exhibiting a prototype machine, but the company's trade show exhibit did prompt some publicity questioning whether the company really had a product ready to market.

InfoWorld, a trade newspaper, sent a writer to Annapolis after the show to try to get a look at a working Chameleon. After being rebuffed by Seequa officials, *InfoWorld's* David Needle wrote, "Although it's easy to understand why a firm with a new product in the highly competitive microcomputer field would want to keep details of its operation secret, Seequa appears to have gone to unusual lengths to ensure it."

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Desktop Computing and Mr. Christiansen, the Yankee Group analyst, say their requests for Chameleon demonstrations also went unanswered. As a result, they wonder if the machine will do everything promised, for \$2,000. "I'll be very surprised if they can bring a machine to market" for that price, Mr. Christiansen says.

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Despite the skeptics, Mr. Egli says the company has been shipping the machine to dealers since March 15 and expects to sell \$1 million worth of Chameleons by the end of this month. Sales for 1983 will total about \$50 million, he predicts.



Sun Graphics



Partially assembled computers surround Herb Kummer and Kip Einbrod, two managers of Seequa Computer Corporation.

The Sun/Ellis J. Malashuk