

# TEXAS INSTRUMENTS



Introduced in late 1979 at \$1150, the TI 99/4 was vastly overpriced, particularly considering its strange keyboard, non-standard Basic, and lack of software. Over the years, TI changed the product only slightly (substituted a full-stroke keyboard, still with too few keys), but lowered the price greatly.

A joke went around the industry that TI was losing money on every computer it sold, but was making it up in volume. And at the January '83 Consumer Electronics Show, TI spokesman Bill Cosby joked about the rebate then in effect pointing out how easy it was to get people to buy a computer if you paid them \$100 to do it. The funny—and sad—thing is: neither one was a joke.

When they entered the market in 1979,

## David H. Ahl

TI was far bigger than any of the other players (they are still bigger than most). They had the enormous advantage of vertical integration from manufacture of chips right through to end user marketing. What, then, went wrong?

### Three Mistakes

TI made three major mistakes, no one of which by itself would have been disastrous but piled upon one another, spelled doom. The mistakes were product, software, and pricing.

The first mistake was the product itself. The 99/4 had a calculator-style keyboard

which did not permit touch typing, hence word processing, an important application of personal computers, was ruled out. The computer was a manageable size—almost stylish—until you started adding peripherals, each one of which plugged into the left side of the previous one. A fully configured system was a yard or more wide—hardly convenient for desktop use.

It wasn't until nearly two years later that TI offered an all-in-one interface box and replaced the keyboard with a full-stroke unit. Unfortunately, it still had too few keys for serious word processing and did not conform to a standard typewriter layout. Interfacing was still complicated and costly, and the 99/4 (and successor 99/4A) could not easily utilize peripherals manufactured by other companies. Moreover, the 99/4A was becoming dated by 1981, yet TI showed no signs of introducing a truly new machine.

The second major mistake TI made was in trying to keep the software and peripheral market to itself. Certainly, this strategy has many precedents in other industries—razor blades, records, etc.—but the history of the personal computer field was pointing in quite the opposite direction.

The successful computers, even back in 1980, were those that had the most software and peripherals available. Furthermore, software came from many

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sources—a single company could not hope to produce everything that users wanted.

But TI seemed to think they could succeed where others had failed. They did not license Microsoft Basic, *VisiCalc*, *WordStar*, or any popular games. Nor did they put enough effort into developing their own software. And when other vendors tried to introduce packages for the 99/4A, TI actively discouraged them with both legal delays and hardware "locks."

TI's third, and probably most disastrous mistake, was in pricing.

Initially, TI tried to sell the 99/4 with a high quality monitor for \$1150. However, home users expected to use their own TV sets, so TI backed down and made available

*J. Fred Bucy, president and CEO of Texas Instruments, was behind the hard decision to get out of the home computer market.*

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## Texas Instruments, continued...

an RF modulator. Thus, in 1980, the price for a 99/4 alone was about \$700, high, but not totally out of line.

As newer machines were introduced, the performance per dollar of the 99/4 started to look worse and worse. Hence, in 1981, TI lowered the suggested retail price of the 99/4 to \$550, and then to \$450. Thus began a new marketing strategy which rocked the industry with a ruinous price war.

By April 1982, the price of the 99/4 had dropped to just under \$400. Responding to the introduction of the Commodore Vic 20 in August (suggested price \$300), TI lowered the wholesale price of the 99/4 and offered customers a \$100 rebate, thus bringing the street price to about \$200.

By December, the Vic was also under \$200, but then, on January 10, Commodore announced still another price cut bringing the wholesale price to about \$130. A month later, TI reacted by slashing \$48 from the dealer price of the 99/4A bringing the retail price to about \$150.

Unfortunately, the crucial factor of which TI seemed to lose sight, was that the Vic was a state-of-the-art machine and was much cheaper to produce than the 99/4. As Harry Fox, president of SpectraVideo observed, "TI got suckered by Jack," referring to Commodore president Jack Trameil.

On April 4, 1983, Commodore dropped the big bomb with a round of wholesale

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cost reductions on peripherals and software that permitted dealers to advertise Vic prices under \$100 in bundled systems. TI peripherals are very pricey, so to respond to this latest move by Commodore, TI offered a new round of wholesale pricing and rebates to bring the price of the 99/4A to under \$100. By this time, TI probably was losing money on every unit sold.

Aggravating the downward pressure on profits, in the first quarter of 1983, TI had to withdraw the 99/4A from the market for about a month to correct a potential shock hazard. Inventories swelled because production continued (at a rate of three million units per year) while sales halted. When the product reappeared, it never regained the previous sales momentum.

To try to get back on course, TI announced, on May 23, the giveaway of a \$249 expansion box with the purchase of three peripherals. Response to this among retailers was mixed because traditionally, profit margins are much higher in the after market (peripherals and software) than on the basic computer consoles.

By this time, TI was substituting price cutting for all other forms of marketing. On August 18, the prices of most peripherals were slashed by about 50%. In addition, TI said it would provide a free \$100 software package with each expanded system.

A month later, software prices were cut across the board by up to 43%, but even that didn't do the trick.

Finally, the last week in October, TI announced it was withdrawing from the home computer market. The rebate program was terminated, but a price cut to dealers was made which permitted even lower end user prices—as low as \$49 in many areas.

### The Final Blow

The handwriting was already on the wall in 1982 when TI responded to market pressures by price cutting instead of maintaining margins, losing a few percentage points of market share, and then releasing a new state-of-the-art computer.

Unfortunately, one of the new computers TI developed was too little and too late. Dubbed the 99/2, it was a low end unit with rubberized keys. It was first unveiled in January 1983 and was slated to sell for \$99. However, by April, the price of the 99/4A was down almost as low, so the 99/2 was scrapped.

An upper level machine, the 99/8, was shown behind closed doors at the June '83 CES, but, for some reason, was not officially introduced. Very little information leaked out about the 99/8: it was said to have a built-in mass memory device and integral voice synthesis, but it is not known whether it corrected the major deficiencies of the 99/4A (keyboard, interfacing, software incompatibility). It was said to have a wholesale price around \$200. Obviously, TI did not think it could compete profitably in the market, or it probably would have been introduced.

As recently as the middle of September, according to a *Wall Street Journal* article, retailers and industry sources were sharply divided over whether TI could regain momentum as the Christmas season neared. Given the production problems of Coleco and Atari, and the delay of the IBM PCjr until 1984, many retailers thought TI was in a good position to unload their excess inventory of 150,000 units and rebuild market position.

On the other hand, some felt that there was no future for TI as long as they stayed with the 99/4A. As David Seuss, president

of Spinnaker Software said, "The TI is very limited in power, extraordinarily expensive to expand, and they have the worst software in the business."



*The TI 99/4, introduced in 1979, was over-priced and had a horrible keyboard.*

Following a \$330 million operating loss in the third quarter of 1983, TI apparently also felt there was little future with their existing product, and announced their withdrawal from the field. Interestingly, TI has continued advertising the 99/4A and is attempting to maintain good relations with their large, painstakingly built dealer network. This is understandable, as many of these dealers also handle other TI consumer products such as educational devices (Speak 'N Spell, etc.), calculators, and the CC-40.

### Where To Now?

For nearly half of the employees in Lubbock, the demise of the 99/4A marks the beginning of a job search. Top executives have been bailing out for the past six months or so—Bill Turner to ADP, Herb Shanzer to Data General, and Peter Field to TI's corporate marketing group.

The consumer group will continue with calculators, educational devices, and the CC-40. The company emphasized that the decision to drop out of the home computer market would have no effect on the Professional Computer program. Indeed, TI is expected to introduce a portable model of the Pro before long.

Obviously, the fire sale is affecting other computer manufacturers, as consumers snap up the remaining 99/4As at bargain basement prices. The few manufacturers of peripherals for the 99/4A are finding they must also cut prices to clear out their inventories.

John Roach, chairman of Radio Shack said that in the long run TI's withdrawal would be "a positive thing" for the market. Perhaps so. At least the price war is over—for the time being—and manufacturers can get back to the business of competing on the merits of their products.

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