

Obsolescence

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Nenthal Technology (NASDAQ: NTAL) was a pioneer of personal computing software. Over its 30-year existence it had a string of firsts in software applications. Many had been licensed and incorporated into office productivity programs such as word processing, electronic spreadsheets, presentation software and database applications. Consumers might not know Nenthal's name but they used its innovations daily. Nenthal had successfully migrated its offerings to laptops from desktop PCs and had upgraded them time and again to conform to new operating systems, such as Apple Macintosh and Linux.

What Nenthal wasn't prepared to handle was mobile applications. None of its applications worked with the iPhone operating system or Android. Nenthal had felt it made little sense to rework its code for these systems because mobile phone screens were too small for realistic work. Nenthal wasn't prepared then for the explosion in growth of cellular phones and tablets. Suddenly the firm found itself on the defensive serving a market for laptops and PCs that had stabilized and would, according to experts, begin to shrink. Nenthal had a decision to make – to launch a crash program to make its applications compatible with cell phones and tablets or to continue to serve the PC and laptop market and work to gain a larger share of a shrinking market.

To some of Nenthal's executives, a crash program made little sense because there were already mobile phone and tablet applications that mimicked Nenthal's. Were Nenthal to enter the field now, it would be a me-too, and it would have to license its software anew to Apple, Microsoft and Red Hat. The executives argued there was no unique differentiation that Nenthal software provided. Nenthal would have to start over and find new features, functions and performance. These executives argued for harvesting the cash flow from existing PC and laptop operating software licenses and using the funds to buy successful mobile and tablet applications in the marketplace. These would be bundled under a mobile and laptop operating division.

An opposed block of Nenthal executives was as vociferous in calling for creation of a suite of new applications tailored to mobile and tablet operating systems. The executives said software should be two-tiered. A basic version would be free and an expanded version fee-based. These executives contended that engineering experience gained from coding in mobile and tablet operating systems would pay dividends for the company down the road. This group favored small, "bolt-on" acquisitions that would bring to Nenthal engineers who knew mobile and tablet operating systems but would not compromise the company's cash cushion.

The argument had raged for months inside the company and through 50 meetings from the engineering department to the CEO's office. There wasn't an aspect of the decision that hadn't been debated. The CEO, Jim Neander, knew that he had to make a decision and soon. There were more than 200,000 applications for the Apple iPhone already covering nearly every software utility Nenthal could hope to innovate. Applications were swiftly mounting as well for the iPad, Kindle and Nook. Neander knew that when Microsoft was ready with its software, Nenthal could port its applications swiftly to it but Microsoft itself was behind the market. It made little sense to hitch long-term success to one company. Nenthal hadn't done it in the past, and it was risky to do it now.

Neander had formed a "skunk works" of 10 engineers months before who were tasked with coming up with ideas for utility applications for the mobile and laptop markets. Many of their ideas had already been met in the marketplace but a portfolio of five showed promise. The question was how long it would be before these were introduced, and if they did code them, what would it take for Nenthal to break through market clutter?

Neander also had his investment bank searching for potential acquisitions. Most were pricey and would deplete Nenthal's cash cushion quickly, a position that made Neander uncomfortable. The situation had reached paralysis but Nenthal's revenue and earnings had not been impacted, not yet anyway. Neander felt Nenthal had eight more quarters before earnings started to decline. That was enough time to build and launch a suite of applications, but it would be betting the company to do it.

The board was pressuring Neander for a decision, but directors were as divided as company executives. Neander had explored options with them at length

Adding to the pressure on Neander was feverish speculation in the technical press on the future of the company. Several high-tech columnists, playing on his name, had started calling him Neanderthal and were saying he was the wrong CEO to help Nenthal transition to the mobile and tablet marketplace. In industry blogs, Nenthal had been written off, and the company was rarely discussed except at earnings time. There was no buzz left to Nenthal, which made recruitment of the best engineers difficult. Columnists and reporters were well aware of the controversy inside the company from leaks that came from both camps, and financial analysts were actively discussing what Nenthal should do. Three had a "buy" on the stock but 10 had downgraded the company to "hold" and two to "sell."

Neander felt he needed to make a decision whether or not there was consensus. He knew taking action would cause executives to leave and would upset directors. However, after a week of restless nights, he chose to let the engineers loose on the five options for new utility applications with a focus on iPhones and Android operating systems. Neander's difficulty was how to announce this to the

market, if at all. If he kept wraps on the projects, executives and directors would still learn about it, and there almost certainly would be a leak. Moreover, as executives left, they would talk *sotto voce* to the media. If he disclosed the projects, there would be an upsurge in expectations that could not be met for a year or more as the applications were being perfected. Moreover, it would alert competitors who would race to knock-off similar ideas.

He decided he could not announce the projects publicly. They were too new, and there were too many changes that would occur before they were ready for market. The question was how to handle leaks. For this, he needed a strategy. He called his corporate communications director to his office.

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Questions for discussion:

1. Did Neander make the right decision about not disclosing the projects?
2. What should the corporate communications director recommend?
3. How should the company handle executive departures in light of the decision?
4. How can the company attract engineers when it is seen as obsolete?