

BUSINESS STRATEGY

It took Landmark Graphics four years to capture half the global market for computer-aided workstations. The four entrepreneurs who founded the company attribute their success to customer service, state-of-the-art technology and Friday afternoon beer busts.

A Landmark trend in oil exploration

By Laurel Brubaker



In just four years, Landmark Graphics Inc. has managed to grab almost half of the worldwide market for computer-aided oil exploration workstations.

The hard-pressed exploration industry has been increasingly overwhelmed by the huge array of whizbang computer software available in the marketplace. While manufacturers claim their products will meet the needs of oilfield users, few products seem to do exactly what the explorationists want.

To make matters worse, many geologists and geophysicists are computer illiterates with aversions to complex computer training. In confronting the rapidly changing computer technology, many users feel that whatever computers they choose could become obsolete overnight, leaving them with an expensive pile of junk.

Landmark's strategy in dealing with these problems is to be neither hardware-builder nor software-supplier, but a go-between company that performs the dirty work of selecting computerized exploration technology for its customers.

Landmark's engineers pick and choose from the market's latest technology to custom-build computer workstations that meet their clients' needs. Then they write custom exploration software and remain in constant contact after the sale to make certain their systems and software keep on doing what the customer wants, even when those wants change or the state of the art moves forward.

"When you buy Landmark, you're buying all the boys in the back room," explains one geophysicist with a small Houston exploration firm. "You're buying the quality of their programming department, and those guys are all pretty much hand-picked, top-notch individuals. You can tell they're not a fly-by-night operation when you go out to their offices and see how solid everything is. It gives you the warm fuzzies that they're going to be around awhile."

Landmark's attention to customer service has paid off with big clients as well as small ones. The company went global in late 1985, adding offices in Calgary, London and Singapore, and has now sold workstations to 15 of the world's 20 major oil companies.

While Landmark Graphics may bill itself as a hybrid computer hardware/software/service company, what it actually sells is its kid-glove customer service relationship. Landmark's personal attention to its picky customers is probably the biggest reason the company has prospered while catering to two poorly performing industries at once — oilfield exploration and office computer sales.

This customer-oriented approach is paying off on Landmark's bottom line. The company is privately held and therefore doesn't have to disclose sales and earnings. But company president Eugene Ennis says Landmark turned a profit within six months of shipping its first product, back in the late summer of 1984.

Even though oil prices and office computer sales have both been in steady decline

since Landmark first opened shop, the company's sales have spiraled steadily upward, reaching \$12 million in fiscal year 1986, ended June 30. One industry analyst recently pegged Landmark's value in the range of \$40 million.

SIMPLIFYING SEISMIC

Landmark's sophisticated computer workstations and software packages turn seismic data into three-dimensional color pictures. Instead of having to read the traditional, hard-to-follow, flat cross sections of seismic data, geologists using 3D color seismic can view brightly hued chunks of earth that vividly delineate underground structures.

The difference between interpreting 2D seismic and 3D seismic is like the difference between trying to guess the elevation of Austin by looking at a road map or at a clay model of Texas. As a result, explorationists using 3D seismic typically have greater confidence in the wells they drill and arguably have higher success rates, too, which is why companies are still willing to shell out \$100,000 to \$400,000 apiece for Landmark's products.

"The cutbacks in drilling budgets have actually helped us because companies have had to let their in-house research and development people go. That has opened a gap in the market for us," says Landmark co-founder John Mouton.

Although many companies sell computer equipment and software for 3D color seismic interpretation, Landmark's specialty

is picking the best available equipment from various manufacturers and packaging it with custom software into a single system that does everything 3D users need.

Landmark's product line is built around IBM PCs, the most common brand of office computer in the world. It was also the first to offer explorationists the option of optical disk data storage, an advanced technology that lets users store a mind-boggling 1 gigabyte of information on a single 12-inch disk.

While taking pains to offer customers state-of-the-art technology, Landmark takes equal care in making sure its products are easy to use.

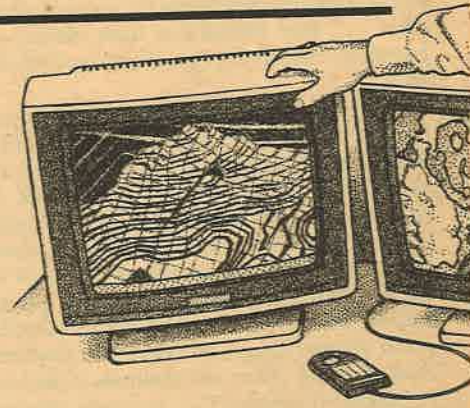
"That was the thing that struck us, that their software was so user friendly," says one Houston customer. "We didn't want a system we had to spend weeks training people how to use. But with Landmark's workstation, a day or two on the machine usually gets everybody up to the point where

they can do basic interpretations."

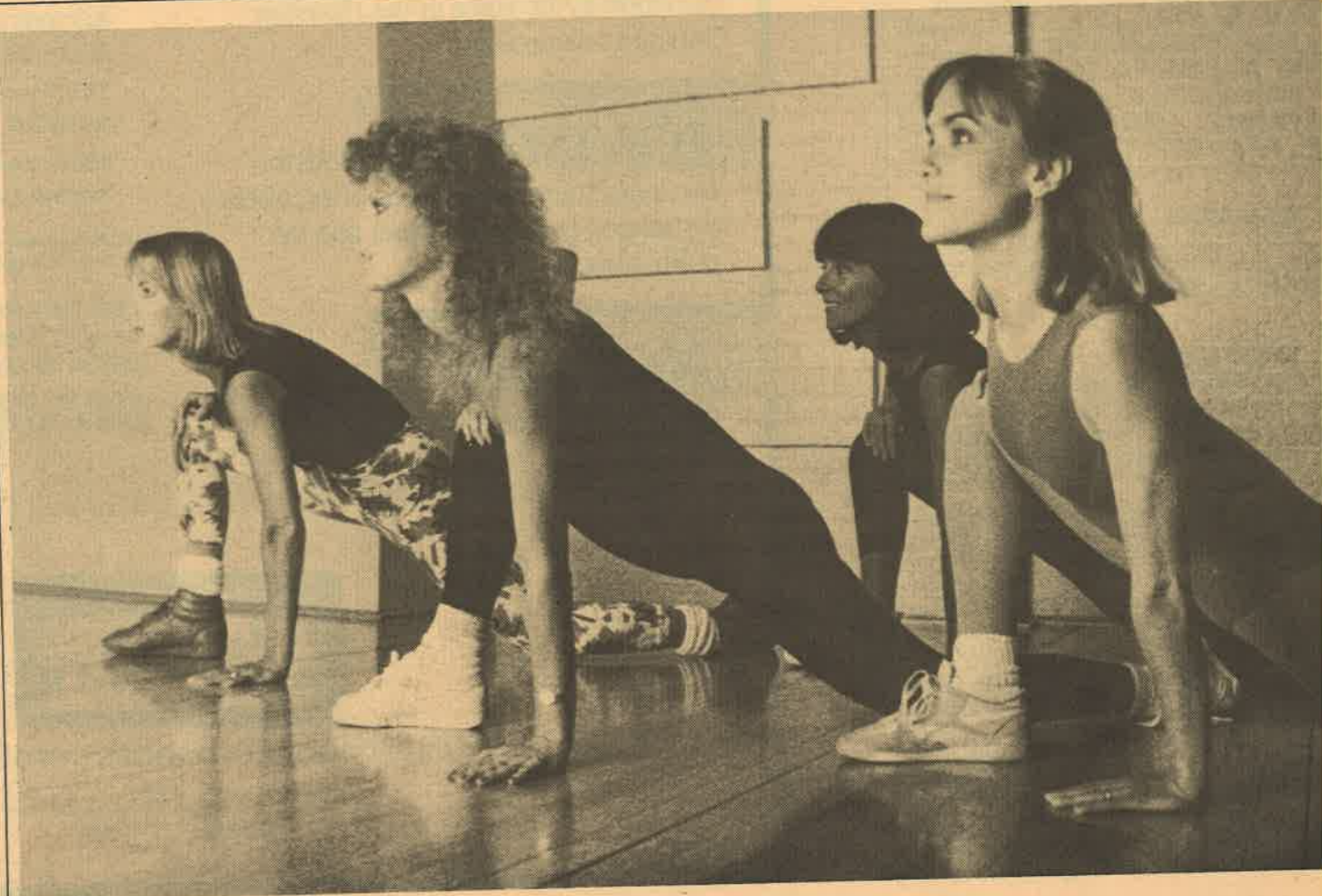
Landmark also addresses its customers' fears of obsolescence by offering to upgrade any purchased Landmark system to the level of the latest technology at a fraction of the cost — usually 10 percent — customers would pay to buy the new system.

Landmark Graphics' caring attitude extends beyond its customer base to its 85 employees. Company officials have worked hard at building a high-touch corporate culture to complement the company's high-tech work.

"We need to keep our research and development staff happy, because they are a measure of our success six months down the road," CEO Ennis explains. "You can't



Founders Nelson, Hildebrand and Mouton: Providing crucial expertise





CEO Ennis:
Well-versed in startups

greenbacks, typically in denominations of \$100 or more.

"After all, our biggest asset goes home every night," Ennis adds. "If we can't attract and keep good people, we can't grow."

CHANCE BEGINNINGS

Landmark Graphics' corporate culture was no accident, but was a direct outgrowth of the personalities of the four entrepreneurs who founded the company in the winter of 1982.

At that time, two of these men, John Mouton and H.A. "Andy" Hildebrand, had just started a computer consulting business based on their knowledge of designing powerful, easy-to-use workstations. A third man, H. Roice Nelson Jr., was a leading free-lance seismic mapping consultant, and a fourth, Bob Limbaugh, was selling seismic services for Digicon, a major seismic company.

Each of the four men brought a crucial area of expertise to the partnership.

Mouton, a doctor in physics and a former geophysicist with both Hughes Aircraft and Exxon, is the hardware specialist, a microcomputer expert who understands computer technology inside out.

Hildebrand, a former seismic data processing specialist at Exxon Production Research, is the software expert who has written books on designing technical software programs for seismic interpretation.

Nelson is an industry-recognized leader in the use of computers in seismic interpretation, the one who knows what users want from firsthand experience.

Limbaugh, the seismic salesman and fourth entrepreneur, is the mutual acquaintance who brought the Landmark partners together.

"Andy and I knew how to build these sorts of workstations, but we didn't know exactly what to build," explains co-founder Mouton. "Roice, on the other hand, knew what to build, but didn't know how."

After being introduced by Limbaugh and holding a single, night-long discussion, the four men decided to form a business based on their realization that, between them, they covered all aspects of the seismic problem — hardware, software and end users.

Late in 1982, the partners had barely begun their search for venture capital when,

"out-of-the-blue," Mouton says, Roice Nelson got a call from a northern venture capitalist seeking advice on a business plan vaguely similar to Landmark's own.

"Roice told him, 'If you're looking at that plan, you ought to come down here and look at a better one — ours.' He did and gave us our first venture capital, practically on the spot."

That first eager believer rounded up additional venture capitalists in short order, to complete a first-round fund-raising that netted \$2 million. This provided the partners with enough seed money to conduct research and development and build a single prototype machine in time for the annual Society of Engineering Geophysicists exhibition in the spring of 1983.

At that yearly exploration technology expo, the four partners huddled nervously around their workstation, hoping somebody would be interested enough to ask for a demonstration. Geologists and geophysicists flocked to the station, and Landmark ultimately sold three systems from contacts made at that first trade show. The partners' first product left the shipping dock when the company was 18 months old.

Once orders began trickling in at the rate of one or two a month, Landmark initiated a second round of fund-raising to get enough money to set up a production system. By July 1984, it had raised another \$4.5 million, which split ownership of the company one-third to the partners and employees and two-thirds to the venture capitalists.

By now, Landmark's backers included some of the most prestigious names in venture capital: L.J. Sevin and Ben Rosen, who helped get Compaq off square one, and Hambrecht and Quist Investments, which helped make Apple a household word. Thus Landmark's reputation began spreading in two directions simultaneously — through the buddy system of industry users and through the ranks of the country's venture capital elite.

About 2-1/2 years ago, just as Landmark was wrapping up its second funding pass, partner number four, Limbaugh, decided he preferred starting companies to running them. He left Landmark to pursue new ideas in California, and the remaining three partners turned to their venture capitalists to find them a new CEO. The backers found Gene Ennis, a division chief in Texas Instruments' geophysical department.

THE ENNIS ERA

A design engineer by training, Ennis, 42, has an extensive background in technological management. He started two new divisions at TI and came to Landmark well versed in the problems of getting a fledgling company off the ground.

Ennis says he made a few changes immediately after coming on board in September 1984, "because we had to watch our cash flow very closely and get our production line started up at the same time."

To that end, Ennis introduced Landmark to the Japanese "kanban" just-in-time manufacturing system, which virtually eliminates inventory by having parts delivered only when the assembly line actually needs them. Hardware components are purchased from 40 vendors who must constantly bid against each other for Landmark's business. Systems are built one at a time and only when an order has been received.

Ennis also brought a chief financial officer and a marketing man on board, so that the founders would be freed from the day-to-day running of Landmark Graphics.

Under Ennis's tutelage, Landmark's sales jumped to \$6 million by the end of fiscal 1985, nine months after the new CEO joined the firm. Sales doubled the following year, and Ennis expects the last quarter of calendar year 1986 will be the company's best yet.

NEW CHALLENGES

Landmark Graphics faces a pair of challenges as it heads into its next round of corporate growth.

The first is product obsolescence. Landmark is already beginning to address this problem by marketing its second generation of computer workstations — a desktop model based on the powerful new Intel 80386 microprocessor.

"This is our major challenge right now — going from a one-product company to a two-product company," Ennis says. Technology has progressed so rapidly that the new Intel chip allows a \$100,000 personal computer to perform virtually the same tasks as the larger, three-to-four-times-more-expensive computer workstation the partners built their company on just four years ago.

Now, not only must Landmark woo new customers with the latest technology, but upgrade old customers to stay even with the capabilities of the new product. The upgrading task won't end there, either, because Landmark's designers are already working on a third generation of systems, with the goal of having four generations of products, ranging in price from \$50,000 to more than \$500,000, on the market within the next 18 months.

This kind of research and development growth takes money, which brings up Landmark's second challenge — taking the company public. Landmark tried to go public once before, in early 1986, but had to shelve its plans when the price of oil plummeted.

"We had done all our due diligence and were just about to print our prospectus — which is where you spend the big bucks — when oil made its big price drop," Ennis recalls. "Our investment banking advisers canvassed the market and told us there was no way any company associated with the oil industry could go public at that time."

Although company officials are understandably reluctant to tip their hands in this matter, they assign high odds to their attempting to take the company public again within a year. "We'll do it when Wall Street forgets about the troubles in the oil industry," Mouton says. ■

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