



eurogram

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Dedicated to developing European Markets for technology based companies

A Message from Carter Alexander, President

As the saying goes, "When the US sneezes, Europe catches a cold". It's never been more accurate than since the technology crash of April 14 on Wall Street, particularly in the .Com segment. The irreverent DotComFailures.com website roster of "The Dead" includes more than a few European disasters. Most notably Boo.Com, the fashion e-Tailer which managed to blow through some \$200m of its investor's money, including those who should have known better, such as the Louis Vuitton and Benetton empires and called in the receivers. There have been sellouts at fire-sale prices such as London's Jungle.com, which was expected at its launch in February to have an IPO with over a \$1Billion valuation. Jungle.com ended up being snapped up by Great Universal Stores (GUS) at a paltry \$50m. Others amongst the European B to C e-tailers, now called Dot Bombs, have simply shut their doors, leaving investors and employees wondering how it all happened so quickly.

Europe had seen it before with the great tulip bulb frenzy that likewise fizzled out when suddenly everyone seemed to be in the tulip business. But this time we were in "Internet Time" when everything is accelerated and time compressed. All to make success happen faster, but also allowing failure to hit quicker. The good news is, as our venture capitalist friend Mark Kvamme of Sequoia Capital says, "Internet 1.0 is over. The winners have won, the losers are out. Now we are off to Internet 2.0". Kvamme was the founder of CKS, merged later with USWeb and now operating as marchFirst with those knock-out television adverts recently screening. He knows of what he speaks. He reckons Internet 2.0 will be driven by exploitation of the increasing deployment of broadband and peer to peer/many to many architectures. I wouldn't bet against him.

Meanwhile, we at The EMS Group maintain our focus on telecom and internet infrastructure hardware and software, which shows no sign of slowing down, despite the travails of the .coms. As such, we are always eager to talk with companies in our "sweet spot" seeking to enter or expand their market in Europe. A call to Roger Fisher, our Vice President of Business Development based in the EMS Group San Francisco office is always welcome at (415) 433-4344 or email: rfisher@emsgroup.com.

AltaVista- Europe Faces Reality

In one of Europe's great marketing disasters, Alta-Vista has been forced to withdraw its "free internet" services.

Someone failed to recognize that just as there is no such thing as a free lunch, there also isn't anything such as a company that can provide free internet service. In March of this year, with great fanfare and advertising hoopla, Alta Vista announced that it would be seeking to pioneer unmetered internet access in the UK. Freeserve, which was Europe's first free ISP, has struggled to make a profit even though the user must still pay for a local, metered telephone call. They must have chuckled to themselves at the audacity of the Yanks coming over to show them how free things could be. In spite of signing up 1,500 customers, whom it will continue to serve, Alta Vista's UK Managing Director, Andy Mitchell was forced to "fall on his sword" and resign. It turned out to be a case of losing money on each new subscriber and "making it up in volume" was not an option. CMGI, which owns Alta Vista and had planned for a large IPO for the search engine and access company, must not be pleased.

M-Commerce to be European & Asia Led

A recent study undertaken by Datamonitor in London predicts that the U.S. will lose its technology lead to Europe and Asia during the next five years, due to the increasing growth of computer systems and professional services for mobile commerce.

The study concludes that the current number of m-commerce systems now at only 280 will

climb dramatically to 12,720 by 2005 representing \$4.7 billion in revenues. The software portion will be valued at \$2.33 billion, \$1.05 billion in systems integration and \$570 million in professional services. Datamonitor reckons that the U.S. is 18 to 22 months behind Europe in mobile commerce, primarily due to Europe's standardization on GSM standard versus the mixed bag of standards in the U.S.

M-commerce infrastructure in Europe will be worth \$1.9 billion compared to the U.S. at \$1.2 billion.





Mobile Systems Boost Logica

Logica, the London-based IT services company, is enjoying high demand for its mobile telephone system products. Its revenues are up over 25% and margins are up from 8.9 per cent to 10.5 per cent.

The European market for cell phones is growing dramatically with exciting new services based

on SMS (Short Message Services) WAP and the soon to be deployed G3 systems. Logica claims to hold more than half of the SMS market globally in serving over 100 million subscribers and expects to be a major player in the development and deployment of WAP applications.

Top European Mobile Users

% total of population	Dec 99
Finland	64.99
Iceland	60.89
Norway	60.11
Sweden	56.09
Denmark	50.44
Italy	49.74
Austria	48.36
Luxembourg	46.03
Portugal	44.11
Switzerland	41.29
Netherlands	39.92
UK	36.63

Source: FT Mobile Communications

Europe to Adopt Broadband in a Big Way

A new report by Forrester Research projects that by 2005 over 27 million Europeans will have broadband internet access, which means 18% of the population will enjoy the faster service. The biggest driving force will be reduced costs for the services brought on by "massive competition" between the telcos and the cable vendors.

Prices are expected to drop by 2002 to below 30 Euro's or around \$25 at today's conversion rate. Forrester expects a frantic effort by the players to provide scaleability, geographic coverage and heavy advertising to achieve

strong branding positions. Those who do not ramp up quickly will face the abyss of a coming consolidation. Lars Godell, analyst for Forrester believes "Broadband will force a Net-access shakeout because the investment requirements will be enormous. The new economics focused around scale, scope, and brand strength will change Europe's Internet access landscape. Established telcos and their ISP affiliates will crush cablecos, independent ISPs and broadband pure plays". The winners in our view will be the providers of infrastructure hardware and software who will provide the arms in a very rough war.

More than 4 out of 10 UK citizens now use a mobile phone but the Brits have a long way to go to catch their neighbors in Scandinavia and on the Continent. But England is catching up fast, primarily as a result in dramatic growth of subscribers due to new prepaid mobile phone packages. Wait until the G3 and WAP enabled services take off!



Europe remains the world's leading market for long distance phone usage with a growth rate of 10 percent per year from 1999 through 2003 according to Ovum, Inc.

The key drivers are the effects of deregulation allowing the European carriers to extend their global reach and secure the funding through IPOs to upgrade their infrastructures to the faster and more efficient digital architectures.

International Traffic forecasts by Region 1999-2003 (\$Billions)

	1999	2000	2001	2002	2003
Europe	38,400	41,800	46,500	51,200	56,100
U.S & Canada	32,700	36,200	39,900	43,700	47,500
Asia Pacific	10,500	11,600	13,000	14,500	16,300
South & Central America	4,820	5,130	5,450	5,760	6,130
Central Asia	3,330	3,670	4,030	4,470	4,980
Middle East	2,630	2,810	3,030	3,560	3,430
Africa	1,590	1,660	1,730	1,820	1,920
Total	93,970	102,870	113,640	124,680	136,360



Ericsson Re-orgs Again

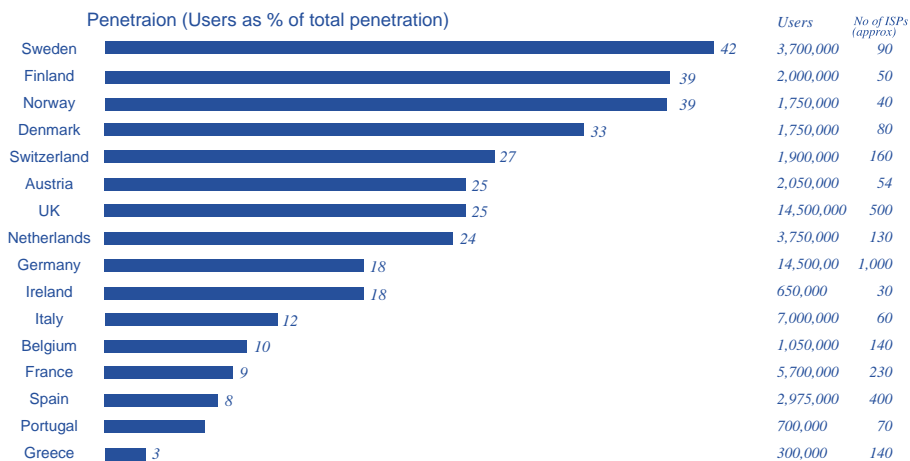
While long-time partner of Ericsson, Sun Microsystems, has made re-organization seemingly an annual event, it came as a bit of a shock this summer when with only 15 months on the job, Sven-Christer Nilsson was given his walking papers by the board. The reason for the impatience in Mr Nilsson's pace in implementing a sweeping restructure of the Swedish telecom vendor was no doubt due to the apparent loss of market leadership to Nortel in offering internet technology and to Nokia in mobile phone handsets. Returning to the helm is Lars Ramqvist, Ericsson's chairman and former CEO. Ericsson is rolling out a series of new internet products and relationships to leverage its position in the internet. Key will be focusing upon wireless internet services such as a joint venture with Volvo for the automotive industry. Ericsson's contribution to open systems, Bluetooth technology is taking off nicely in Europe and the US with over 1,200 companies now signed to implement it. A major joint venture with Microsoft to develop software for mobile access devices allows Ericsson to cover its bet on EPOC, the operating system developed by Symbian. Ericsson is not giving up on the handset wars and is rolling out its nifty T28 handset geared to compete with Nokia's best offerings. Busy times in Stockholm.

The UK Miracle

Not many would have imagined, as we move forward into the new millennium, that Britain would have quietly become the world's fourth largest economy behind the U.S., Japan and Germany.

Only four years ago the UK was sixth but has deftly passed both Italy and France. The overtaking of the French economy was breathtaking, as in 1996 the French GDP was 32% ahead of Britain. By 1997 the gap had closed to 7% and by 1998 to 3.5% before Britain took the lead as the new year began. What is amazing about this performance is that at the same time Britain has been suffering from the disparity between the British Pound Sterling and the Euro. British manufacturers exporting to its EU neighbors are facing upwards of a 25% disadvantage versus local competitors. No doubt all of this comes to the Europeans as a bit galling and probably accounts for the frustration shown by the French who have begun lobbying the EU in Brussels to reign in the Brits with their longer 40+ hour working week versus the 35 hour week in France.

Internet Users and Suppliers in Western Europe End of 1999



Source Analysis

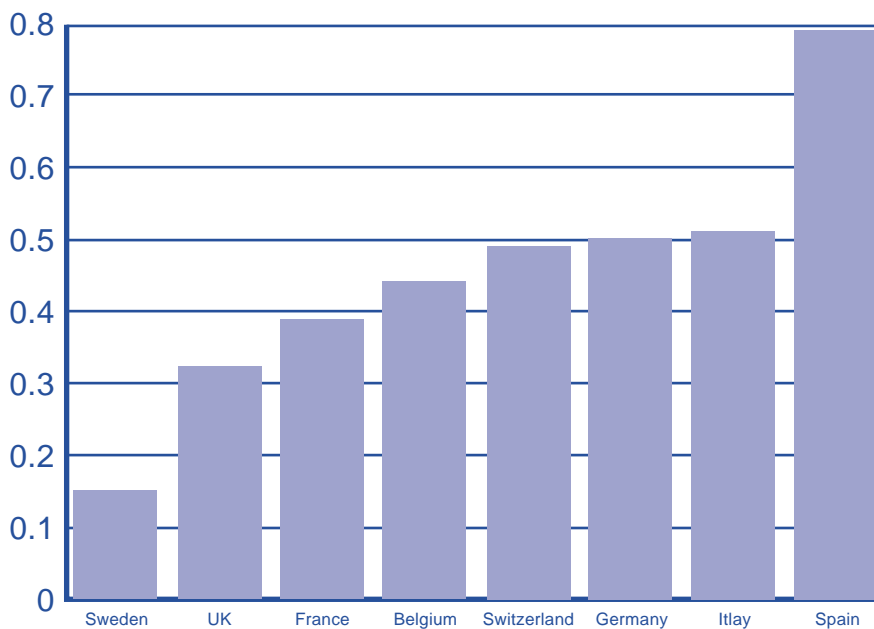
While Scandinavia boasts the highest penetration of the Internet in terms of users in Europe, it also is much more centralized in terms of ISPs delivering services.

The fifty ISPs in Finland are serving a paltry two million or 40,000 each. In the UK we have

14.5 million users gaining access through 500 ISPs or 29,000 each. This without a doubt indicates a consolidation to come sooner than later. No wonder observers consider the UK the most competitive Internet market in Europe.

Technology Database Roam Rates

Cost of a three-minute peak time telephone trunk call, July 1999, in dollars



Source: Merrill Lynch

An interesting report from Merrill Lynch indicates that mobile phone rates do not appear to correlate with phone penetration or population.

Spain and Italy with large and fast growing populations of subscribers are the most expensive in Europe. Sweden with the lowest

rate has a different attitude; low costs will increase the user base. They underlined this position recently by offering new G3 licenses to carriers at "peppercorn" rates versus the multi millions demanded by the UK, Germany and France no doubt to fill the coffers of their treasuries, not to encourage creation of lower cost cell services.



Marconi Marches Forward

British supplier of network equipment and services to telecoms operators and global corporations, Marconi is on a roll.

At the end of last year the former GEC joined the London Stock Market with a bang. But it was a long time in the making, as GEC had become bloated and lacked focus, resulting in an inability to compete with the likes of Cisco and Nortel, not to mention leading European players such as Siemens, Alcatel and Ericsson. Lord Simpson, the CEO charged with engineering the transition, has done an admirable job in trimming the organization. Out went the defense products in a sale to British Aerospace. The heavy engineering division, GEC Alsthom was spun off and floated on the London Stock Exchange separately. Lord Simpson decided to take full control of GPT, the joint venture with Siemens to focus on telecommunications. Then he purchased two US firms, Reltec which specialized in network and access products and Fore Systems the leader in ATM and gigabit Ethernet. The shopping led to purchase of Robert Bosche's telecommunications business. Armed with stronger and more competitive products, Marconi is winning business as well as support from the stock market that has rewarded Lord Simpson with a 300% increase in its market cap since he took over. Well done!

World View

Percent of Respondents who said e-commerce would help them

		Europe	United States
Access new geographic markets	1999	40	54
	2000	38	22
Enter new industries	1999	32	28
	2000	32	14

Source: Andersen Consulting

A surprising 97% of European companies say they are already engaged in e-commerce and are doing so as a result of fear of competition gaining on them. In a show of confidence,

93% told Andersen Consulting that the post April 14 crash hasn't changed their planning for expanding their e-commerce efforts.

Call Center Boom

Call centers in Europe have become the biggest job-creating phenomenon over the past decade.

Datamonitor projects that they will continue growing at 6% per year. Germany second only to the UK in numbers of employees within call centers will see a jump from 175,000 to 263,000 this year. Italy and Spain will likewise expand rapidly. Call centers are not only growing in numbers in Europe, they are also becoming

increasingly complex operations. Moving from simply answering incoming calls, they are being transformed into multimedia centers handling all forms of contact with customers including email, fax, cash machines, internet kiosks and digital television to reach the consumer. This integration is being accelerated by advanced CRM systems. The proportion of call center contact by email will grow from 5 percent to 18 percent by 2003, but telephone will still account for 72 percent.

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