



eurogram

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Dedicated to developing European Markets for technology based companies

Message from Carter Alexander, President & Founder – The EMS Group

This edition of the Eurogram marks a major milestone in the history of the European Union. On May 1st ten new member countries join the EU including Malta and Cyprus but from a historic standpoint, eight of the new members were formerly communist countries behind the Iron Curtain back in the days of the Cold War: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. The combined new EU boasts 450 million consumers dwarfing the US's 280 million and exceeds the entire NAFTA market serving 420 million. The EU last year had previously surpassed the US in number of Internet users with 185 million to the US's 182 million. Now we would anticipate the margin has increased by at least another 30 million as the former Soviet bloc countries have adapted to the Internet in vast numbers. They have clambered onto the Internet to gain access to information, products and services from the west. Equally they use it to supply services such as software development and low cost manufacturing in return. It makes for a huge market, estimated to be \$12 Trillion in size – much larger than that of the US.

While we are positive and optimistic regarding the business opportunities for US companies in the new EU countries, we would caution on ensuring the credit worthiness of potential customers and distribution partners before shipping products. The financial infrastructure of many of these countries has yet to catch up with the requirements of the Western financial world. Likewise, the legal systems are yet to be homologated with that of the EU and hence, legal recourse is not a simple matter in countries such as Latvia or Slovenia.

Back in 1981 when EMS was founded, the notion of doing business on "the other side of The Wall" was not even something to be considered. US vendors of technology products were severely limited in doing business in these countries if at all. Not that there wasn't a lot of interest in technology from the West. One of our earliest clients, Piiceon, made a desktop computer system with a huge vertical display. Somehow, the Piiceon computer came up on the list of things that were desired by a research institute in Poland. We received an amazingly detailed request for quotation which included the correct part numbers for spares as they would have to be self-sufficient. How they obtained the part numbers baffled the management of Piiceon themselves, but due to export restrictions they asked us to decline the request for quote for the products to be delivered to the Polish embassy in London. I often wonder about this situation and am glad that we did not risk our reputation or that of our client. But how did they know about the products in such detail?

Nanotech not catching on in Europe - YET

A recent report by Nanoinvestor News indicates that Europe is lagging well behind the US and Japan in pursuing the dream of nanotechnology. Whereas Japan and the US invested over \$600m in nanotech R&D last year, Europe cautiously put up \$400m. Most of that money was focused on semiconductor applications leaving miniscule machines and information systems to the Japanese and Americans.

Environmentalists in Europe who have already put a crimp in genetically modified food products have been voicing concerns about nanotech being a large risk.

A new book by Michael Crichton, Prey, involves nanotech run amok, with tiny self-replicating machines known as nanobots, escaping to wreak havoc on the world. Environmental activists including Prince Charles in the UK have voiced their concern at the potential harm that nanobots could bring.

UK Spearheading Recovery in the European Market

A new report conducted by IT research firm, Ovum says that the European IT market has "turned the corner" and that the recovery is being spearheaded by the UK. The EuroView Market Trends report predicts that the

European IT market will grow by an average of 4% over the next two years, driven mostly by outsourcing and telecommunications.

Both the UK and Germany enjoyed a great year in 2003 with 14-15% growth rates according to

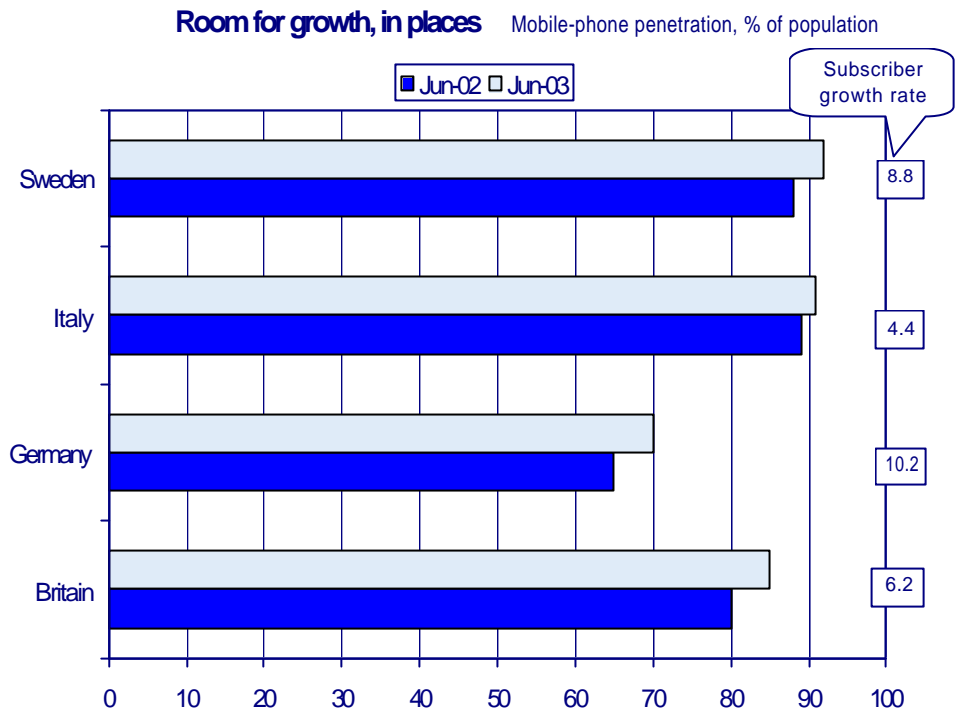
Ovum. "Measured by revenues, the majority of the IT in the UK is now outsourced," said Ovum Director Richard Holway. "The UK has also put out the welcome mat to offshoring in contrast to France, which has put up the barriers."

BT Signs Deal with Dell for WiFi Access

Mr. Verwaayen of BT isn't betting everything on DSL broadband. BT has signed a major contract with Dell Computers and Intel which will mean that BT's WiFi software will be embedded inside Dell Latitude laptops before they roll off the assembly line. Thus, Dell owners in the UK will be given a free trial to BT's WiFi service, BT Openzone which is being rolled out in thousands of short radius hotspots in coffee shops, airports and hotels.

BT plans to install WiFi base stations in thousands of phone boxes in city centers after a trial this year. BT isn't expecting laptop users to cram into phone boxes. The base stations will offer wireless access to anyone within a radius of up to 50 meters and the strategy is to install so many of the low cost base stations in urban areas that laptop users will always have a fair chance of locating one. The next phase will be to leverage BT's Openzone wireless network to play a crucial role in BT's mobile phone strategy with the future introduction of WiFi enabled mobile phones. BT sold off its O2 wireless phone business and while partnering with wireless carriers, sees WiFi/VoIP as being the next and more strategic phase of mobile communications.

Mobile Penetration Continues to Ramp Up in Europe



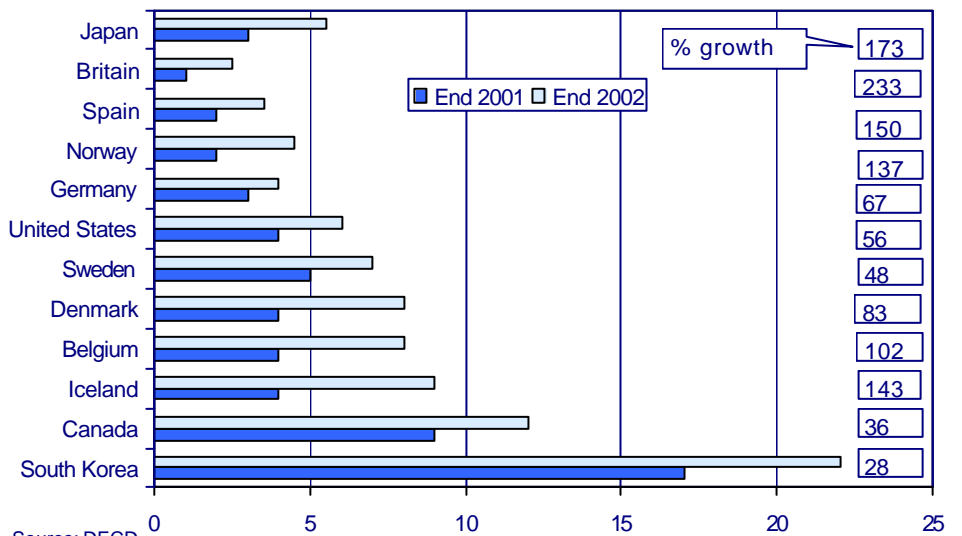
Source: Informa Global subscriber Database

While Germany has a larger population, The UK Italy and Sweden enjoy a higher percentage of adoption of mobile phones – all showing over 80% of their citizens are utilizing mobile phones. These numbers also correlate with mobile Internet access and e-commerce purchasing from European mobile phones exceeding that of the US.

Broadband Connections

The broadbandwagon rolls

Broadband connections per 100 population



Source: DECD

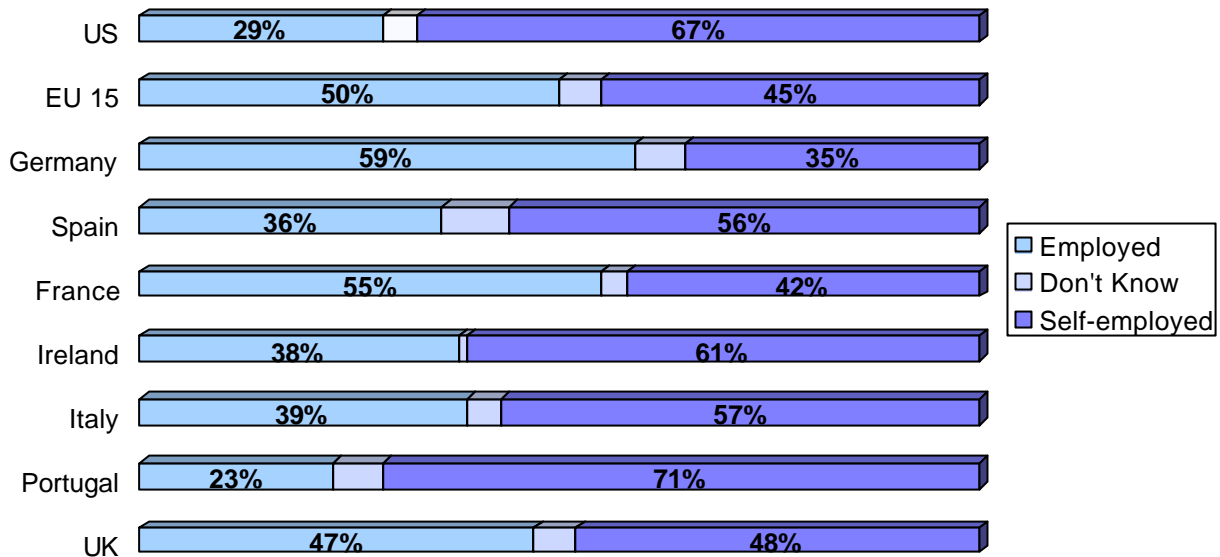
South Korea may have the largest number of broadband connections, but Europe is showing the most growth with the exception of Japan and higher than that of the US or Canada. In the UK, BT's chief Ben Verwaayen, who took his position from the British Broadcasting Corporation and knows a thing or two about video content is on a mission to "own" the UK broadband services market. He has declared that broadband will be at the heart of BT's business.



ENTREPRENEURSHIP IN EUROPE

Entrepreneurship

'Choose between being an employee or self-employed?'



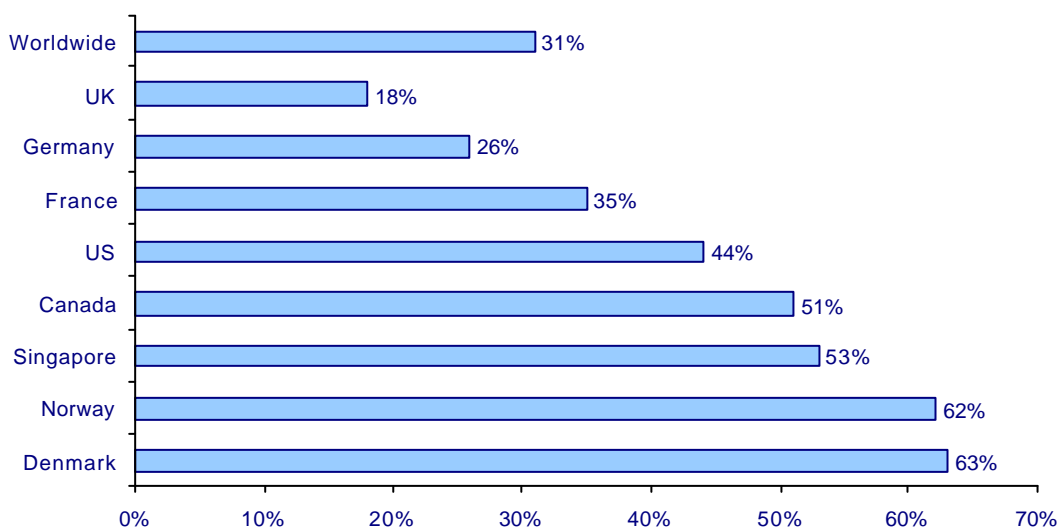
Source: Gallup Europe

Entrepreneur may be a French word, but like their German neighbors, the majority of French citizens would rather be an employee than strike out on their own and be self-employed.

As this study comes from Gallup Europe in 2004 it would have been interesting to compare it with say 1998 before the Internet boom collapsed in Europe taking with it the hopes of many young entrepreneurs. It also brought about the demise of the Neuer Markt which was Germany's Nasdaq and no doubt influenced the 59% of Germans saying they would rather stay indoors with an employer rather than venture out into the world to start their own companies.

Scandinavians Lead in Online Government Services

Use of online government services in 2003



Source: Taylor Nelson Sofres

If you've seen the marvelous documentary, "Startup.Com" you will recall that the subject of the film was an Internet play focused on local government. A recent study by Taylor Nelson Sofres shows that the US at a paltry 44% of government services being delivered online falls way behind leaders Denmark and Norway not to mention Singapore and Canada. Worldwide use of online government services has reached 31%. When one considers the slowness of government agencies to accept change, this is quite remarkable as we are only ten years into the Internet revolution.

ATOS ORIGIN SCOOPS UP SCHLUMBERGERSEMA

In a remarkable turn of events, French oil services group Schlumberger has dropped out of the Information Technology sector. Two years ago Schlumberger acquired Sema, an Anglo-French I.T. consultancy for \$5.2 billion. Last year Schlumberger admitted it overpaid just a bit, by announcing a write-down of nearly \$3 billion of the asset. The write down reflected internal issues but more significantly, the loss of revenues from telecom clients such as BT and France Telecom. Now the other shoe has dropped as the group has been sold to Atos Origin to

create the fourth-largest information technology services group in Europe with combined sales of more than \$5.7 billion. Atos Origin will rank behind leaders IBM, EDS, T-Systems but it is a bit larger than Accenture.

In a complicated agreement, Schlumberger has agreed to take on the full cost of restructuring the company including the departure of some 1,600 staff members by the end of 2004. Atos will be issuing 19.3m new shares giving Schlumberger a 28.9% stake next to Philips' 32% holding. Schlumberger indicates that it intends

to work its holding down to 19% over time. The company will be re-branded as Atos Origin, erasing the name Sema from the IT landscape. This event, coming on the heels of the acquisition by Logica of CMG, demonstrates that IT companies in Europe are increasingly eyeing their rivals. Xavier Flinios, executive vice-president of SchlumbergerSema who will remain on the board stated, "We are clearly in a consolidation period. Only IBM can predict what its share-holder base will look like over the next three years".

SIEMENS BETS AGAIN ON TELECOM

Despite the gloom and doom in the telecommunications sector, German giant Siemens has rejected calls for the group to scale back its telecom business, the largest segment, which accounts for 23% of its overall revenues. Chief Executive Heinrich von Pierer, quite to the contrary, believes the industry will eventually recover and Siemens will be a player when it does. Siemens' telecommunications operations are divided into two units: ICN, which offers fixed-line products and services and ICM which concentrates on wireless infrastructure and handsets. ICN in turn has two divisions: a carrier unit which provides hardware and

services to telecom operators doing, roughly \$1 billion per year and a similar sized division focused on enterprise accounts, offering telephone and data-communications services, also at a \$1 billion run rate.

While the carrier market has shrunk by half in the past two years, the enterprise area has been more stable and profitable. ICN managed to show a profit of \$60 million in the fiscal year ended December 31 versus a loss of \$180 million in 2002, even as sales for 2003 fell by 6%. Also Siemens, in the handset arena, has shown a substantial increase in market share now holding fourth place behind Nokia, Motorola and

Samsung but well ahead of SonyEricsson and LG. Siemens intends to maintain or improve its ranking as a handset vendor by teaming up with Asian manufacturers to reduce costs and accelerate new product design. Siemens is convinced that with high speed wireless services (G3) ramping up, demand will be huge for network elements. To attack this opportunity Siemens has partnered with NEC in Japan and so far they have installed nine of the existing fifty networks globally and have twenty-nine orders in house, making them third in the market behind Ericsson and Nokia, according to Morgan Stanley.

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