



newsletter

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The management
Newsletter for all
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scanning and
related
technologies.

SCANNING, CODING & AUTOMATION NEWSLETTER • 11 Middle Neck Road • Great Neck, N.Y. 11021 • (516) 487-6370

Volume XII Number 7

March 1989

About 2 1/2 years ago....

....Computer Identics (C/I) purchased from Spectra-Physics the assets of their hand-held laser scanner product line (SCAN July 86). Although the specific terms of the purchase contract were never disclosed, Spectra had insisted on including the right of first-refusal if C/I ever decided to resell the package.

[That 1986 sale to C/I occurred about 6 months after Spectra-Physics had entered into an agreement with Symbol Technologies, licensing Spectra to make and sell hand-held laser scanners. This was the only such license Symbol ever issued under its laser gun patents (SCAN Sept 85) and this license went over to C/I when it bought the product line in 1986.]

Computer Identics has not made nor sold too many hand-held laser scanners since buying the product line, and a few weeks ago the company sold it all back to Spectra for about \$1.5 million (which included \$500,000 in parts inventory).

Why the change of heart by both companies? As for C/I, President Frank Wezniak finds this decision is consistent with his company's commitment to the factory data collection area, where laser guns comprise only a relatively small portion of the total value of a system sale. According to Wezniak: "We can purchase these scanners, as we need them, from any of the available sources, and we can do it as cheaply as we can manufacture them in-house." [And, not incidentally, the infusion of \$1.5 million in cash must have looked attractive to the company -- see C/I's financial report below.]

Spectra-Physics, on the other hand, bought back the hand-held laser scanner product line and license from C/I "primarily as an investment." According to a company spokesman: "We have no current intention to manufacture or sell this product. We look upon the license from Symbol Technologies as a commodity that will increase in value."

Spectra assumes that Symbol will limit the number of licenses that it will issue in the future and that, as the market grows for these products, the value of the license will also increase. We checked with Symbol and learned that there are no such licenses pending, and that any future applications for one would be treated on a "case-by-case basis."

An additional incentive for Spectra to exercise its option to repurchase the product package, was that C/I was actively soliciting bids and had, in fact, received an offer. Although Spectra professes not to know the source of that offer, the company felt that it would be best to keep the hand-held laser scanner away from any real or potential competitor in the retail POS market.



ISSN 0273-3080

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We asked the company representative why his firm would not want to add the successful laser guns to their current line of POS scanners, rather than just sitting on an inactive license. "Spectra is committed to stationary scanners, such as our Freedom Scanners," he replied, "and we intend to educate the market as to the errors of their ways."

We have always found....

....Terry Van Der Tuuk, President of Graphic Technology Inc. (GTI), to be very open and forthcoming about his company and its operations. Since Van Der Tuuk joined the Olathe, KS company over a decade ago, sales and earnings have risen steadily. More specifically, since he took the company public in 1983, he has posted record sales and earnings every year. Over the past 10 years, revenues have gone from \$780,000 to \$25.6 million; while a 1978 loss has been turned into a \$2.2 annual profit in fiscal year 1988.

GTI's primary product is preprinted, pressure-sensitive, bar coded shelf labels for retailers. The company also sells laser printing systems to many of its major customers who have been converting to printing their own in-house shelf-labels. A third product group is the AccuChek electronic shelf label (ESL) that GTI developed for automated shelf marking (SCAN Sept 87).

According to Van Der Tuuk, GTI's success and strong financial position has made the company an attractive takeover target. "During the past few months," he told *SCAN*, in a mid-February interview, "we have been approached by a number of companies with a view to acquiring Graphic Technologies. I am not particularly worried about any hostile takeover, however, since my ownership of 40% of the voting stock provides me with sufficient control to stave off any corporate raider."

Van Der Tuuk has engaged the investment banking firm of Bear, Stearns as his financial advisor for the stated purpose of providing assistance in considering various financial alternatives (including a possible sale of the company). At the same time, he emphasizes, "There are no proposals that are presently being considered."

We asked Van Der Tuuk why he was receptive to these bids in the first place and why he had gone so far as to take steps to explore other acquisition possibilities. GTI's chief executive provided these answers:

1. His large personal equity in the corporation has made him "more cautious and conservative in making corporate decisions." He speculates that when the company was smaller, his style had been more aggressive. Now that his personal stake is much larger, he wonders whether selling out his shares could remove that personal risk and make him a "better manager."
2. He feels that he needs help in expanding the markets for the company's products. He was concerned that he doesn't have the experienced staff or senior management to move aggressively into other markets (such as Europe) or into non-retail areas (outside GTI's traditional customers). For example, he sees a natural marketing fit between his company's products and some of the large printed forms companies, such as Moore, Uarco and Standard Register. These firms could sell GTI's laser printing labels while GTI, in turn, could provide market entry for them into retailers who are large forms users.

As for GTI's current business and the prognosis for its current product line, there have been some important recent developments. According to Van Der Tuuk, even as the printed label business may be levelling off, GTI continues to capture a large share of the laser printing system business for retailers, as well as the subsequent "razor blade" blank labels consumed by these printers. Most customers, he maintains, want to be sure of single-source responsibility if anything goes wrong with the sensitive laser printers.

The AccuChek electronic shelf labels have not been faring so well, however, and this product has been temporarily pulled off the market. First of all, GTI found that the software required was more important than had been anticipated, and customization was needed to interface with the various point-of-sale systems. To resolve this problem, a joint venture has been established with a software company which had already developed such programs.

In addition, GTI's AccuChek distribution arrangement with Telxon has been terminated. Telxon had partially funded the original development of the AccuChek product (SCAN Sept 87) in return for which Telxon had received exclusive worldwide marketing rights (except for North America). With Telxon out of the picture, GTI is now making plans to set up its own distribution network for Europe. In the US, GTI will sell the system directly. Van Der Tuuk points out, however, that his company still plans to use the Telxon portable computers as part of the AccuChek system.

The company intends to continue to develop products and markets as aggressively as possible, even while seeking a corporate suitor. Van Der Tuuk said that he will allow about 6 months for "something to happen in the way of a corporate merger" -- but he states that he won't let the situation drag out any longer than that. In late January, one institutional holder of GTI stock unloaded 100,000 shares in one day. A few days later the stock moved from about 9 1/4 to over 13 based upon the acquisition rumors. As we go to press at the beginning of March the price has stabilized at the \$12 range.

The 1988 year-end financial results....

....of Computer Identics (C/I) turned out to be a far cry from President Frank Wezniak's forecast. A year ago, Wezniak told SCAN that in 1988 sales would increase 30% over 1987, and that the company would be profitable (SCAN Feb 88). The company has clearly fallen short of those goals this past year, even taking into account the special 1987 adjustments.

<u>COMPUTER IDENTICS</u>	<u>3 Months ended 12/31</u>		<u>12 Months ended 12/31</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
Revenues (\$000)	\$3,612	\$4,847	\$13,371	\$14,297
Net Income (Loss) (\$000)	(172)	(1,456)*	(1,135)	(3,295)*
Net Income (Loss)/Share	(.02)	(.23)	(.13)	(.55)

(*Includes one-time restructuring charges of \$1,322,000 taken in the fourth quarter of 1987.)

But Wezniak remains positive about his company: "We start 1989 in a much improved financial condition and look forward to a successful 1989." Pressed for specifics to support his optimism, he points to a number of factors:

- The termination of the Custom Systems Division (SCAN July 88) which removed a non-profitable operation that was draining the company.
- A 15-20% increase in orders received -- including a 35% improvement in sales revenues from the European market -- which has put the continuing operations on a profitable basis.
- The recent appointment of Staunton ("Opie") Oppenheimer as the new VP Sales and Marketing. (Opie joins Computer Identics from Northern Telecom, a manufacturer of telecommunications systems and software, where he spent the last 8 years as Sales and Marketing Vice President of two different divisions.) Wezniak expresses a great deal of confidence in this new VP's ability to revamp the marketing organization and significantly improve sales.

Although he continues to express confidence about the future of Computer Identics, Wezniak will not make any specific predictions as to sales and profit figures for 1989. He would rather have his performance judged on the company's actual results at year-end.

The need for clear, coherent leadership....

....in order to achieve significant system automation changes in an industry, is currently being demonstrated by the US drug industry (ethical or prescription pharmaceuticals). Drug manufacturers have been "dancing around" the issue of bar coding their packages for over five years, dating back at least to the initial meetings of the Health Industry Bar Code Council (HIBCC) in October, 1983 (SCAN Jan 84).

[In 1986, the HIBCC became the Health Industry Business Communications Council to reflect its broader mission beyond just bar coding.]

The HIBCC is a loosely knit organization whose membership consists primarily of trade associations representing hospitals as well as manufacturers and distributors of pharmaceutical products. In its initial attempt at industry standardization (in March, 1984), the HIBCC issued specifications which established coding formats and designated Code 39 as the preferred symbology. These specifications also recognized UPC as an acceptable alternate, because "existing pharmacy and commissary product packaging will continue to have UPC as the primary bar code symbol." Subsequently, in a White Paper issued September 29, 1988, the HIBCC also endorsed Interleaved 2/5 and Code 128. Presently, Codes 49 and 16K are under consideration as the high-density symbologies required for unit packaging.

Many professionals in the drug industry view these endorsements -- of every available code and symbol -- as something less than standardization. These critics maintain that this muddle is holding back industry progress toward implementation of automatic identification.

Into this babel stepped the National Wholesale Druggists' Association (NWDA), which recently proclaimed, in effect: "We can no longer tolerate this proliferation and confusion of codes and symbols. The only system we want to adopt is UPC -- and we want all drug packages to be UPC-bar coded by December 31, 1989." The NWDA laid out this position in its own "White Paper" (printed on yellow paper stock) in no uncertain terms:

- Use only the widely-accepted and implemented 10-digit National Drug Code (NDC) to identify each product.
- Print the NDC on each package and carton in both human-readable characters and in the UPC-prescribed formats (including the UPC Shipping Container Symbol in Interleaved 2/5).
- Get these steps totally implemented by 12/31/89.
- Consider adding alternative bar codes to unit-of-use and unit-dose packages and also look into bar coding lot numbers and expiration dates, but only after UPC is up and running.

To be certain these messages were understood by everyone, the powerful NWDA called a conference on February 1-2, 1989 in Arlington, VA to lay out the details -- and the pharmaceutical manufacturers turned out en masse. After all, few drugs reach the hospitals, drug stores or physicians without first going through the wholesalers who are the critical, immediate customers of the manufacturers.

Speaker after speaker exhorted the manufacturers to understand that bar coding systems were needed to efficiently control and distribute the 30,000 SKU's in a typical drug wholesaler's warehouse. The speakers also stressed that the NDC/UPC combination of code and symbol would be the only accepted medium for getting this done.

The point was clearly brought home by Bud Albers, the colorful President of Albers Inc., a major drug wholesaler, when he described the four inventory methods that non-systematized distributors have been forced to use. "We have the traditional systems of FIFO (First In, First Out) and LIFO (Last In, First Out)," Albers explained. "In addition, we drug wholesalers have our own special renditions: FISH (First In, Still Here) and ASWO (Aw, S--t, We're Out)." It was significant to note that the manufacturers in the audience roared with laughter, while the wholesalers nodded in agreement.

Will the NWDA be able to convince the manufacturers to meet the end-of-the-year deadline for compliance? It's going to be tough, according to the company representatives interviewed by SCAN. They believe it may still require multiple symbols on most packages in order to satisfy everyone in the full distribution chain, and that it will take at least 2-3 more years to complete the job, even for those who have already started.

We came away from the conference convinced that if any group can accomplish these tasks, it will be the NWDA. It has been shown, time and again, that there is nothing like having customers take a strong leadership role in order to convince suppliers to get off their hands and get moving.

We obviously weren't looking....

....carefully enough at all the exhibits at the January NRMA National Business Expo (SCAN Feb 89), according to follow-up responses we received from Craig Maddox, NCR's Peripherals Product Manager, and Bill Crane, President of POSDATA (Gig Harbor, WA). They pointed out that our survey (of the tabletop laser side scanners) had neglected products offered by IBM and NCR, and POSDATA.

As we reported, IBM seems to be concentrating a great deal of its efforts on software and systems integration. However, the company did offer two tabletop scanners for the non-grocery retailers. The IBM products in this category -- Model 4687 and the Mini-Slot -- are modified versions of the Freedom Scanners manufactured for IBM by Spectra-Physics.

While also continuing to feature system software, NCR is promoting its own Model 7852 Compact Scanner, which mounts horizontally ("no bracket") or vertically ("no screws"). This unit autodiscriminates among the major symbologies (UPC/EAN, Interleaved 2/5 and Codes 39 and 128) and lists for \$1,570.

NCR's Maddox agreed with our assessment of the explosive nature of bar coding in general merchandise retailing, but offered an additional comment about laser guns: "Hand-held scanners definitely have their niche. We sell them ourselves. But we shouldn't overextend hand-helds...Retail has embraced hand-helds over the years for price and size. But now slots have them on the run in both areas."

Crane, of POSDATA, took us to task for overlooking the Omniscan OS-712, a new tabletop, laser side scanner, which was tucked away at the rear of his booth at the NRMA show. POSDATA specializes in retail point-of-sale systems and also carries scanners made by NCR and Metrologic. The Omniscan is made by Micro Video of Campbell, CA, and POSDATA is its only authorized distributor.

According to John Pilger, Micro Video's VP Marketing, this is his company's first venture into retailing hardware (the firm makes electro-optical systems such as high-powered video microscopes.) The Omniscan was introduced as a prototype in mid-1988 and POSDATA reports that they have installed units at about 100 test ("Beta") sites for evaluation.

The Omniscan, list priced at \$1,595, features a much smaller size than the competitive tabletop scanners offered by Spectra Physics, Fujitsu or NCR. According to Micro Video's Pilger, his unit is so compact (4" x 5 1/2" "footprint"), and lightweight (2 3/4 lbs.), that it even allows for a limited amount of use as a hand-held device (it has a handle). Both Crane and Pilger feel that the optics of this unit are superior because they were specifically designed for a side scanner and were not adapted from under-the-counter slot scanners. Each scanner has been designed to automatically interface with all cash registers (except IBM) with no additional customization required.

At the present time POSDATA is the sole distributor. Pilger stated that his company is currently negotiating with others for marketing rights and that Micro Video, now gearing up for full production, expects to be able to achieve "significant capacity and shipment by year-end."

Micro Video, 548 Division Street, Campbell, CA 9508; 408/379-7971.

An important restructuring....

....of the Automatic Identification Manufacturers (AIM)/Europe organization was approved at the AIM/Europe Council Meeting on December 8-9, 1988. The new AIM/Europe plan strengthens the central organization, while allowing the semi-independent national groups to grow in size and strength.

These national affiliates are: AIM/UK, AIM/France, AIM/Europe-Espana and AIM/Europe-Denmark. Since there was no overall plan for growth, when AIM/International was initially conceived a few years ago, AIM/Europe is now taking the first steps to create a more rational international organization for Europe, while remaining sensitive to national and historic pride.

Subject to a ratification vote by the membership, this is what the new organization of European auto ID companies will look like:

- AIM/Europe will provide the strong central core and driving force of promotion and strategy throughout Europe. It will have regulatory authority over national affiliates and will produce and monitor an approved marketing strategy.
- To encourage the establishment of a new AIM national affiliate for the German-speaking countries -- West Germany, Austria and Switzerland -- AIM/Europe will open a "branch" office in West Germany, hoping that ultimately it will be taken over by the local participating companies.
- Similarly, an AIM/Europe branch will be established in Budapest as the forerunner of a national affiliate for the Comecon countries.
- Countries located within each affiliate's boundaries are expected to maintain their primary membership with that affiliate, but will also be automatic members of AIM/Europe.
- Direct corporate membership in AIM/Europe will be available to companies from countries which are not represented by a national affiliate, and also to multi-national companies (defined as companies with wholly-owned trading organizations in more than one country).

Although the successful growth of the national affiliates will be encouraged, the Working Party that proposed these changes clearly views two key areas of policy that should be reserved for AIM/Europe; i.e. the definition of overall business strategies to be addressed on a Pan-European basis; and the control of technical matters and related publications in order to present one common view. This will avoid a proliferation of generally similar, but different-in-detail, documents and retain some revenue earning facilities for the central body.

On January 24 all members present at an AIM/France membership meeting voted to accept the plan; and on February 22 there was no opposition from the full members meeting of AIM/UK. These votes are significant, since, less than a year ago, some members of both these affiliates expressed opposition to closer ties with any internationally-oriented European group.

The next two decision points are the AIM/International meetings on March 8 and 9 and an AIM/Europe general meeting towards the end of March. If all goes according to plan, the reorganization will be effective from April 1989.

If we were asked to select....

....a basic text for a college course on bar code scanning, we would probably choose The Bar Code Book by Roger Palmer (Intermec). We believe Palmer's just-released book is the most definitive manual on the technology published to date.

Subtitled, Reading, Printing and Specification of Bar Code Symbols, this is a no-nonsense, straight-talking comprehensive source book on the theory and design of bar codes and bar code printing. It proceeds in a logical, methodical manner to describe the history, concepts, definitions, design and implementation of this method of data collection.

The book is well-organized and comes complete with index, glossary, technical appendices and source references. Since each chapter stands alone, providing in-depth research into a specific topic, the book can be readily utilized as a reference source. Each subject is covered in detail, progressing from simple concepts and explanations for the beginner, into more complex and arcane details for the professional.

And the author does not shrink from technical explanations. These include detailed charts, tables and formulas on tolerance, print contrast, coding algorithms and computer error rates. The 200-page book contains about 250 photos and illustrations, each with detailed, explanatory captions. It is quite up-to-date, even including references (although without technical detail) to Code 16K, which was introduced at SCAN-TECH 88 last October.

It should be noted that *The Bar Code Book* has not been written to educate or convince user-management personnel to undertake bar coding systems. It has only perfunctory chapters on applications which present a general industry overview rather than in-depth case histories.

The *Bar Code Book* is published by Helmer's Publishing (*ID Systems Magazine*) and is available in soft cover (\$24.95) or hard cover (\$34.95) directly from the publisher: 174 Concord Street, Peterborough, NH 03458; 603/924-9631.

A new marketing agreement....

....between the Industrial Products Division of Welch-Allyn (Skaneateles Falls, NY) and Erwin Sick GmbH (West Germany) will include an exchange of products to be sold in the US and Europe.

Sick, a major manufacturer of optical and environmental control devices used in industrial automation, was seeking additional bar code products to complement its Automatic Identification Systems Division product lines in Europe. Under the new agreement, Sick will be selling Welch-Allyn's bar code products which include a broad range of scanners (pens, CCD's, hand-held lasers, and fixed position lasers), wedges and network controllers.

Welch-Allyn, in turn, will add Sick's fixed position laser scanners to its line here in the States. According to Chet Benoit, Sales/Marketing Manager of Welch-Allyn's Industrial Products Division, this will provide his company with products competitive to AccuSort and LazerData (InstaRead) for shop floor control applications.

The cross marketing agreement is non-exclusive for all products and areas. Neither company (both of which are privately held) will estimate future sales.

SCAN NEWSLETTER LTD. • 11 Middle Neck Road, Great Neck, N.Y. 11021 • Phone: 516/487-6370 • FAX: 516/487-6449
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