



# newsletter

Ltd.

Since 1977, the  
premiere management  
& marketing newsletter  
of automatic data  
capture: Bar Coding, RF  
and related  
technologies.

SCAN Newsletter, LTD. • 11 Middle Neck Road • Great Neck, NY 11021 • 516/487-6370 • FAX 516/487-6449

Volume XVI Number 8

April 1993

## How many times....

....do supermarket operators have to be clubbed over the head before they get the message that they have a problem?

In 1991, a survey by the New York City Consumer Affairs Department concluded that customers were overcharged by 10% on all sale items purchased in a scanning supermarket (SCAN July 91). This story was widely reported by the national media. In particular, this evidence was used to demonstrate that item-pricing on all merchandise was an absolute necessity to protect consumers from cheating by the store operators.

We commented at the time: "If retailers continue to maintain sloppy control over their price files, they deserve to be slapped down with the item-price law." This is a message that this newsletter has been promoting for over 15 years.

On April 8, 1993, ABC's Thursday evening *Prime Time Live* show (Diane Sawyer and Sam Donaldson) featured a story about supermarket scanning errors. The segment was not only the lead story, but it was the one that was used all week on the 15-second spots to promote the show on the network.

Here are just a few quotes from the broadcast that caught our attention:

"Checkout scanning errors may account for half the profits of the supermarket industry."

"Scanners overcharge consumers more than \$1 billion a year."

"Scanners are not accurate."

"Stores are 10 times more likely to overcharge than undercharge."

The truth, of course, is that the scanners are not inaccurate. The problem is that the stores are not keeping their databases up-to-date with price changes, particularly on sale merchandise. The cause is pure and simple mismanagement. It was significant that the reporter on *Prime Time* noted that in those states where there is strict enforcement to conform the shelf and computer prices, there were almost no errors found.

Ironically, we found that one of the program's most damaging remarks was made by Karen Brown, representing the Food Marketing Institute -- the trade



0273-3080(199304)16:8:1-V

INCLUDING THE INTERNATIONAL EDITION



association of the food retailers, who said: "There is 97% accuracy matching the shelf price and the register price." That means, Ms. Brown, that every time we go into a scanning supermarket and purchase more than 33 items, we can expect to be overcharged at least once. Or, putting it another way, in a store carrying 20,000 SKUs, at any given time 600 of them will be priced incorrectly in the computer.

The computerized systems are readily available which can insure a 100% price match between the shelf and the scanner. To see an executive from a leading supermarket chain make a feeble excuse on camera as to why his stores cannot achieve this goal is embarrassing.

Frankly, it was a lousy experience to watch, on national TV, the trashing of UPC scanning -- one of the most successful technologies ever introduced into retailing and one which benefits both the consumer and store operator.

#### The corporate merger....

....of Atech AB (Sweden) and Barcode Industries (France), two years ago, produced United Barcode Industries (UBI), based in Sweden (SCAN Oct 1991). The ownership of the company has since undergone a number of changes.

Most recently, UBI wound up as a subsidiary of Kongsbo, a Swedish-based holding unit that owns three other (non-auto ID) operating companies. UBI, with estimated worldwide sales of \$80 million, reportedly represents about 20% of its parent's total revenues. Kongsbo was financed by venture capital from Svenska Handelsbanken, one of Sweden's largest banks. (Unlike American banks, those in Sweden are permitted to make corporate investments of this kind.)

Last month, a reorganization of Kongsbo took place. While the official announcement called the move a "bankruptcy", one knowledgeable industry executive characterized it as "more of a reshuffling of assets." AB Handel och Industri -- a subsidiary of Svenska Handelsbanken -- is now the new owner of all shares of Kongsbo, including UBI.

This move is seen as a positive shift for UBI. As the same executive noted: "The bank will be more likely to invest additional funds in the operation now that they own it." According to Sven Skarendahl, President/CEO of UBI: "The change in ownership will have no adverse affect on employees, customers and suppliers of UBI. Management in the UBI Group will remain unchanged."

#### When their company went public....

....in mid-1991, the owners of Zebra Technology placed 2.8 million shares of their stock on the market at \$12 per share -- and the initial public offering (IPO) sold out immediately. Of the nearly \$34 million realized from that sale, the selling stockholders took away more than \$25 million while the company retained \$8 million for working capital and possible acquisitions (SCAN Aug 91). (Because of the structure of the Class A and B stock, it was significant that the new investors wound up with only 5% of the corporate voting power.)

Since the IPO, Zebra's sales and earnings performance has been outstanding. Compared to each prior year, sales rose 20.1% in 1991 and 28.7% in 1992. Total revenues last year were \$58.7 million and net income after taxes was \$11.8



million (\$.99 per share), an impressive 20.1% of net sales. Even while reporting lower unit prices on thermal printers, the company has increased its gross margins each year (47.6% in 1990; 48.4% in 1991; 49.4% in 1992).

So who can argue with the founders and principal stockholders (President/CEO Edward Kaplan, Senior VP Gerhard Cless, and VP Operations Stewart Shinman) when they decided to go back to the well? This time, a new prospectus disclosed, Mr. and Mrs. Kaplan (47.8% of the outstanding shares); Mr. and Mrs. Cless (15.6%); and Mr. Shinman (2.9%) offered to sell 2,630,000 shares to the public at \$22.75 per share. They netted approximately \$57 million from this sale. And, get this, they will still control 90% of the voting shares.

None of the proceeds of this secondary offering will go to the company. Based on our examination of the 12/31/92 corporate balance sheet, however, the company doesn't seem to need any of it (\$33 million in cash, investments and marketable securities, coupled with negligible outstanding debt).

Zebra represents one of the truly great success stories in the automatic data capture industry -- or in any other industry.

[Datamax's recent acquisition of Fargo -- Zebra's main competitor for low-end printers (SCAN Feb 93) -- has prompted one investment analyst to speculate about whether that merger might provide some short-term benefits to Zebra. This observer, who closely follows the auto ID companies, explained: "Datamax will be relocating the entire Fargo operation and this is bound to cause some disruption in their delivery, service or quality."]

#### It is always revealing....

....to browse through a corporate prospectus when a private company goes public with a new stock offering.

The Securities and Exchange Commission has laid down very strict rules of disclosure which a company must follow when selling shares to the public. Detailed descriptions of the personnel, products, markets, distribution channels and financial data are laid out for all to examine.

Take the case of Norand (Cedar Rapids, IA), for example. This manufacturer of portable systems, which are used to automate the collection, processing and communication of information, completed a successful initial public offering (IPO) of its stock on February 4 (SCAN Feb 93). The company sold 4 million shares (about 58% of its total outstanding stock) at \$15.50 per share. (A week later, the price on the NASDAQ exchange had risen to about \$20 where it has remained through the beginning of April.)

Here are some of the interesting facts we gleaned from the prospectus:

- The company netted about \$57 million from the sale of its stock. The proceeds will be used to retire all of the debt plus interest (approximately \$35 million) assumed when the company completed its 1988 leveraged buyout (LBO) separating it from Pioneer Hi Bred; and to prepay a portion of its outstanding bank term loan (\$14 million). The balance (\$8 million) will serve as working capital.



- The original investors in Norand, who were willing to risk their capital on a new venture, have accrued a significant reward. The group that financed the LBO in 1988 paid \$10.8 million for 2.9 million shares, or \$3.75 per share. Their investments multiplied more than five-fold in five years.
- An analysis of Norand's quarterly sales reveals an anomaly that makes some analysts nervous. Historically, the company has booked a disproportionate amount of its sales in the first quarter (very low) and the fourth quarter (very high) of each fiscal year (ended 8/31). In FY 1990, 1991 and 1992, for example, the percentage of total revenues in the first quarter ranged from 15% to 18%. During those same years, fourth quarter revenues were 34% to 38% of the annual totals. Even more disconcerting, the fourth quarter operating earnings of the corporation were between 76% and 93% of the company's annual results.

In its prospectus, Norand explains that "the quarterly trend of its revenues results mainly from the historical structure of Norand's sales commission and incentive programs...[which] has been to motivate Norand's sales people, sales engineers and software programmers to complete major system projects in the fourth quarter of each fiscal year, due to Norand's desire to meet annual year-end financial commitments to Pioneer and, since the acquisition, Norand's need to meet its bank covenants at the end of each fiscal year...[plus] the concentration of customers in the food/beverage and retail sectors who prefer to install their systems between their busy summer and Christmas selling seasons."

The company recognizes that this quarterly revenue distribution can be misleading and unsettling to investors. It is anticipated that this imbalance should diminish over time as new systems and products are introduced in a more even pattern throughout the year and as changes are made in the company's sales commission and incentive programs.

[An example of just how difficult it is to properly analyze and compare Norand's quarterly data is illustrated by the first quarter results of fiscal year '93. For the period ended 11/30/92, sales were \$30.9 million, up 50% over last year. Does that major sales increase portend a banner year for the company, or does it reflect an adjustment in the quarterly sales pattern?]

- Norand markets its products through three main channels: a direct sales force working out of 18 field offices in North America and in Reading, England and Bologna, Italy; independent value added resellers (VARs); and major systems integrators (such as IBM and Andersen Consulting). About 70% of its product revenues are generated by its direct salesmen; approximately 15% of all sales are international.
- The company's seven executive officers range in age from 30 to 50, averaging a very young 43 years old. In FY 92 (before going public), annual salaries of these officers were reasonable -- compared to other public companies of this size -- with only one executive (CEO) Bob Hammer) pulling down more than \$175,000.



Norand seems to have come through the last few years of difficult economic times in good shape. It appears as if the company is well-positioned for success in the near future.

#### When the decision was made....

....almost two years ago (SCAN June 91), to schedule SCAN-TECH/US for Chicago in 1994, it was reported that ID Expo would locate elsewhere that year -- probably in Philadelphia.

ID Expo had successfully settled into Chicago's O'Hare Convention Center in 1990 and has been there ever since. AIM/US has been moving their SCAN-TECH show to the various regions of the country to fulfill their obligation to spread the auto ID message to as broad an audience as possible. SCAN-TECH was last held in Chicago in 1988 and was scheduled to return to that city in the fall of 1994.

But the latest word from ID Expo is that its sponsors are not going to tamper with success; therefore, regardless of what assumptions had been made earlier, they have booked the O'Hare Convention Center for May 1994.

#### Comment

*This decision means that the two leading automatic data capture shows in the US are scheduled about five months apart in the same city. If things proceed according to that scenario, the duplication will undoubtedly have a negative affect on both shows.*

*One of the positive aspects of this overlap, however, may be to precipitate the discussion of the sensitive question: "Does the auto ID industry need two vertical trade shows?" There are already murmurs from a number of auto ID exhibitors that they are reluctant to spend the time, effort and money to reach what is essentially the same audience with the same products in such a short time span.*

*We expect that this issue will be carefully analyzed later this year based on the results from the forthcoming 1993 shows: ID Expo, May 11-13 in Chicago; SCAN-TECH 93, October 19-21 in Philadelphia. We would hazard a guess that there will be major changes in the timing, structure and venues for both events in 1994.*

#### With the completion....

....of the sale of its SCAN-TECH/Europe Convention to Advanstar Communication on March 2, 1993 (SCAN March 93), AIM/Europe was able to stand a little taller and breathe a little easier. The influx of funds received from the sale (the actual terms have not been made public, but an informed guess would put the price at between \$600,000 and \$650,000) permitted the trade association to pay off its outstanding bills -- many of which had become embarrassingly long-overdue.

Meanwhile, AIM/US has not relented in its campaign to disenfranchise the European affiliate; in fact, it did just that on March 5. AIM/US also proceeded with its plans to establish a new AIM International organization



(AIMI), which specifically excludes the established AIM/Europe group from affiliation. AIM/US had laid down certain precise requirements that had to be met before it would consider continuing the AIM/Europe franchise -- and meeting those criteria was also a precondition for AIM/US to give its approval for the sale of the SCAN-TECH event.

One sticking point during the AIM/Europe-Advanstar negotiations revolved around the ownership of the SCAN-TECH name and mark. Legal questions had arisen about whether the AIM/US rights to the name are protected.

According to sources at AIM/Europe, it was determined, after a search was completed, that neither AIM/US nor anyone else had ever protected the SCAN-TECH name or mark in any of the European countries. This finding satisfied AIM/Europe and Advanstar that they were free to use the name for future conventions. (AIM/US's position on this matter is still unclear.) There is even a lingering question as to whether the name "AIM" has ever been protected outside the US, which could open up another can of worms. If the conflicts between AIM/US and AIM/Europe persist, the issue of the rights to the SCAN-TECH and AIM marks could wind up in the courts.

So, the sale of SCAN-TECH/Europe was completed. AIM/US had laid down certain financial and administrative conditions which AIM/Europe had refused to meet, and the Europeans had decided to go it alone. This state of affairs was expressed quite succinctly in a February 26 letter from the AIM/Europe officers faxed to the AIM/US Board of Directors, which began:

"Dear Ivan [Jeanblanc]: You have frankly blown it. You might say it was just one condition too far....It has become crystal clear that the more AIM/Europe gives, the more AIM/US takes....So, Ivan, the [AIMI] deal is off. AIM/Europe refuses all your conditions."

On April 2, when the AIM/Europe general membership next convened in Amsterdam, one key agenda item was whether the organization wished to join the new AIMI group -- with the financial and structural requirements laid down by AIM/US -- or whether they would ratify the decision of their officers and retain their AIM/Europe identity. [Also at stake at this important meeting was the AIM/US stipulation that if AIM/Europe did choose to join AIMI, it would have to sever its ties with its General Secretary, Ian Smith, and his wholly-owned company, ISM (Ian Smith Marketing). Smith had run the AIM/Europe organization since its founding and had nursed it through its most difficult times. He was also its largest creditor and had unwillingly become the focal point of much of the contention between AIM/US and AIM/Europe.]

The Amsterdam meeting was particularly significant because AIM/Europe's full membership was gathering to decide the future of the organization. Would they support the leaders whose policies had successfully built their trade association to 15 national affiliates and more than 350 member companies during the critical growth period of the auto ID technology?

On the other hand, were they ready to endorse these same officers and the management team which had been forced to sell AIM/Europe's main asset (the annual SCAN-TECH/Europe show) in order to cover its backbreaking debt -- much of it brought on by mistakes, overextended resources, and a lack of administrative and financial controls?



The final decisions made by the AIM/Europe member-delegates were as follows:

1. They elected new officers and a Board of Management, selected primarily from the same group that has been running the organization for the past few years. Brian Marcel (Bar Code Systems/UK) replaced Jean Luc Bruno as President. Mats Gunnarsson (UBI/Sweden), Leo Janssens (Europdata/Belgium) and Jerry Braun (Promaco/Netherlands) were elected Vice Presidents. And, very significantly, Ian Smith was retained as General Secretary.
2. They rejected membership in the new AIM/US-sponsored AIMI organization and reaffirmed allegiance to their existing AIM/Europe organization and officers.
3. They welcomed three new member affiliates: AIM/Belgium, AIM/Turkey and AIM/Germany. [The entry of AIM/Germany into the fold was seen as a significant demonstration of "solidarity." The members of the large and well-established German contingent had previously elected to belong directly to AIM/Europe as unaffiliated companies. AIM/US had attempted to woo some of these members-companies away from AIM/Europe to become the nucleus of the new AIMI in Europe, but had failed.]
4. They instructed the new Board of Management to use its "best endeavors to reach a mutually acceptable agreement" with AIM/US.

Comment

*Do these developments bring down the curtain on what one AIM/Europe representative called a "15-month bitter struggle for survival [during which] few international trade associations can have inflicted as much pain and aggravation on one another"?*

*Not likely! AIM/US is currently proceeding with its plans to establish a new AIM International (AIMI) with offices in the US and Europe. (A new Executive Director has been hired and will take office on/about May 1 in a newly-established Washington, D.C. office.) There is no indication as to how the sharp differences over the proposed structure of AIMI can be settled between AIM/US and AIM/Europe.*

*There will have to be Solomon-like wisdom and resolve on both sides to bridge the enormous reservoir of ill-feelings that has developed during this past year. No one has stepped forward, as yet, to provide the leadership that can bring all factions together into the unified worldwide organization that everyone agrees is needed by the industry.*

[Footnote: On a much more positive note, possibly suggesting what the "real people" are thinking and doing, the AIM/US Technical Symbology Committee (TSC) was invited to an April 1 meeting of the AIM/Europe Technical Board. The following is excerpted from the minutes of that meeting:

*"The visit of the AIM/US TSC team had been highly successful and emphasised the high degree of collaboration at the working level between the two organisations. A letter of thanks had subsequently been received from Dr. Andy Longacre [Welch Allyn], Chairman of the TSC, which confirmed they shared the same perception of the relationship."*



## Recognizing a need....

....and then proceeding to find a product or service to fill the gap has always been an excellent starting point for a successful new business.

Rick Bushnell and Scott Cardais, owners of the Quad II consulting firm, believe they have found such a need and the service to satisfy it. They have introduced QBUG (Quad II Bar code Users Group), which they describe as: "The bar code resource for companies that don't have a bar code department."

According to the company announcement: "Over the past years, Quad II has trained more than 10,000 project team members, written four books and dozens of articles on bar code, and answered thousands of questions -- from beginners wanting to implement their first systems to experts trying to solve a particularly difficult application problem....As a result of these activities and strong encouragement from the end user community, we have formally organized these services into a bar code users group for people serious about implementing bar code systems."

One of the primary appeals of QBUG, Cardais explained to *SCAN* last week, is that it will provide "vendor-independent implementation support." He emphasized the point that smaller companies which are looking to install bar code systems have no place to go to obtain basic information, such as: the names of vendors of hardware, software and systems; answers to very basic questions about the technology; access to other user companies in similar circumstances with whom they can share their problems and solutions.

"We have been offering a toll-free phone service for over a year," Cardais explained, "and we have gotten from 3 to 40 calls a day for information. We came to realize that these mostly smaller companies had no place to go for solid implementation support."

Annual dues to join QBUG are \$400 per person. This fee entitles members to:

- Toll-free assistance (an 800 number staffed by a bar code expert -- who, at the moment, will be Cardais or Bushnell).
- Fax-based bulletin board to receive technical documents and lists of bar code vendors, including local resellers.
- Discounts to Quad II seminars, and other books, videos and events.
- Access to a new (now under development) database of catalogued articles of all issues of *Automatic ID News* and *ID Systems Magazines*. This database can be searched for names and words keyed to 25 different "fields"; e.g. application, industry, technology. (QBUG will not supply the text of the articles, but will direct the user to the issue and page references of the particular magazine.)

The new service began operating in mid-March and, according to Cardais, reception has been good so far.

Quad II, 24 Farview Road, Chalfont, PA 18914; 215/822-6880.

---

SCAN NEWSLETTER, LTD. • 11 Middle Neck Road, Great Neck, N.Y. 11021 • Phone: 516/487-6370 • FAX: 516/487-6449  
PUBLISHER/EDITOR: George Goldberg • ASSOCIATE EDITOR: Jeff Goldberg • CIRCULATION DIRECTOR: Teddy Allen  
INTERNATIONAL EDITOR: Paul Chartier • United Kingdom Office P.O. Box 7 • Cirencester GL7-1HY England  
Phone: Int + 44-285-653011 • Fax: Int + 44-285-640401

---