



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

New Phone: 516/487-6375 New Fax: 516/487-6393

Volume XVIII Number 9

May 1995

When you're hot....

....you're hot -- and Eltron International (Chatsworth, CA) seems to be sizzling these days.

Eltron, a manufacturer of bar code label printers, was founded in January 1991. Sales that first year were \$400,000; they jumped to \$1.8 million in 1992 and \$6.5 million in 1993 -- which was the first year the company was profitable. In February 1994, Eltron went public (at \$6 per share) raising \$6 million. Sales in 1994 almost tripled (to \$17.5 million), with earnings reaching \$2.9 million (\$.99/share).

At SCAN-TECH 94, the company introduced its model TLP-2242, the first thermal-transfer printer under \$1,000 (SCAN Nov 94). At the end of last year, Eltron entered the European market by purchasing Russet Ltd., their UK-based distributor (SCAN Dec 94).

Which brings us to 1995:

- In March, Eltron completed a one-time \$950,000 shipment of its TLP-2242 printer to an unidentified US state agency (not California) for a licensing application. President Don Skinner would only tell SCAN that the application involved producing "hunting and fishing licenses."
- The sizable domestic order in March was followed by an announcement in April that a one-time, \$800,000 purchase of Eltron's LP+ Series printers had been made by the British Postal Service -- through Russet, Eltron's subsidiary. Approximately \$500,000 of this order was delivered in March.
- As a result of these two large shipments in March, Eltron announced that sales for the first quarter (3/31/95) "will exceed management's expectations and should range from approximately \$8.3 million to \$8.7 million." This amount is three times last year's revenues of \$2.7 million for the same period. (Because of these unusually large contracts, Skinner cautions that "the company does not anticipate achieving this level of sales" for subsequent quarters this year.)
- On April 24, the company declared a two-for-one stock split (effective May 1). The stock moved up \$2 and closed at \$31 (NASDAQ) that day.



0273-3080(199505)18:9:1-J

INCLUDING THE INTERNATIONAL EDITION

- Eltron also announced on April 24 that it had filed with the SEC to offer the public an additional 1.75 million shares of its common stock (after the two-for-one split takes effect). Of these newly available shares, 850,000 are being issued and sold by Eltron and 900,000 are being offered by some (as-yet-unidentified) shareholders.

Proceeds from the sale of Eltron's shares will be used by the company for the purchase of tooling and equipment, and for research and development activities, repayment of bank debt, and general working capital purposes, which may include strategic acquisitions.

[As we go to press, the registration statement -- handled by Robertson, Stephens & Co. (San Francisco; 415/781-9700) -- has not yet been printed, so details of the new stock offering are not available. The target date for the issue to be effective is May 29.]

It is hard to predict what the future will bring for Eltron, but we suspect that management will look back on the first few months of 1995 as a significant turning point for the company.

You would imagine....

....that reporting increases of 40% in sales and 97% in earnings would generate lots of shareholder enthusiasm. But when Metrologic released those first quarter 1995 results on May 2, their stock fell almost 7 points, to 11 1/8 -- a drop of more than 38% in one day!

The problem was that Metrologic's report of dramatic increases in revenues and profits was accompanied by other, not-so-happy news. The company revealed that it expects sales and earnings for the balance of the year will be negatively impacted by three main factors:

- Metrologic believes that it is facing competitive pricing pressures for hand-held laser scanners for point-of-sale retail applications. On May 3, President Harry Knowles told *SCAN*: "We are seeing price cuts for these POS products by both Symbol Technologies and PSC, and we will take aggressive pricing actions to meet these challenges."
- Metrologic also announced, on May 2, that it is purchasing (for cash, according to Knowles -- who would not disclose the terms) a majority interest in Holoscan (San Jose, CA) with an option to acquire the remaining equity in the future. Knowles expects that the increased R&D costs required to jointly develop products with its new partner will add to Metrologic's corporate costs this year, further reducing profits.

[Holoscan was organized in 1993 to develop and market an industrial bar code reader using holographic scanning licensed from IBM, the original developer of this aggressive scanning technology. Holoscan's founder, Dr. LeRoy Dickson, was one of the original developers of holographic scanners for IBM (*SCAN* Dec 94).

According to Knowles: "PSC, Symbol and Accu-Sort looked at the Holoscan technology and turned down the opportunity to purchase the company. I

have known Lee Dickson for over twenty years and I have a great deal of respect for his knowledge and ability. I jumped at the chance to work with him when I learned that Holoscan was for sale." Dickson will stay in San Jose to manage Metrologic's new "West Coast Technical Center." Manufacturing will be consolidated in the company's Blackwood, NJ plant.]

- The third factor working to reduce Metrologic's 1995 earnings is the pending patent litigation brought against the company by PSC three years ago (SCAN Jul 92, Aug 92). A trial date has been set for September 1995. Knowles anticipates significant legal fees to prepare for his defense. "I believe this one will be fought all the way through to the jury," he said. "There seems to be no willingness by PSC to negotiate a settlement."

Harry Knowles and his wife Janet still own two-thirds of Metrologic. The one-day drop of \$7.00 per share in early May cost them about \$20 million. Although his company's performance for the rest of this year may be subject to some reverses, Knowles remains very upbeat. "I have never been more optimistic," he said. "We have exciting new products under development and our new 51,000 square-foot plant will be up and running soon with the most sophisticated manufacturing capabilities available."

Three successful quarters....

....do not a turnaround make -- but there are very encouraging signs, nevertheless, coming out of Imtec, the Bellows Falls, VT manufacturer of labels and label laminator/applicators.

The company's annual revenues had been static for the past five years, ranging within plus or minus five percent of \$7 million. Earnings during that same period went steadily downhill -- almost in a straight line -- from an \$800,000 profit in FY 1990 to a \$666,000 loss in FY 1994 (fiscal years end 6/30).

In 1992, when Founder/President Jim Williams realized that his strengths were in product development and marketing and that he was not able to take the company to new sales and earnings levels, he began a search for a professional manager. After more than a year of looking, Robert Kalich was appointed the new President/CEO of the company in late 1993. Kalich was previously VP/Division Manager of the Marking Products Division of Matthews International.

Fiscal year 1995 was the first full year on Kalich's watch. During the first three quarters, sales improved significantly -- almost doubling in the third quarter, compared to last year -- and earnings were in the black for the first time in two years.

<u>Imtec</u>	<u>9 Months Ended 3/31</u>	
	<u>1995</u>	<u>1994</u>
Revenues (\$000)	7,840	5,024
Earnings (Loss) (\$000)	541	(109)
Earnings (Loss)/Share	.37	(.08)

Kalich recently told SCAN how he accomplished these noteworthy improvements. "We focused on our core business -- high-performance labels and label

applying equipment," he explained. "We also worked hard to get our cost structure corrected, and outsourced many items we had been handling in-house."

Kalich repeatedly emphasized the "high-performance" aspects of the company's products (current sales are split 50-50 between preprinted labels and laminator/applicators). "We operate as a preprint service shop," he noted, "but only on high-performance labels -- those exposed to high temperatures, chemical washes, abrasion -- such as labels used on printed circuit boards. We have the most versatile, high-performance applicators in the print-apply business -- which can apply labels that other people find difficult to do -- with throughputs of up to 400 feet per minute."

Almost all of Imtec's print-apply machines are customized to end-user requirements. "A standard printer/applicator is an oxymoron," Kalich maintains. "There is always some special requirement, whether it is the substrate, the surface the label is to be applied to, the stroke of the machine, or the interface. That's why our sales people must be well-trained and well-informed."

Imtec sells direct (six salesmen in the field and eleven support personnel in-house) and also uses resellers (Intermec, Peak and others). Last month, Imtec granted a non-exclusive license to Computype (St. Paul, MN) to use Imtec's patented technology for a variable die-cutting device.

Kalich is very optimistic about Imtec's future. "We see ourselves as a \$30 million company operating at a \$10 million level," he said. "The market is there. We have to work on the channelling and distribution of our product."

The good times....

....continue to roll at Symbol Technologies. Just this past month, the company issued these positive reports:

- During the first quarter of 1995, Symbol posted record sales and earnings. Revenues were \$131.3 million, up 26% over last year; earnings were \$10.8 million -- equal to \$.40/share -- up 61% compared to last year.
- The company purchased a 48-acre tract in Holtsville, Long Island, NY -- a few miles from its present location in Bohemia -- to house its corporate headquarters. The \$11.4 million acquisition includes a 174,000 square-foot building that was constructed in 1985 to house Grumman Data Systems.

Symbol plans to spend an additional \$6 million to renovate the building. In April 1996, 600 of its total 1,400 Long Island-based employees will be moved to this new location. The transfer will include administrative and executive offices as well as the departments of research and development, engineering, finance, sales, marketing and human resources. There are no plans, as yet, to move the manufacturing and distribution functions which will remain in 210,000 square feet of leased buildings in Bohemia.

- Symbol's management seemed especially pleased to name Satya Sharma to be senior vice president of manufacturing processes and quality improvement. Sharma's last position was with AT&T's Power Systems business unit in Dallas where he was responsible for the management system that won Japan's

prestigious Deming Prize -- the first company in the Western Hemisphere to win this coveted award.

The sudden resignation....

....of Don Anderson as president of AIM/US six months ago prompted one member of the newly-elected Board of Directors to comment: "His departure may present a new opportunity to reexamine the structures of AIM/US and AIM International" (*SCAN* Dec 94). The response to that challenge -- to restructure the US trade association to reflect the current needs of its members -- has fallen on Larry Roberts, who was appointed president of AIM/US in February (*SCAN* Mar 95).

In a recent interview, Roberts described his basic approach. "The board has confirmed," he said, "that AIM should continue to represent all of the keyless data entry technologies in addition to the communications and control fields. Bar codes will remain the focus, but efforts will be made to include other expanding ADC technologies."

Roberts visualizes four basic technology groupings at the top of the AIM organization chart: Optical Marking (e.g., bar coding); Card Technologies (e.g., mag stripe, smart cards); RF Data Communications; and RF Identification.

"We have to determine," he explained, "how we can get each of these technology groups to drive their own processes -- and, at the same time, we have to provide an infrastructure to allow them to work together. The real challenge is to get these groups to 'cross-fertilize,' not just interact, which will result in increased business for both parties. I don't know yet how to do that -- but that is our goal."

Roberts plans to present his reorganization ideas to the board and to the membership at the June meetings. To help prepare his recommendations, he is soliciting input from as many members as possible and already has met with "focus groups" -- selected member-representatives -- in Atlanta, Boston and Chicago.

Meanwhile, AIM International (AIMI) has all but abandoned the concept of direct corporate membership. (The AIM/US proposal to place AIMI under the control of direct corporate members was the major issue that soured the relationship between AIM/US and AIM/Europe in 1992; that impasse was resolved only after eighteen months of bitter recriminations.) "Direct membership became an obstacle to the growth of AIMI," Executive Director Brian Wynne recently told *SCAN*. "Under our current procedures, any member who belongs to a regional affiliate is automatically part of AIMI. Only those companies in areas not covered by regional affiliates [e.g., Hong Kong, Malaysia, Indonesia] can still have direct membership." For the present, AIMI is being funded by the US, Japan and European affiliates.

Which is not to suggest that Wynne is sitting around and waiting for all of this reorganization to happen on its own. He has been actively working with, and travelling to, affiliate groups in South Africa and South America, while also expanding AIMI's role in hosting regional meetings. High on his priority list is to coordinate efforts to develop international standards. Wynne visualizes

AIMI's prime mission as an "administrative vehicle to assist the national affiliates to work together."

[If you have any ideas on how to structure stronger, more responsive trade associations to meet the current and projected needs of the ADC industry, this would be the right time to contact Roberts or Wynne.]

The phenomenal growth....

....in international sales of automatic data capture products is being reflected in the current financial reports of a number of leading ADC companies:

- First quarter 1995 revenues of PSC included an increase of 85% in international sales over last year.
- Zebra's international sales during the first quarter of this year increased 89% over last year and reached a record 45% of the company's total revenues.
- Metrologic reported that its international sales were 63% of total revenues of 1994.

All of these companies caution that increases of this magnitude probably will not be sustained. There is little question, however, that American manufacturers of ADC products must focus more of their attention on the rapidly growing demands for their products in Europe, Asia, Latin America and the South Pacific. That challenge is particularly acute for those companies with less than \$100 million in sales who may tend to shy away from the complexities of international trade.

Stepping into this breach, Paul Bergé has formed a new US-based consulting company, Paul Bergé International Ltd. "The main focus of my new firm," Bergé told SCAN, "will be working with small-to-medium-size companies to help them become more successful in foreign markets. Most of my clients will be North American companies. As the industry matures, we will see very different alliances and partnerships develop, and that is where I can be of service."

Bergé expects to play an active role in setting up foreign distribution channels, translating literature into local languages, and dealing with currency fluctuations and bank documentation -- all of which can tax the limited resources of these smaller companies.

Paul Bergé started in the bar coding business in Europe twenty years ago -- "even before it was called auto ID," he recalls. In 1980, he joined Symbol Technologies to help that company establish itself in the European market.

In 1991, after a three-year stint at Symbol's Bohemia, NY headquarters, Bergé was dispatched to Japan to help organize Olympus Symbol Inc. His responsibilities with OSI included opening new markets throughout the Pacific Rim. That assignment was completed early this year when Symbol abandoned the joint venture and sold its half-interest in OSI to its partner, Olympus Optical (SCAN MAR 95).

During the 1980s, Bergé was one of the founders of AIM/Europe and helped organize the first SCAN-TECH Europe exposition. In recognition of these accomplishments, he was awarded both the SCAN Newsletter Industry Achievement Award and the AIM/US Dilling Award.

Bergé will begin work for his new clients immediately. "I hope to be able to help companies to become successful internationally," he said. "They need someone they can trust to find reliable, aggressive and successful business partners in the four corners of the world."

Bergé International, 51 Briardale Place, Wilton, CT 06897; 203/761-1191

Supermarket visionaries....

...have been anticipating, for nearly ten years, the advent of self-scanning -- a system which allows shoppers to scan and bag their own purchases and to skip, hopefully, the long wait at the checkout line.

A leading British supermarket executive recently offered this analysis of the historical progress of retailing: "Self-service was a move on from counter-service; price scanning was a move from the till; and so self-scanning is the next move forward" (*Reuters*, 3/10/95).

The early self-scanning prototypes -- introduced in a few US stores on a trial basis during the mid-1980s -- were based on specially designated, unmanned checkout lanes which allowed customers to scan their purchases, pay the bill and leave. To prevent cheating, esoteric devices were installed to verify the weight and shape of each item scanned or to compare the weight of the entire wagon-load of purchases with a theoretical total compiled by the store computer. Currently, there are two suppliers of this type of self-scanning checkout lanes, Productivity Solutions and Optimal Robotics. Their systems are still being tested and have not yet been installed extensively:

- Productivity Solutions (Jacksonville, FL) recently installed six of their CheckRobot self-scanning lanes in a Kroger store in Columbus, OH. These test lanes have been updated to include an automated payment capability using credit or debit cards. CheckRobot systems have also been tested recently by the Pathmark, A&P and Overwaitea (Canada) chains.
- Optimal Robotics (Plattsburgh, NY) has also installed a test site for Kroger, this one in Middletown, KY. In addition, Optimal is testing their system with Price Choppers Supermarkets (Schenectady, NY).

The newer alternative method for self-checkout -- developed by Symbol Technologies working with the Ahold Supermarkets (Holland) and a European-based research company -- involves a hand-held scanner that the shopper carries throughout the store. Each product is scanned and recorded as it is placed in the cart. The first units were installed in two Ahold stores in 1993 (*SCAN* Sep 93). Last year, Ahold brought the system to this country to be tested by Finast (Maple Heights, OH), one of its US-owned subsidiaries.

Ahold's method of inhibiting "shrinkage" (i.e., stealing) is the honor system -- bolstered by random checking of the shoppers' total purchases. Ahold's studies indicate that pre-selecting "preferred customers" eligible to use the system, and following up with the spot-checking procedure, has minimized shrinkage.

Last month, the Safeway chain in the UK installed one test site to evaluate the Ahold/Symbol hand-held system. A Symbol spokesman told *SCAN* that there are a

dozen companies around the world -- eight in the US -- that have expressed "serious interest" in the self-scanning system. Each store that adopts the system will require as many as 200 hand-held scanning units -- a large potential market waiting to happen.

Before supermarket operators allow their customers to scan and bag their own purchases on a broad basis, they will have to be convinced -- with more definitive data than we have seen so far -- that there are significant economic savings or marketing advantages.

There's no getting away....

....from automatic data capture in our day-to-day lives. We see it on virtually every item in retail stores, on our letters and junk mail, on our income tax returns, and even on the evidence collected in the OJ Simpson trial. (From the witness stand, LA Police Department Criminologist Dennis Fung described to the world how he labelled each item of collected evidence with a bar code and "wanded" it into his database for later retrieval.)

But, frankly, we were unprepared to find the ADC technologies involved in any of the wild accusations being made by the so-called "local militia" groups so prominent in the news as a result of the Oklahoma City bombing tragedy. As reported by *Time* magazine (5/8/95), two of the "Favorite Conspiracy Theories" spread by these zealots center around bar codes:

- "Small colored bar-code stickers found on the back of road signs will help direct the invading [U.N.] troops" when they come to take over America as part of the one-world government.
- "Paper currency has bar codes on it so government agents can drive by each house with secret scanners and count how much money each family has."

We suspect -- although we have no evidence to support our theory -- that these fantasies were started by some of the same weirdos who attacked the Uniform Code Council way back in the 1970s for allegedly promoting the "Mark of the Beast."

"Each citizen of the world," according to an article in the March 1975 issue of *Gospel Call*, "...would be invisibly laser-tattooed on the forehead...[to] provide a walking credit card system." This mark was supposedly linked to the mysterious, biblically-derived number "666", which somehow became intertwined with the UPC code and symbol. The Gospel Track Society warned in 1976: "An IBM 3666 scanner not only reads the UPC codes, but it can also read the invisible laser tattoo that can be put in the hand or forehead by the 'Laser Tattoo Gun' also invented by IBM."

We laughed and dismissed these bizarre accusations twenty years ago. It seems that these fringe-dwellers are now creeping out of the woodwork in larger numbers.

New Phone: 516/487-6375 New Fax: 516/487-6393

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