WEEKLY INSIGHT

Black week for telecom industry
Telecom equipment makers Ericsson, Lucent Technologies and Siemens said this week they will cut a combined 29,000 jobs, on indications that it may be next year before their market hits bottom. They were not the only ones to bring bad news. Nortel, Verizon, WorldCom and William Communications reported losses above forecasts. In some cases, implying layoffs; in the worst of them, bankruptcies.

This stream of bad news from the shattered telecommunications sector helped drag down major US stock markets. In just one session, Tuesday’s, the Dow Jones industrial went down 1.3 percent, the technology-heavy Nasdaq Composite index fell 2.1 percent, nearly erasing last week gains. From Boston Globe. [Full Story]

Highlights
- **Ericsson.** The Swedish telecommunications equipment maker reported a first-quarter net loss of $289 million caused by a steep decline in revenue. Sales fell by 26 percent, and orders for new equipment were down 40 percent. In an attempt to return to profitability, Ericsson plans to reduce its global work force from 85,000 to 65,000 by the end of 2003. However, some analysts have suggested that this cost cutting doesn't go far enough. Ericsson is also planning to raise funds through a rights issue.
- **Lucent Technologies.** Over the last two years, the American company has gone through a restructuring plan, which has already brought the company's work force down 50%. In December 2000, Lucent had about 106,000 employees, by the end of September, when the announced 6,000 layoffs become real; the company will have about 50,000 people. With these measures, Lucent officials expect to reach their goal of returning to profitability by its 2003 fiscal year.
- **Siemens AG.** Despite the fact that it has beaten its revenue forecasts, German electronics giant has decided to shed an additional 6,500 jobs in its fixed-line telecommunications networks business on top of the 10,000 already planned in a move to cut costs by an additional 1.5 billion euros (1.3 billion dollars).
- **Nortel.** Canadian telecom-equipment maker reported a first-quarter loss. Revenue deteriorated falling 49 percent, to $2.91 billion, from $5.75 billion in the same quarter of 2001. In order to reach profitability by the fourth quarter, Nortel will reduce its workforce by 6%.

Press Review
From Financial Times
"In the early years of the mobile phone boom, users needed lots of help to cope with their complicated new devices. More important, the networks were seeking to **build market share** as quickly as possible, so they were **willing to pay a lot for distribution**, blanketing the country with their own stores and subsidising the price users paid and the margins third-party retailers received. Inexperienced users, a need for a high degree of service and sales push, a hefty subsidy, a rapidly growing market: this recipe created millionaires from entrepreneurial retailers such as the UK's Carphone Warehouse.

Now, given **flat sales** and a **market increasingly dominated by replacements**, the need for a cluster of..."
mobile phone shops on every high street is unclear. As has happened in every other retail business when the product has become a commodity, such an expensive distribution system cannot be supported. In time, there will be drastic concentration, the emergence of category-killer dominant chains and the growing influence of a host of cheaper distribution channels, including direct sales by phone, mail order and the Internet.

(...)

So the ultimate lesson from the mobile phone business is that even in such a recent industry, traditional patterns become set surprisingly rigidly, surprisingly early. Successful business lies in recognising those inherited patterns and knowing when it is time to change them. Are Ericsson's controlling shareholders listening?

[Full Story]

From The Guardian
"The telecoms equipment industry is enduring what must seem to be an endless night. Every dawn quickly proves false. The central problem is that the industry's customers, the telecoms operators, have simply scaled back their expected spending. The likes of France Telecom, Deutsche Telekom and BT are under pressure to reduce their debt burdens. The German group has cut its dividend in an effort to save €1bn, for instance. France Telecom is husbanding cash by offering to pay the dividend in shares - a move handily backed by its biggest shareholder, the French state. Its focus is unsurprising. Why spend money on investing in next-generation networks when the future is clouded by uncertainties over how much their customers will pay for services?

For managers contemplating shrinking balance sheets or workers picking up their redundancy cheques, the outlook can hardly be gloomier. Investors, however, should resist the temptation to overdo the angst. An upturn will arrive; values will improve. The snag is that it will be rather longer in arriving than the industry thought - even up to a few months ago."

[Full Story]

From Information Week
"One pressing issue is whether service providers are spending enough to maintain their networks. "That spending appears to be dropping below what everyone assumed was the minimum threshold," says Bill Lesieur, an analyst at Technology Business Research. To survive, service providers may turn to equipment manufacturers such as Ericsson for more outsourcing services. Perhaps that's why Ericsson is playing up its services, which represent 24% of revenue. Lesieur says Monday was the first time he'd heard the company discuss its services business on an earnings call. Many service providers have outsourced their IT operations, but now they may have to outsource the entire network, Lesieur says. If equipment manufacturers step in and take over more networks, that may help facilitate industry consolidation, he says. When companies such as Ericsson and Lucent are supporting networks for different service providers, they'll have a better understanding of how to integrate them as they merge."

[Full Story]

From Southwest Economy
"Before the terrorist attacks, the industry had been spiralling downward for more than a year, due to an unprecedented supply–demand mismatch. Fed by the dot.com frenzy, investors anticipated robust growth in demand for telecom services for years to come. But a frenetic rush to meet the expected demand by expanding long-haul infrastructure was overkill and neglected improvements needed at the local level. (...)

The downturn left telecom firms with massive debt loads and few means of paying creditors. Sources that once furnished easy money for anything with "telecom" in the name dried up. Given the industry's capital-intensive structure, this left many firms in a precarious position. Revenue streams weakened, hampering
Debt service problems coincided with a dramatic increase in telecom bankruptcies. In recent years, the telecom pie did not grow nearly as fast as the number of firms trying to claim a piece of it. No matter the packaging, telecom services are a relatively nondifferentiable commodity and have limited ability to produce profits. In the absence of profits and with cash burn rates outstripping funding availability, many telecom firms had to fold or restructure."

[Full Story]

EBCENTER ARTICLE

The United States and the northern European countries, in the forefront of self-employed teleworking

Marta Comin, EBCenter Contents Assistant

The ever increasing trend of companies to downsize their workforce is promoting the appearance of "elancers", self-employed workers online who use technology to offer their services to companies without linking themselves to them on a permanent basis. [Full Story]

REPORTS

E-commerce web sites, credible just for 29% of users

Title: What Users Want From Web Sites

Source: Princeton Survey Research Associate para Consumer WebWatch (Proyecto de Consumers Union, promovido por The Pew Charitable Trusts, la John S. and James L. Knight Foundation, y el Open Society Institute)

Date: January 2002

Abstract: Only 29% of users say they trust Web sites that sell products or services. And just 33% say they trust Web sites giving advice about such purchases. According to Consumer WebWatch, it’s a low percentage compared to 58% who trust newspapers and television news and 47% who trust the federal government in Washington.

Four in five users (80%) state that being able to trust the information on a site is very important to them as they decide to visit a Web site. The researchers recommend web sites let users know who runs the site; how to reach those people; the site’s privacy policy; and how the site deals with mistakes. Consumers have different credibility standards for different types of sites. For news and information sites, users want advertising clearly labelled as advertising and a prominent page where corrections of past mistakes are available. With regard to search engines, a solid majority of users (80%) want to know their fee deals. [Full Story]

Better quality sound, exclusives and increased security, keys to sell online music

Title: Music File Sharing - Grey Market Growing, Legitimate Market Shrinking

Source: Jupiter MMXI

Date: April 18, 2002

Abstract: Over the last three months, the percentage of legitimate music sites’ visitors has down about 20%, while Peer-to-Peer sites have registered an increase of 600,000 visitors.

According to Jupiter MMXI, the European record industry has not only failed to regain control of this market through the courts, but has also proved unpopular with consumers.

In addition to tackling piracy, the record industry will need to offer compelling alternative options to the grey market that are worth paying for. The challenge is to offer superior services, for instance better quality sound,
virus-free files, exclusives with artists and increased security compared to those that are available free. [Full Story]

**Internet voting would increase voter participation by 42%**

**Title:** Internet Voting: Bringing Elections to the Desktop  
**Source:** The PricewaterhouseCoopers Edowment for The Business of Government  
**Date:** February 2002

**Abstract:** In this report, Robert Done, assistant research professor of management and policy at the University of Arizona, examines the 2000 Arizona Democratic presidential preference election, which was the first political election to use Internet voting.

According to the research, **62%** of the unregistered voting age population **would register to vote on the Internet**. The survey data also suggests that Internet voting would increase voter participation by about **42%** while conserving valuable resources. Moreover, about **92%** of the voting age population now **has Internet access at some location**.

In Done’s opinion, state and local jurisdictions should continue to experiment with Internet voting in local elections of limited scope such as for school board and city council members. Additionally, Internet transaction security should be increased, especially refinements in encryption and secure Internet transmission, and social scientists should study the effect of Internet voting on voter participation and the democratic process. [Full Story]

**Journalists are less confident in digital news than online public**

**Title:** Digital Journalism Credibility  
**Source:** Online News Association  
**Date:** January 2002

**Abstract:** Internauts say online news is about as credible as news they obtain from other, more traditional sources. In fact, **13%** of online readers say the **Internet is their most trusted source for news**. But journalists are distrustful of online news, because they’re concerned that online media have departed from traditional journalistic ethics.

The Online News Association has published this data, based on 1,000 online consumers and 1,500 journalists and more than 100 interviews with online journalists.

The research highlights that **72%** of users under 35 say national newspaper web sites are credible, compared to **62.5%** of those from 45 to 65 years of age and **43.1%** of those over 65 say this source is credible. The authors conclude that, at the moment, **web sites serve as complementary sources of news** for the public and warn that the **biggest challenge** may be **convincing traditional media that online news is credible news**. [Full Story]

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**COMPANIES**

**Xbox prices take a tumble in Europe**

Despite an impressive sales start – more than likely fuelled by the holiday buying season - Microsoft’s game console has been on a downward spiral since its December sales peak. Seeing that its Japanese rival Nintendo’s Gamecube was **snatching its market**, Microsoft has decided to cut its price in Europe. From April 26th on, the xBox will cost 299 euros, nearly 40 percent down from 479 euros it cost six weeks ago when it was launched. From News.com. [Full Story]

**RealNetworks Shifts Focus To Enterprise**

RealPlayer software proprietor has decided to change its focus and strengthen its play for the enterprise. So confirms the unveiling of a package of tools and services to help companies deliver executive addresses,
presentations, employee training, and e-learning. The offer includes Web-based tools for centrally managing desktop players, a suite of authoring tools that decentralize content creation, and enterprise-quality digital-rights management to control business rules and user authentication. With this move, RealNetworks seeks to meet enterprise demand for rich-media infrastructure and services could be the key to the company’s retaining its relevance, as Microsoft gains ground in supplying desktop media players. From CommWeb. [Full Story]

Amazon, in US streets
Amazon has inked a deal with Borders, a books-seller chain with 365 shops over the US. Now, customers who buy certain books, music and movies through the e-tailer will be able to pick up their purchases in Borders stores nationwide. The new deal extends Amazon’s brick-and-mortar reach and may help address the perennial issue of shipping and handling costs by offering consumers an alternative to paying those costs. From Ecommerce Times. [Full Story]

WE RECOMMEND
Hollywood against Silicon Valley
The entertainment industry is at an inflection point in its history. While many in Hollywood observe with alarm the growing numbers of downloads, others see the trend as a measure of the appetite for products otherwise unavailable online. Technology companies, such as Apple, Compaq or Intel, have worked with the entertainment industry for six years trying to forge a consensus on copyright technologies. However, their different points of views have provoked a quarrel between both sectors: cinema and record industries suggest that the technological sector is making too much money from piracy to be serious fighting it. Meanwhile, Silicon Valley says that it’s frustrating to work with a partner who only thinks of cutting the possibilities of devices. Some tech leaders have accepted these restrictions because they think they will help to build the critical mass of commercial video fare that is widely seen as key to the spread of broadband. But others ask who wants to buy a new computer with fewer possibilities than the old one. To Silicon Valley, the movie industry should look at the Internet not just as a download mechanism, but also as an interactive environment. From Business 2.0. [Full Story]

Knowledge, a business success base
Why do some companies succeed and others fail? To Alfred D. Chandler, a renowned business historian, the reason has to do with how companies learn and apply what they learn. According to Professor Chandler, a company that masters its integrated learning base has an almost natural ability to monopolise its niche. Thus to survive, companies must focus on areas related to its experience. Chandler gives an example: RCA (Radio Corporation of America), pressured by Wall Street, were supposed to be a conglomerate, and acquired Hertz, a car rent company, and some food manufacturers. By 1985, they were all destroyed or spun off, and RCA, it was gone. In this Strategy+Business’ article, Alfred D. Chandler also gives his opinion about economic issues of the moment, such as Microsoft and Enron. The renowned professor, who has never learned to use a computer, states that the only way to create competing operating systems is for someone else to develop an operating system that competes with Windows. From Strategy+Business. [Full Story]