

## Landis Group N.V, (A)

*The case was developed by Professor Per V. Jenster of the Copenhagen Business School, with the assistance of Mr. Birger E. Dudek and Ms. Stine J. Andersen and grateful contributions of the Landis Group.*

*The case was developed as a basis for classroom discussion rather than to highlight effective or ineffective management of administrative situations. Some facts have been disguised to retain proprietary rights.*

Mr. Paul E. Kuiken, Chairman and Chief Executive Officer of the Landis Group N.V., was feeling the heat. Not just because the Dutch summer felt unusually hot in the firm's headquarter, this afternoon on June 27, 2001, as the CEO was discussing the business with his visitors. Paul Kuiken knew that it was time to rethink the business he started eleven years ago.

Recent results suggested that the information and communications technology (ICT) business was changing at a rapid speed; becoming more global, shifting technology, consolidating customers, and certainly increasing competition. After more than five years of annual revenue growth rates of up to more than 200%, the first quarter of 2001 had shown less encouraging signs of the emerging mayhem of the industry, and causing Landis' stock to drop more than 50% in the first six months of 2001.

The large telecommunications companies had slowed their investment spending, suggesting that sales were going to be hard to come by, let alone grow. In addition, the suppliers of ICT hardware were trying to off-load as many products to its upstream partners (to be able to show sales figures in their quarterly reports), leading to bursting inventories for distributors such as Landis. It had even been necessary for local police to prevent lorries off-loading goods which had not been ordered.

Although it was known that Paul Kuiken thrived on challenges and change, would it be possible for him to transform the Landis Group and its performance? How should he convince the stock market about the makeover? How should he sway the customers and Landis' business partners of the new path? And how should he persuade his staff that their old ways would be insufficient in the future? --- These questions called for cool thinking and hard decisions.

## **THE LANDIS GROUP N.V.**

Landis Group is a Dutch full service organization active on the European ICT market. Landis provides an assortment of specialized solutions, services and training programs in the field of network infrastructures for speech, data and image applications, Internet-based application platforms and the necessary security systems for all these. Landis has some 3,500 employees and has branches in the Netherlands, Belgium, Germany, France, the United Kingdom, Sweden, Denmark, Norway, Austria and Spain. The company works with leading suppliers such as Avaya, 3Com, Cisco Systems, Ericsson, Hewlett Packard, Lucent Technologies, Microsoft, Nokia, Nortel Networks, Novell, Oracle, Siemens, SUN Microsystems.

## **FROM SMALL-CAP CONTENDER TO LEADING EUROPEAN ICT COMPANY**

Paul Kuiken, originally a graduate in electrical engineering, had taken an MBA from Amsterdam Business School, and was working as a change manager in a management development company. One day, he had had enough and decided that he would "...never work for a boss anymore". Thus in 1990, he founded Landis together with an experienced group of individuals specialized in wholesale marketing and network technology. They built the company as a dedicated Value Added Distributor of network equipment and focused on pre-sales and after-sales service by creating a European organization designed to support its customers by adding value through technical expertise and excellent customer service.

It was a time when gross margins in the Value Added Distribution (VAD) business were as high as 26%, and Landis opened new subsidiaries in Belgium, Germany and France in 1994, 1996 and 1997 respectively, which initiated the remarkable growth that Landis had experienced since its foundation. In 1997, Landis also started implementing an aggressive acquisition strategy resulting in a series of acquisitions (Exhibit 2) that contributed significantly to Landis' growth, but also posed a serious organizational challenge.

But Landis did not only expand geographically – the company also expanded its range of activities. One of the new areas of business was training. To bridge the increasing knowledge gap in the fast-growing ICT market, Landis opened its first educational training center in 1997. Landis ICT Training was an educational institute that provided courses to European resellers and their end-users. Another new division established in 1997 was Landis ICT Facilities that leveraged its services in finance, logistics, purchasing and other operational services to all Landis subsidiaries with a new and experienced management team.

In 1998, the youngest division of the Landis Group N.V. was established. Landis ICT Services provided specialized engineering and consulting services to Landis' reseller partners in the European market.

Landis continued its remarkable growth opening new subsidiaries in Austria, Denmark, Norway, Spain and Sweden in 1999, and acquired one of its main competitors in the UK, Ilion. In 2000, Landis made a strong shift in strategy to focus more on services at the expense of the VAD business area. As a result of this strategy shift, Landis acquired Detron – a leading Dutch telecom infrastructure services provider.

However, being a company strongly focused on technology and depending on especially telcos, Landis was not unaffected by the current storm over the world economy as a whole and specifically over the technology and telecom sectors. Especially the VAD business area had been hit hard and Landis had lost more than 50% of its value on the Amsterdam Stock Exchange the first six months of 2001 alone (more about this in a later section).

## **ADDING VALUE TO HARDWARE AND SOFTWARE**

Landis' operations could be divided into two main categories, products and services. Till recently, the focus had been on VAD of mainly networking technology. Though the VAD business still contributed most of the revenue - 78% of 2000 revenues (Exhibit 9) - Landis was shifting its attention to services and to its role as a high-end systems integrator offering a single point of contact for a complete solution. Landis divided its operations into four business areas:

### **1. Business Partners**

This was the products or VAD part of the Landis business. Landis was Europe's leading VAD player and a main partner for major manufacturers of hardware and software like Cisco, Nortel, Lucent, Sun Microsystems, and Oracle, and functioned as a sort of advanced wholesaler of data networking, telecommunications, data security, systems and servers, and data storage, data warehousing and archiving products. Basically, the Business partners were distributors of everything from intranet infrastructure and tele towers to switchers and cables. They purchased the hardware and software from their suppliers and resold it, adding value to the products by offering engineers, consultancy and training, to a broad range of vendors who targeted small and medium sized enterprises. Thus the product portfolio was extensive, but the products were very price sensitive and the margins in this business area are in the low end of the scale (gross margin was 11.3% and EBIT margin 4% in 2000), making this business area rely on high volumes. The cash flows in this business area were small but steady amounts of income each month and with a high turnover rate. However, the economic crisis had a large impact on the cyclically sensitive demand for network technology slowing volume growth considerably. One important reason was that demand from new carriers, ISPs and dotcoms had almost completely dried up, and consequently stock levels had built up in the reselling channel resulting in pressure on reselling prices and thus gross margins. Landis had tried to renew this business area by introducing an Internet hardware portal. The attempt nevertheless failed.

## **2. Public Networks**

In this business area Landis provided telecom related IT hardware and services to telecom operators. Furthermore, Landis had exploited the outsourcing trend and has a 42% stake in a joint venture with Crown Castle Benelux that is a real estate organization buying antenna systems from carriers and renting back antenna capacity to not only one but all the main carriers. The package included capacity, management and maintenance. A huge opportunity for Landis lied in the expected roll out of the UMTS networks in the coming years, and Landis had already secured an order for T-mobile's new Mobile telephony Network in the eastern region of Germany. The order for UMTS infrastructure, worth EUR 18 mio, required full "Turn Key" services including site acquisition, planning, construction, and provisioning for the radio stations enabling a full operational hand over to network operations at T-Mobil, a Deutsche Telekom owned operator.

In this area, the lion's share of the revenues were generated by services resulting in an above-average gross margin of 64% in 2000 and an EBIT margin of 8%. Nevertheless, the public networks business faced difficult market circumstances. The telecom companies had spent huge amounts of money acquiring the UMTS licenses and in light of the global economic slow down that had hit the telecom sector hard, the operators were now confronted with serious cash constraints. The present absence of interest in telecom stocks and heavy debt burdens incurred from buying the UMTS licenses made it very hard for telecom operators to raise new capital to finance the roll out of the UMTS networks. Furthermore, telecom operators, faced with cash constraints and debt burdens, were forced to initiate extensive cost cutting measures. As an example of this, one of Landis' main customers, the Dutch telecom operator KPN, was implementing a harsh reorganization plan to make a large part of the thousands of external staff redundant.

In spite of this, Landis' management remained positive about the development of its telecom related services. Landis had a strong foothold in Benelux and Germany and had a good chance of scoring a least one of the Dutch UMTS contracts. Moreover, the fact that the telecom operators were having major financial problems at that moment could also be interpreted as an incentive to trim the costs of rolling out the UMTS networks by resorting to increased outsourcing, which would benefit Landis. However, Landis' strong foothold in telecom did not reach beyond Benelux and Germany, which could prove to be a threat to Landis' growth in this business area.

## **3. Enterprise Networks**

This business unit supplied larger enterprises with network services, support and infrastructure for voice and data networks, and the company offered one of the best broad combinations of services and products, both nationally and internationally. Like in Public Networks, the larger part of revenues originated from services and the margins were roughly the same. This business unit was also marked by the economic slow down, as enterprises postpone network investments. Nevertheless, Landis had seen some growth in revenues, partly due to the acquisition of Detron, although some of the low-margin activities had been divested.

## **4. Training**

Landis training activities was the smallest of the four business units, contributing only 3% of 2000 revenues, but it was also the most profitable with a gross margin of 78% in 2000 and an 18% EBIT margin. Landis was one of Europe's most important providers of network specialist training and after the acquisition of Ilion, Landis' training facility became the second largest in Europe, only

marginally smaller than the market leader. The demand for skilled IT workers in Europe was soaring; hence this business unit holds tremendous growth potential for Landis. Nevertheless, the business unit had in 2001 ceased to exist as an independent business unit. It had been integrated with Enterprise Networks, since the services offered by Training to a wide extent supplemented the integrated network solutions offered by Enterprise Networks.

Within the public networks – and enterprise networks business area, Landis was very based on projects with a work force consisting of highly skilled Landis engineers. The projects spanned from setting up cables inside and outside buildings, to setting up relay towers for mobile telephony. These projects often ranged in the area of 100 million euro and provided Landis with huge margins.

## LANDIS HAD A WIDE CUSTOMER PORTFOLIO

Landis' customers ranged from small garage Internet start-ups to the huge royal KPN, and sold everything from cheap routers to million euro projects.

Landis had three main customer segments

1. Public Networks (mainly telecom carriers)
2. Enterprise Networks
3. Business Partners.

### 1. Public Networks

What dominated the European telecom industry was consolidation. In the European market all the mobile carriers were owned by one of the top five carriers all of which were Landis customers. These large carriers were British Telecom, France Telecom, Deutsche Telekom, Telefonica in Spain and Dutch KPM. These carriers were likely to survive while the minor ones would be taken over. Thus when the large carriers consolidated and acquired, the Landis business would grow even faster.

### 2. Enterprise Networks

In the enterprise networks segment, Landis was focusing on the large enterprises as these generated the highest value. In today's hyper competitive business environment, enterprises do not have the luxury of focusing resources on a piece of the business that is not a core focus. Rather, they let others handle the more mundane tasks, and focus resources on strategic initiatives that will have more impact on the company's bottom line.

At Gorman Richardson<sup>1</sup>, architects were focused on designing buildings, not telecom strategies. "*I have found that we don't have the time to invest in learning how to build and manage solutions, so we need the assistance of a provider,*" Gallivan, employee at Gorman Richardson, said. "*In some cases, we have simply looked for guidance and advice from our vendors. Other times, it has been a full installation and purchasing of equipment, as well as ordering communication lines - essentially, managing the project.*" Like most enterprises, Gorman Richardson also used a hosting firm to manage its Web server.

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<sup>1</sup> Gorman Richardson Architects, Inc. in Hopkinton, Mass., which had 100 employees, offered a broad range of services including pre-design services, such as site selection and master planning and a strong core of comprehensive architectural and interior design services. Examples of services were, 3D site models, creating secure-FTP websites & project websites, develop design program tailored to customer needs.

### **3. Business Partners**

The Landis business partners did 60% of all sales. They started out in distribution and wholesale and today they were specialized in data networking, telecommunications, data security, systems and servers, and data storage, data warehousing and archiving products. Despite the small margins, the numerous business partners were vital to Landis' business. They provided access to end-users and their clientele was enormous. These two arguments made Landis appealing to large suppliers like Cisco, who saw great potential in using Landis as a portal to the many customers. For instance it was through the business partners that Landis was the first to sell DSL with the telecommunications company KPN. KPN went through Landis to market.

## **LANDIS - FIGHTING IN AN EXTREMELY COMPETITIVE MARKET**

Among Landis' main competitors were Getronics, Azlan, Telindus, Dimension Data, PinkRoccade NV, LCI NV and KPNQwest NV. However, it was difficult to compare Landis with other companies. Azlan was now predominantly a hardware supplier. Getronics had much focus on standard IT services. Telindus had both product and services revenues. During 2000 Telindus had higher revenue growth than Landis in products, but this clearly impacted its margins. Both Azlan and Telindus were likely to show growth in 2001. Evaluated by almost any ratio, Landis was cheaper than these peers, whereas both their EBITDA and EBIT margins were among the highest.

### **Network Service Providers**

Network Service Providers deployed a Wide Area Network (WAN) on which they offered telecommunication services. Providers could be separated into national (Energis, Versatel) and international (KPN-Qwest, AT&T/BT/Iignite, Worldcom/UUNet, Global One/Equant). Competition was only expected from the providers with whom Landis Network Services (LNS) could not agree a business alliance agreement.

### ***KPNQwest NV***

The Company's principal activities are the delivery of a range of carrier and corporate networking solutions, hosting and Internet services across a 15 country European footprint. The Company owns and operates EuroRings, a European fiber-optic system, which connects 50 cities and a network of hosting facilities, the KPNQwest CyberCentres. Communication services accounted for 92% of 2000 revenues and infrastructure sales, 8%.

### **ICT outsourcing companies**

ICT outsourcing companies (IBM, EDS, HP, Dimension Data, Getronics, Atos/Origin, etc.) took over and managed the entire ICT environment (incl. Network services) of customers. The target market was mainly large multinational companies, which were not the market LNS (Landis Network Services) was focusing on.

### ***Getronics***

Getronics is one of the world's leading providers of Information and Communication Technology (ICT) solutions and services to professional users of ICT.

With 30,000 employees and a direct presence in over 35 countries, Getronics works with many of the world's largest companies to help them maximise the value of their technology investment.

Getronics is headquartered in Amsterdam, with regional head offices in Boston, Singapore and Washington DC. Getronics shares are traded on the Amsterdam Stock Exchange (see also Exhibit 4).

#### ***Dimension Data***

Dimension Data is a rapidly expanding global connectivity and integration services Group, operating in over 30 countries on 6 continents. Founded in 1983 as a specialist supplier of networking technology and services, the Group's strategy has evolved in parallel with the emergence of the intelligent network as the single most important enabler in business today.

Complete connectivity and integration are fundamental components to achieving success in the global market place. Historically, information technology integrators have focused on either network infrastructure or applications integration. Dimension Data is already a world leader in providing network infrastructure solutions to global corporations. The Group has a global workforce whose range of technical skills and geographical coverage are unrivalled.

#### ***PinkRockade NV***

The Company provides information and communications technology services to the manufacturing industry, the banking and insurance sectors and the public sector. Its services are based on two core competencies: Infrastructure Management (setup, management and security of IT infrastructures) and Application Services (development, maintenance and support of IT applications). Application services accounted for 53% of 2000 revenues and infrastructure management, 47%.

#### ***LCI Technology Group NV(LCI)***

Formerly known as LCI Computer Group NV. Involved in the field of information technology and related services. Provision of products and support to major institutions as well as to the government, including video conferences, network connectivity, software development, wireless communication, document management, integration, sales, services and facility management. Services, Integration & New Technology accounted for 85% of fiscal 2001 revenues and software & Consultancy, 15%.

#### ***Azlan Group PLC.***

Provides network computing products and associated training and services. During 2001, the Group acquired Italian network service company. Product business accounted 89% for fiscal 2001 revenues, Training business, 8% and Services business, 3%.

#### ***Small ICT-solutions Providers***

Small ICT-solutions Providers (Brocom, Breese, etc) focused on small- and medium enterprises. Through agent-agreements with local network providers they could be competitors of LNS.

#### ***Network Service Integrators***

Network Service Integrators (Vanco, Genuity, Telindus, Networks unlimited, etc.) offered integrated network solutions consisting of several elements like WAN design and provisioning, network monitoring and security, consultancy, web-hosting etc. They pretended to be Network Provider independent. Dependent on the portfolio of agreements with network providers competition could be expected from NSI. At the present most of the NSI are not active in NL and some own their own network.

## **Telindus**

Telindus Group NV is the Belgian parent company of Telindus, one of the leading European integrators of data- and telecommunications networks. The Telindus group designs, installs, secures, manages, audits and maintains a variety of fixed and mobile networks using local area network LAN, WAN, Internet and Intranet technologies. The group also manufactures high-performance modems and other network access products.

The Telindus group has about thirty subsidiaries in some ten European countries and an extensive network of agents throughout Europe, South East Asia, South America, Africa and the Middle East. Telindus' client base includes more than 50 operators and a broad spectrum across financial, governmental and European institutions. The company is also proud of its prestigious references in the sectors of industry, distribution and media.

In addition to the Telindus subsidiaries, Telindus Group holds approximately 5.1% of the share capital in Mobistar NV, Belgium's second-largest GSM operator. These operations are wholly in line with Telindus Group's strategy towards the future development of the network sector, in which mobile and fixed networks will be further integrated (Exhibit 4).

## **Application Service Providers**

Application Service Providers (Interpath, ASP4all, Vertis, QuayOne, Multrix, Siennax, WebWindows, etc.) provided a contractual service offering to deploy, host, manage, and rent access to an application from a centrally managed facility. ASPs might be competitors when they will expand their portfolio with network services.

Company	Year	Sales (in 1000 Euro)	Sales growth	Largest region	Gross Profit Margin	EBITDA Margin	Earnings Bef.extra	Days inventory
Landis Group NV	2000	667.291**	3,7%	France (31.3%)	12,0%	6,9%	3,6%	47
Landis Group NV	1999				8,2%	3,5%	1,5%	
PinkRocca NV	2000	649.766**	36,8%	N/A	37,1%	14,4%	6,4%	7
LCI Technology Group	2000	256.846**	29,8%	Other countries (92.9%)	17,0%	8,4%	3,4%	64
KPNQwest	2000	461.586**	142,6%	the US (29.5%)	34,1%	-26,3%	-30,0%	N/A
Getronics	2000	3586.227*	12,5%	Eur., Mid.E., Afr.(65.4%)	22,1%	7,7%	1,5%	21
Telindus	2000	480.362*	63,7%	Rest of EU (51.0%)	6,4%	6,0%	23,2%	58
Dimension Data	Sep.2001	2371.499*	31,6%	Asia (22.7%)	25,3%	7,7%	-71,9%	20
Azlan	Mar. 2001	579.749*	44,1%	UK (87.0%)	18,1%	3,8%	1,9%	49

\*1000 USD\$    \*\*1000 Euro

**Finally, the** competitive analysis showed that it was essential to have business alliance agreements with the major business partners to have reach (national and international) and portfolio coverage.

## **THE VALUE CHAIN**

The poor economic weather that had swept across the world had certainly affected Landis as well as its competitors. The telcos were debt burdened from acquisitions and bids on third generation mobile network licenses, and the economic downturn was only making things worse forcing them to cut costs where ever they could. Companies were reefing the sails for the storm, and large IT investments were often the first to be postponed, hence fewer orders for Landis.

But the repercussions reached much further than Landis. The whole value chain from manufacturers to end-users was hit hard. Landis worked with leading suppliers such as Avaya, 3Com, Cisco Systems, Ericsson, Hewlett Packard, Lucent Technologies, Microsoft, Nokia, Nortel Networks, Novell, Oracle, Siemens, SUN Microsystems, and they had quarterly sales targets to meet. Therefore, all the major manufacturers were stuffing their channels at the end of the quarter to make the numbers. As a result of falling demand and increasing supply, inventories were bursting with goods, and in a few extreme cases, Landis had been compelled to call for the local police to prevent desperate suppliers off-loading goods that Landis did not order.

Landis mission was “building satisfied business partners by offering high quality ICT products, services and training for the electronic highway”. Since Landis defined the manufacturers as one of the four types of business partners, this desperate situation put a serious strain on Landis’ ability to satisfy the manufacturers and thus live up to the mission statement.

## **FINANCIAL HURRICANE**

The remaining three types of business partners defined by Landis were customers, shareholders and employees. The deteriorating macro-economic outlook was creating both threats and opportunities for Landis' mission satisfying the shareholders.

Because of the low prices on technology stocks the ICT industry had experienced a considerable consolidation and Landis had not refrained from exploiting the opportunity to grow through acquisitions. In 2000 alone, Landis acquired four companies, the most important of those being Detron Group N.V. However, one company seldom fitted completely into the structure and organization of the next company, and thus Landis was facing an immense task of integrating the acquired companies. As an example of these difficulties, 75% of all internal communication was through e-mail, but until recently 44 different note systems to convey this communication existed within Landis due to the numerous acquisitions. Landis had, nevertheless, been quite successful in integrating the acquired companies though some of the acquired business units had to be divested in the process.

### **The Stock Market and Investor Relations**

The fuel for this high pace of acquisitions and the following restructuring and integration had mainly been raised on the stock market, tripling the number of shares from 1999 to 2000.

Moreover, due to the high pace Landis was keeping, they were still in the process of developing their investor relations, which were far from complete.

In the light of falling stock prices on tech companies, however, the effect of this massive emission had been diluted, and Landis chose, in 2000, to strengthen its capital base by taking out a subordinated convertible loan of 45 million Euro to be made available in installments. For more details on this loan and its conditions see the box below.

### **Subordinated convertible loan**

Loan amounting to Euro 45 million entered into with two US investors, of which loan the full amount has been deposited with a banker on an escrow account. Euro 10 million has been received in 2001 and starting 1 April 2001 the remaining amount will be released in a maximum of 9 monthly installments.

The duration of the loan ends on 9 March 2005 and the interest amounts to 4% payable quarterly in arrears. Landis Group N.V. has a choice to pay the interest in cash or in shares in Landis Group N.V.

The loan can be converted into shares during the whole duration. The conditions for conversion are detailed as follows:

- Until and including 9 June 2001: Conversion rate is Euro 9.12.
- After 9 June 2001 conversion price is stock exchange price (weighted average of the lowest 3 stock exchange prices during 10 days after a request for conversion) or lower conversion rate. If the stock exchange price has been 25% higher than the conversion rate for longer than 20 days at a stretch the entitlement to conversion against the lower conversion rate will be lost.
- Per month a maximum of 9.9% of the outstanding shares can be converted.
- If the stock exchange price of Landis Group N.V. decreases significantly, the maximum number of shares that can be issued is limited to approximately 7 million and the remainder will be payable in cash.

#### ***Source: Landis Annual Report 2000***

*Escrow: Property or money held by a third party until the agreed upon obligations of a contract are met.*

Many investors and analysts viewed the nature of this convertible loan as a potential dilution of their investment in Landis, since their relative share of Landis' equity would be diluted should the two US investors decide to convert the loan to shares. This risk combined with the fact that Landis in the 2000 annual report did not give any projections or expectations regarding the coming financial year amplified the effect of an already sour tech stock market. The price of Landis stock took another drop and continued the downward trend.

But was the dramatic drop in the price of Landis' stock justified (Exhibit 11)? A look through various analysts' report on Landis draws a picture of a basically healthy business, and the analysts targeted Landis' shares considerably above the market price. Landis exercised tight cost control though inventory and debtors still strained the balance sheet. Landis was still, according to analysts, too focused on the VAD business where margins were dropping and OEMs (Original Equipment Manufacturer) increasingly were going directly for the end users. Landis was aware of the VAD limitations and had introduced a strategy of becoming a "full service provider" moving focus away from VAD. Nevertheless, investors did not seem to be convinced, possibly because of the difficult market circumstances and the fact that Landis as a new entrant had not yet established its image in the full service market.

There was a tendency, though, that the HSBC analysts were more positive towards Landis than their Dutch counterparts. According to Landis CEO Paul Kuiken, the only analysts following Landis that really understood the nature of the company were the analysts from HSBC. Not all investors agreed with the HSBC evaluation of Landis. How should Landis convince doubting investors about the potential of Landis' business? Presenting growing revenue, net profit and EPS was apparently not sufficient to convince the stock market. The dropping share price made it increasingly difficult to raise capital to sustain the acquisition strategy as well as exposing Landis itself to the risk of acquisition. Thus, it was imperative for Landis to tackle this problem of lacking confidence from the stock market.

## GETTING THE RIGHT PEOPLE - A MAJOR CONSTRAINT

"We consider all employees essential to our mission. Only as a team can we realize our goals." The message stated in the Landis mission statement was quite clear – Landis' most important assets were the employees. This was especially true if Landis wanted to implement the strategy of becoming a full service provider. However, getting the right people was a major constraint. Landis had been so busy growing that it did not have the excess time or money to train and evaluate managers. Furthermore, the competition for skilled IT workers was intense making it difficult for Landis to recruit new employees. Thus, part of the rationale behind Landis' acquisition strategy was to curb this limited supply of skilled IT workers, and Landis had in fact been quite successful in acquiring the needed brain power tripling the total number of employees from 1998 to 1999 and again from 1999 to 2000.

Total number of employees at Landis				
2000	1999	1998	1997	1996
3212	1150	338	178	96

Hence, Landis had acquired substantial knowledge about network, market, suppliers, marketing, selling, delivery and Customer Care. But one thing was to acquire companies and take over their employees – another thing was to integrate the new employees and make them stay.

With the acquisition of 12 different companies, Landis was facing the challenge of integrating a number of different cultures. However, the attempts to integrate the various departments had not developed as smoothly as hoped for. Some departments had a fear of opening up, which seriously slowed down the integration process. This along with the fact that the departments had very different ways of working (e.g. some had a very project based culture) made Landis less uniform.

When asked how the company was organized from a divisional point of view, Mr. Kuiken answered: "*We are organized around the technology; technology drives the growth of our company, especially the complexity of the technology. If you look at both areas and the distribution, we are the main partners for vendors like Cisco, Nortel, Lucent, Sun and Oracle; so it is completely vendor-orientated; and around that strategy we offer added value like engineers, consultancy and training. In the systems integrator organization it's technology-based but it's user-oriented. The users ask for help and we translate that demand into user applications. After that we just offer the user applications to the end users themselves.*"

Coping with the explosive organizational growth that Landis was experiencing is a formidable challenge for the company. On top of this, the company was going through considerable organizational changes further shuffling the work force around. These organizational changes were partly due to Landis' acquisition policy and partly due to the beginning shift in focus from VAD towards "knowledge products". As a result, Landis had eliminated 85% of the employees in the VAD business over the past 2-3 years (from 1400 to 173).

Not all Landis employees had been dedicated supporters of the changes and the resistance had reached all the way into the top management. To keep the top management team heading in the direction set by CEO Paul Kuiken, he had had to resort to harsh measures, e.g. introducing "demotions" as opposed to promotions (which however failed). According to Paul Kuiken, the only

way to turn around was “to remove some Eiffel Towers and small castles – I have closed down my last two, only one is remaining”.

To motivate the remaining employees, Paul Kuiken used different kinds of means including money, position, respect and education. The question was whether this was sufficient to retain the employees, who were paramount to Landis’ success? Because of the tremendous growth, Landis was not yet one company. Will the entrepreneurial spirit that had driven Landis’ progress so far be sufficient to glue the company together as it kept growing and growing? The current culture in Landis was that there was no organization. One manager at Landis said that it was time to begin thinking like a big company, albeit he did not specify what that implied. Paul Kuiken believed in neither hierarchies nor matrixes, but how should the company then be organized to survive the journey from small-cap entrepreneur to leading European ICT company?

The questions were numerous, and Landis faced huge organizational as well as human resource challenges in an uncertain future.

## AT THE CROSSROADS – WHICH PATH TO CHOOSE

The environment that Landis operated in was characterized by constant changes. The information and communication technology was developing at a breathtaking pace, and so did the business surrounding the technology. Software and especially hardware sales were subject to cutthroat competition slashing margins. On top of that, OEMs were increasingly selling directly to the end-users. This had altogether provoked a trend in the ICT business of moving towards services and integrated solutions instead of “moving boxes”. All this demanded applying different tools to the changing needs. When selling hardware, it was the customer, who owned the product in the end, but when selling services it was Landis who owned the customer in the end. Landis had to stand up to this challenge and apply new tools.

One of the attempts made was increasing the focus on Customer relations (CRM). Landis wanted to focus and retain the loyal customers. Hence, a customer contact center was opened, which put together sales operations with a helpdesk and a customer database. This was done, since after sales services were the most difficult part of the sale.

The whole character of the competition would change from price competition to competing on the value added to the products – typically in the form of integrated solutions including implementation and training of the customers’ employees. The services could also enclose management of the systems. The trend towards concentrating on core competencies and the difficulties in recruiting skilled IT-workers had created a significant growth in the market for managed services (Exhibit 5). Moreover, Landis was considering outsourcing its distribution, which included Landis’ business partners all while figuring out where its strengths were lying. Were the business partners really a part of the core competencies or would Landis be better off outsourcing them?

Chris VanLuling, director of business marketing at WorldCom, attributed the growth to the worldwide challenge customers had in recruiting and retaining network management talent, and the need to rapidly deploy new e-business applications reliably. VanLuling estimated that 15% to 20% of WorldCom’s customers bought managed network services today, and he predicted that the remaining 80 percent to 85 percent would migrate to managed services over time.

Another growing service area was acting as trusted intermediary between the small to medium size companies and the telecom carriers. Dan Gallivan, IT manager at Gorman Richardson Architects, preferred to work with a solution provider that resold carriers' services, rather than do business with the carriers themselves. "We are working with a vendor that manages all of our local phone and long-distance lines, as well as our primary Internet link," Gallivan said. "We get personalized account service and easy-to-reach reps, and we don't have to deal directly with Verizon [Communications]. They provide more customer service and are more helpful than the larger utility has ever been."

Another dominant feature of the ICT industry was consolidation, and acquisitions were almost daily events in the industry. The big companies would get bigger and the small companies will either be taken over or die in the fierce competition. Landis' management had acknowledged this and had signed the company up for the consolidation race. Landis got a good start with massive acquisitions, but the circumstances in the financial market were straining Landis' ability to keep the pace. To stay ahead in the race, Landis needed to choose a path that would convince investors to put their faith in Landis.

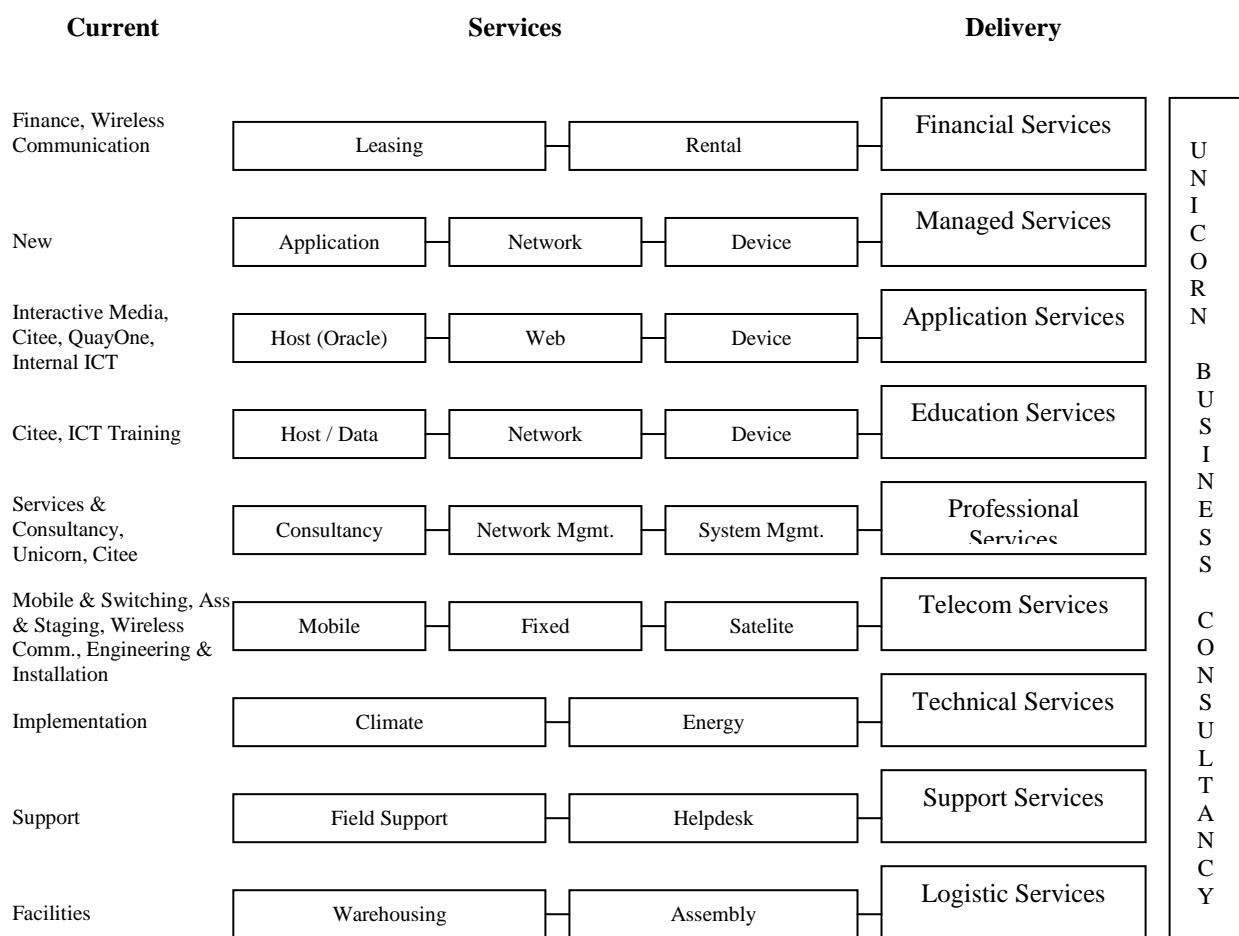
Having seen his visitors to the door after a very interesting discussion, Paul Kuiken sat down and gazed at the setting sun. The temperature in the office had finally dropped to bearable levels, but Paul more than ever felt the heat intensifying. Numerous thoughts and questions built up in the back of his head. He knew that Landis had come to a crossroad, but which path should he choose? He also knew that mere choosing a path would not make the difficulties cease to exist. On the contrary, they would just be starting. In order to successfully walk the new path, Landis would have to convince not only the investors that the chosen path is the right path, but all its stakeholders. Organizational issues, marketing issues, financial issues and HR issues will battle each other for the attention of the Landis management.

CEO Paul Kuiken and CMO Berry Clemens both saw managing the changes, internally as well as externally, as the ultimate challenge for Landis. Paul Kuiken had shed blood and tears building the business from scratch, nurturing it from infancy till its present transition into adulthood. He set out to build satisfied business partners – customers, manufacturers, shareholders, and employees. But at the present course keeping all business partners satisfied is growing increasingly difficult, and Landis has thus arrived at a crossroads where all paths require, at least short term, sacrifices from both Landis and its business partners. Which path would be the best – quo vadis?

## EXHIBIT 1

### Summary of Business Areas by Landis

As previously stated in the case text, CEO Paul Kuiken did not believe in hierarchies, hence there existed no traditional representation of the Landis organization. Externally, towards the customers, Landis was organized in three divisions corresponding to the three business areas, namely Business Partners, Enterprise Networks and Public Networks, but internally the company was organized around a number of competencies and services delivered by nine divisions. The products and services delivered by Landis to its customers in any of the three business areas were in most cases a combination of products and services from multiple internal delivery divisions.



Source: Landis Half-Year Report 2001

## EXHIBIT 2

### Acquisitions

Year	Company Name	Company Business
1997	Chip Technologies SA	Distribution and service provider of data communication networking products in France.
1998	Schneider und Koch	Consultancy (SK-do-IT), Education (SK-Bildungszentrum) and Distribution (SK Distribution) company specialised in data and voice networking products.
1998	Ansacom B.V.	Telecommunication distribution and service provider in the Netherlands and Belgium.
1999	Dennis Bergstrom AB	Distribution and service provider specialised in Data-, Voice- and Storage networking products in Sweden, Norway and Denmark. The take over includes a Network Security consultancy company.
1999	Ilion PLC	Distribution (Ilion), service provider and educational centre (Ilion Faculty) of data and voice networking products, UNIX/Linux operating systems, Database and Storage products in Belgium, Netherlands, Luxembourg, Germany, UK, France, Spain and Austria.
1999	4U Group B.V.	Technical educational centre (4U training), individual training (IMT) facilities and detachment (4U Flex Partners) of networking and operating systems specialists in the Netherlands.
2000	ICT.COM B.V.	E-Solution Provider, ICT.COM, a business-to-business Internet portal based in Hoofddorp, the Netherlands, is focused on the development, exploitation and support of E-commerce activities.
2000	7W&H	7W&H employs highly qualified business consultants who are specialized in designing and managing data network infrastructures. They are highly skilled and trained in network topology and –technology, network architecture, cabling systems, network protocols, ICT management, ICT security, Internet and ASP.
2000	Detron Group N.V.	Provides consultancy, design, implementation and operations & maintenance services, for operators of both fixed and mobile telecom networks, as well as for internet service providers and carrier hotels. On the market for business networks Detron provides integrated voice/data networks and services.
2000	Citee B.V.	Citee has branches in Leidschendam and Rijswijk. The company can be characterized as an ICT integrator for building, using and exploiting of modern technology based on one stop shopping. Main topics are outsourcing, IT migration processes and e-business. The company has its focus on organizations with 100 users or more.

## **EXHIBIT 3**

### **Management Team**

The international management team consists of 4 chief officers and 5 vice presidents, with founder and CEO Paul E. Kuiken at the top.

CEO: Paul E. Kuiken

CFO: John A. Bus

COO: Jean-Pierre Verhoeven

CMO: Berry A.P. Clemens

Vice President Business Partners: Willem de Haan

Vice President Public & Enterprise Networks: Rob van Straten

Vice President ICT Facilities: Peter Ligtvoet

Vice President ICT: Dick de Groot

#### ***Ing. Paul. E. Kuiken, Chief Executive Officer***

Mr. Kuiken is the Chief Executive Officer of the Landis Group. He is a graduate of the University of Technology. After studying electrical engineering he followed several management development courses at Internatio Muller and Sony Netherlands. He also held a number of sales and marketing positions at Suyver & Roosen, Sony Netherlands and Canon Netherlands. He continued his career with managerial positions at Koning & Hartman and the Datel Group. Mr. Kuiken founded the Landis Group in 1990.

#### ***John A. Bus RA. RE. , Chief Financial Officer***

Mr. Bus is the Chief Financial Officer of the Landis Group. During his study of accountancy, Mr. Bus worked for a number of auditing organizations, including Moret, Ernst & Young Accountants, where he served as an EDP auditor for four years. After his graduation, Mr. Bus became responsible for the department of internal audits and group coverage at OPG. In 1996 he joined the Landis Group as Chief Financial Officer. He became a member of the Board of Directors in 1997.

#### ***Ing. Berry A.P. Clemens, Chief Marketing Officer***

Mr. Clemens is the Chief Marketing Officer of the Landis Group. After completing his study at the university of technology he worked as a product manager at Symplex Communications Corporation. Since 1992 he has been working at Landis Group N.V. in different marketing jobs. Mr Clemens was appointed as a member of the board of directors on 27 April 2000

#### ***Ing. Jean-Pierre Verhoeven, Chief Operations Officer***

Mr. Verhoeven was employed by Cisco since April 1993 and held different positions. In his last position of Vice President Cisco Northern Europe he was responsible for the Northern European region, which consists of Sweden, Norway, Denmark, Finland, the Baltic States and the Benelux countries. Prior to this role he was responsible for all sales, marketing and support activities of Cisco Systems for the Netherlands as General Manager. Before 1993 Jean-Pierre Verhoeven held several management jobs at Getronics.

## **EXHIBIT 4**

### **Competitors**

#### ***Getronics***

Their mission: To enable their clients - both global and local - to meet or exceed their business objectives by supplying and managing advanced, vendor-independent, ICT solutions and services.

**What they do:** Getronics combines the three distinct, but strongly linked, offerings of:

#### ***1. Business Solutions***

Today all business is increasingly interconnected: from sector to sector, culture-to-culture and time-zone-to-time-zone. ICT, and in particular the Internet acts as enabler to focus the business relationship with customers, understanding their unique needs.

At the same time it enables organisations to link colleagues and partners together in an extended virtual enterprise to deliver improved customer service.

Getronics has made this interaction, between the extended organisation and its customers, the focus for the business solutions to clients.

#### ***2. Infrastructure Integration***

The ICT infrastructure is not a monolith. It can't be constructed once and last forever. It needs the agility to adapt. Again and again and again.

NetWorkPlace™ is an integrated suite of services covering the complete technology lifecycle of planning, deployment, management and maintenance.

Their philosophy is simple. Getronics believe that organisations should adopt a common operating environment. That means common systems and support throughout. It's an approach that maximises value and performance and ensures that the company is always ready for change.

#### ***3. Managed Services***

As ICT rapidly evolves, so the science of support becomes increasingly sophisticated. Rather than playing a constant game of service "catch-up", many of Getronics' clients choose to entrust the management of their ICT infrastructure to Getronics.

Getronics managed services ensure on-site services, helpdesk, network and asset management – and give the company control over the cost of ownership, so it never needs to compromise the ability to do business.

Getronics have more than 200 regional service hubs, Getronics. They also operate Enterprise Service Centres in Amsterdam, Houston, London and Sydney.

Getronics operate in:

- Business continuity.
- Configuration and installation services.
- On-site and remote ICT and network management.
- Outsourcing.
- Software support and helpdesk services.
- Logistics and warehousing.
- Asset management and control.
- Rollout and third-party maintenance.

**Their vendor-independence:** Getronics have alliances with many of the world's leading and most respected hardware and software vendors and remain independent. This gives Getronics the freedom to select the most suitable technology combinations for their clients.

**Growth:** Since their re-listing on the Amsterdam Exchanges in 1985, Getronics has adopted an aggressive policy of expansion by means of internal growth, acquisitions and strategic investments. Important criteria are high added value activities, scale, market orientation and a management with proven skills.

Share price performance and market capitalization: The Getronics share price experienced a turbulent year in 2000. The share price decreased by 76% from € 26.40 to € 6.26 at year-end. In May 2000, Getronics instituted a 1:3 share split. The market capitalisation of Getronics by year-end 2000 was just over € 2 billion compared to € 9 billion at year-end 1999.

### ***Dimension Data***

#### **Key Facts**

- Dimension Data is a leading global network services and interactive commerce solutions provider
- The Group employs over 12,000 people in over 30 countries on six continents
- Dimension Data raised \$1.4bn in London last year
- Sales last year amounted to US\$1.9bn with \$319 million in sales from interactive commerce
- It has achieved a three-year compound annual growth rate in US dollars of 73% in revenue and 36% in basic earnings per share
- Dimension Data has a blue chip client list, including: Citibank, Charles Schwab, Accenture, Deutsche Bank, Virgin Mobile, Toyota, Telewest, Telstar and Cap Gemini Ernst & Young
- Dimension Data is already the largest independent network services integrator in the US with annualized revenues approaching \$600 million and 800 employees

### ***PinkRoccade NV***

During the first quarter of 2001, sales at PinkRoccade NV totaled 197.10 million Euro. This is an increase of 31.4% from the 150.00 million Euro in sales at the company during the first quarter of 2000. PinkRoccade NV reported sales of 649.77 million Euro (US\$564.52 million) for the year ending December of 2000. This represents an increase of 36.8% versus 1999, when the company's sales were 474.99 million Euro. Acquisition activity may have played a role in the sales growth: PinkRoccade NV acquired Automatisering Sociale Zekerheid (Asz), Completion B.V., Tas Groep Nv, 70% of Viper Communications Group (Australia) in 2000. This was the fourth straight year of sales growth at PinkRoccade NV. PinkRoccade NV currently has 7,722 employees. With sales of 649.77 million Euro (US\$564.52 million), this equates to sales of US\$73,106 per employee.

### ***LCI***

On the 310.58 million Euro in sales reported by the company in 2001, the cost of goods sold totaled 266.05 million Euro, or 85.7% of sales (i.e., the gross profit was 14.3% of sales). This gross profit margin is lower than the company achieved in 2000, when cost of goods sold totaled 83.0% of sales.

The company's earnings before interest, taxes, depreciation and amortization (EBITDA) were 19.79 million Euro, or 6.4% of sales. This EBITDA margin is worse than the company achieved in 2000, when the EBITDA margin was equal to 8.4% of sales.

In 2001, earnings before extraordinary items at LCI Technology Group NV were 8.85 million Euro, or 2.9% of sales. This profit margin is lower than the level the company achieved in 2000, when the profit margin was 3.4% of sales. Earnings before extraordinary items have grown for each of the past 5 years (and since 1997, earnings before extraordinary items have grown a total of 129%). The company's return on equity in 2001 was 29.8%. (Extraordinary items have been excluded).

### ***KPNQwest***

KPNQwest NV reported sales of 461.59 million Euro (US\$401.03 million) for the year ending December of 2000. This represents an increase of 142.6% versus 1999, when the company's sales were 190.24 million Euro. Acquisition activity may have played a role in the sales growth: KPNQwest NV acquired Comm2000 (Italy), remaining 57.5% of Eunet Portugal Telecommunicacoes Lda, remaining 49% of Aktsiaselts Data Telecom (Estonia), Simon Media GmbH (Austria) in 2000. This was the third consecutive year of growth at KPNQwest NV. Sales of Infrastructure Sales saw an increase of 195.5% in 2000, from 12.74 million Euro to 37.65 million Euro.

Although KPNQwest NV is headquartered in the Netherlands, it derives most of its sales outside of its home market: sales in the Netherlands were 86.20 million Euro, which was only 18.7% of 2000's sales.

During 2000, the company's sales increased at a faster rate than all three comparable companies. While KPNQwest NV enjoyed a sales increase of 142.6%, the other companies saw smaller increases: PinkRocca NV sales were up 36.8%, Landis Group NV increased 3.7%, and LCI Technology Group NV experienced growth of 29.8%.

### ***Azlan***

Azlan Group PLC reported sales of £591.61 million (US\$842.75 million) for the fiscal year ending March of 2001. This represents an increase of 44.1% versus 2000, when the company's sales were £410.60 million. This was the third consecutive year of growth at Azlan Group PLC.

In 2001, sales in Switzerland were up at a rate that was much higher than the company as a whole: in this region, sales increased 108.1% to £14.36 million. Azlan Group PLC also experienced significant increases in sales in Scandinavia (up 84.7% to £44.01 million) and Italy (up 70.8% to £59.82 million).

Azlan Group PLC currently has 1,457 employees. With sales of £591.61 million (US\$842.75 million), this equates to sales of US\$578,412 per employee. Note that some of the figures stated herein could be distorted based on exact classification of employees and subcontractors.

### ***Telindus***

*Business overview:* The strength of Telindus lies in the service oriented culture with technological experts in alleviating congestion. More than 50% of the highly qualified personnel have a Master of Science (engineering) degree.

The company has a strong financial condition with low debt and valuable equity holdings, a proven ability to acquire, and 30 years senior management experience.

Telindus is organised in five competence centers.

- 1.Telindus Access Products
- 2.Enterprise Networking
- 3.Operators
- 4.Services
- 5.e-Networking Solutions

Telindus' Service Delivery Strategy is based on today's best practice in network integration: integration service management. It encompasses creating, planning, designing and implementing as well as operating the secure enterprise network. Their Service Delivery Concept positions the various modular services and describes how the service delivery is managed by means of service-level agreements.

Telindus is a voting member of the ITU (International Telecommunication Union)

Telindus is a voting member of the ETSI (European Telecommunications Standards Institute)

Telindus is a member of FITCE-Belgium

Telindus is a member of BTA, the Belgian Teleworking Association.

Telindus is a member of the Belgian ATM Platform.

Telindus is a member of the ECTA - European Competitive Telecommunications Association.

Telindus is a member of the DSL Forum

*1. Telindus Access Products:* As a telecommunications equipment manufacturer Telindus designs, produces, markets, and supports access products that are used by operators to deliver high-speed access services to their customers over the local loop.

*2. Enterprise Networking:* Telindus is committed to delivering secured hybrid network infrastructures. For many years now, Telindus has been gathering a vast amount of core know-how in network design, planning building and servicing. Telindus delivers future-proof networks to support legacy protocols, today's critical applications and tomorrow's multimedia implementations.

Telindus is committed to delivering secured network infrastructure. For many years now, it has been gathering a vast amount of core know-how in network design, planning, building, and servicing. Telindus delivers future-proof networks to support legacy protocols, today's critical applications, and tomorrow's multimedia implementations.

Concerning technologies and products, the network infrastructure is built using a variety of products, which may include hubs, workgroup and backbone switches, ATM switches, LAN or WAN routers, adapters for Ethernet, fast Ethernet, gigabit Ethernet, token ring and ATM, and remote-access equipment. Firewall, VPN, authentication, and encryption technologies are deployed to ensure secure access to authorised users of the Internet and Intranets.

#### End-to-end and secured enterprise networks

- Switched Intranets and WAN backbone
- Integration of remote and mobile users into Extranets
- Mixing of legacy protocols with IP networks
- Voice-into-data network integration
- Intranet defence in function of security policy
- High-quality video transport
- Architecture and tools to make the network fully manageable
- Integration of directory information into intelligent networks

- Extensive professional services

Over the years, Telindus has installed hundreds of local, national, and international networks for a wide range of clients in the banking, insurance, retail, governmental, telecommunications, petrochemical and health-care worlds.

Telindus has long established strategic partnerships with key leading vendors of networking products. 3COM, CISCO Systems and Marconi deliver the cornerstone infrastructure of their networks.

*3. Operators:* With the foundation of the competence centre Operators, Telindus emphasises the importance of the (r)evolution in the telecom market. With its experience and knowledge Telindus is a strong partner for established and new telecom operators.

*4. Services:* Telindus based its services strategy on the notion that it should be completely independent from any of the great 'vendor camps' product strategies. Telindus differentiates itself through its services.

*5. e-Networking Solutions:* Within e-Business, Telindus is active in the areas, which are close to its core networking competences, such as secure Internet and mobile applications, unified messaging and directory services.

## **EXHIBIT 5**

### **Technology Development**

To date the personal computer (PC) has had a client-server relation through a Local Area Network (LAN). The server drove the network, whereas the PC also contained intelligence or software.

It is expected that data processing and storage in the future will take place on central servers. Connection between a PC and servers is made through the web: as it were, a client-host relation. This development will affect the current PC industry and will contribute to the emergence of a new type of service provider.

To enable this new type of service providing, investments are being made in an infrastructure of hardware, software and know-how. As a result of this, complete system networks can be financed and managed and mission critical applications can be made available to organizations for use through the web.

### *Market Demands and Trends*

There exists and increasing growth in electronic business, inter-company, intra-company, business to business, business to consumer and consumer to consumer. It has become essential to have networks and network applications in order to stay competitive and grow the business. Moreover, companies are becoming aware of the importance of focusing on their core business and are thus interested in outsourcing managed network services.

‘Managing network services is a management problem not a technology one.’ (*Datamonitor*)

Managed networks, and Managed WANs have existed for some time as an alternative to the enterprise building out their own network. Many carriers are under pressure from plummeting bandwidth prices, price erosion, and the commoditization of transport and connectivity. Telco's have begun to realize that the key to retaining customers in an increasingly aggressive market is to create new WAN services to allow customers to effectively outsource all of their WAN needs. Today carriers are becoming less technology providers and more service providers.

### *Managed Service Provider - MSP*

MSP is an outsourcing of business processes. The 4 major processes are Network Services (WAN Market, portfolio, go to market, strategy, implementation, financial), Application Services, Desktop services, and LAN services.

### *Landis Network Services - LNS*

Landis Network Services selects and purchases best of breed wide area data network services from Telecom Providers and integrate and combine these into customer solutions. Landis (re)sells these service and solutions, as an independent party, into its target market, directly or via the Landis Business partners. The objective of the LNS is to gain and keep loyal customers by delivering the best choice of integrated network services, linked to E-commerce solutions that enable their customers to reduce their risk, to grow their business and to stay competitive.

### *Application Service Provider - ASP*

Mid-sized companies and those enjoying rapid growth are turning to Business Process Outsourcing (BPO) of non-core functions. They need Enterprise Resource Processing software (ERP) to streamline these processes but don't have the massive capital outlays in their budgets to purchase programs like SAP or PeopleSoft. So they are turning to Applications Service Providers (ASP) to supply a cost effective solution that can grow with their changing needs. The buyers are leaving the training, installing, and upgrading of this software to them. The result: Buyers can reengineer their business practices at a price they can afford.

Expect continued consolidation and attrition of ASPs over the next 12 months; say chief executive officers and analysts. "The next 12 months will be turbulent," predicts Joel Schleicher, CEO of Interpath Communications Inc., a business applications and maintenance ASP in Raleigh, N.C. "More ASPs will crumble because they don't have the financial wherewithal to survive. In many cases, it's largely because they had flawed business plans that priced their customers under water." Resilient ASP industry emerges But that doesn't mean there won't be growth. After the inevitable shakeout, a stronger and more resilient ASP industry will emerge, Schleicher predicts. By then, ASPs will have clearly differentiated themselves from their competition, according to Gary Steele, CEO of Portera Inc., a vertical service provider providing hosted software for the professional services industry in Campbell, Calif. "But only companies with real efficiencies will survive for the long haul," he says. The foundation for these changes will be "educated customers who make fast buying decisions," adds Jessica Goepfert, a senior analyst at IDC, a technology-consulting firm in Framingham, Mass. "A purer ASP will emerge because there won't be any confusion about the services ASPs provide." Adds Bill Martorelli, vice president of e-services and sourcing at Hurwitz Consulting, also located in Framingham, "As the Web services movement evolves further, there will also be new ASP business models and opportunities for vendors and service providers. This means many intriguing possibilities for software vendors and service providers."

The industry can look forward to a "whole new breed of companies entering the market," predicts Jason Donahue, CEO and president of Telecomputing Communications Inc., a hosted applications and Web services company in Fort Lauderdale, Fla. "Service providers such as telcos and hosting companies with strong balance sheets and a history of providing reliable services will become more prevalent as providers of hosted applications," he says. "Expect greater acceptance of software as a service beyond basic applications. Tomorrow's software will do things today's software can't do, such as linking together mail and voice systems and possibly tying in delivery components as well."

### *Verticalization' ahead*

"Verticalization" is the word Goepfert coined to describes a powerful near trend. "Customers will be looking for ASPs that have expertise in their industry," she says. "This will help ASPs deal with the issue of customization." In 2002, Goepfert sees the ASP market "bifurcating" into two segments. "The first will serve large customers with complex operations and the second will have a low-tech business model serving the lower-end consumer market," she explains.

Over the next two years, mega-companies like Microsoft, Oracle and IBM will become increasingly dominant, says Laurie McCabe, vice president of hosted applications and service providers at Summit Strategies, a market research and consulting company in Boston. "That's not to be interpreted as bad," she says. "What the ASP market lacked was credible 'gorillas' or bigger players to strengthen the industry. They're not going to obliterate everyone. In some cases, they'll end up

acquiring or partnering with existing players. But, like the software industry, there will always be a need for strong niche providers.” Along with growing niche markets, “the small-medium business market will be embracing ASPs in a big way,” asserts Bruce Graham, CEO and president of Interliant Inc., a hosting service provider in Vienna, Va. “More SMBs are saying they don’t want to have an IT shop,” he says. “They are ready and willing to have ASPs deliver all their applications over the Web. This will be a large and powerful market.”

Finally, the ASPs that will be around in three to five years will be offering simple and understandable business models, forecasts Tom Kelly, CEO of BlueStar Solutions, an enterprise outsourcing company in Cupertino. “Companies with complex business models will struggle and most likely fall by the wayside because they’re all over the place,” he says. “But companies that are focused on doing one thing well stand the best chance of being very successful.”

Many companies are entering this new form of business. It is, however, important to keep in mind that MSP activities require very different capabilities of personnel.

## EXHIBIT 6

**Consolidated Balance Sheet**  
**(after profit appropriation in EURO \* 1000)**  
*Source: Landis Annual Report 2000 and Interim Report 2001*

<b>ASSETS</b>	<b>30/06 2001</b>	<b>31/12 2000</b>	<b>31/12 1999</b>
<b>FIXED ASSETS</b>			
<b>Tangible fixed assets</b>			
Other fixed assets	N/A	21.792	12.005
<b>Financial fixed assets</b>			
Unconsolidated group companies	N/A	7.226	
<b>Total fixed assets</b>	<b>20.523</b>	<b>29.018</b>	<b>12.005</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Stock	N/A	62.656	69.818
Work in process	N/A	13.229	
Total inventories	68.972	75.885	69.818
<b>Receivables</b>			
Debtors	168.798	197.454	119.355
Other receivables and prepaid amounts	77.903	92.281	13.333
Total receivables	246.701	289.735	132.688
<b>Cash</b>	<b>1.838</b>	<b>824</b>	<b>1.101</b>
<b>Total current assets</b>	<b>317.511</b>	<b>366.444</b>	<b>203.607</b>
<b>Total assets</b>	<b>338.034</b>	<b>395.462</b>	<b>215.612</b>

NB: Outside observers estimate that approximately 80% of the total assets pertain to the VAD business.

### EQUITY AND LIABILITIES

	<b>30/06 2001</b>	<b>31/12 2000</b>	<b>31/12 1999</b>
<b>Shareholders' equity</b>	67.886	64.623	60.028
<b>Long-term liabilities</b>			
Subordinated (convertible) loans	46.040	46.986	3.120
<b>Total Guarantee Capital</b>	<b>113.926</b>	<b>111.609</b>	<b>63.148</b>
<b>Provisions</b>	1.542	6.795	2.182
<b>Current liabilities</b>			
Banks	144.956	172.658	38.043
Trade creditors	59.254	80.043	88.440
Taxes and social security charges		1.923	7.894
Other liabilities	18.356	22.434	15.905
<b>Total Current Liabilities</b>	<b>222.566</b>	<b>277.058</b>	<b>150.282</b>
<b>Total Shareholders' Equity and Liabilities</b>	<b>338.034</b>	<b>395.462</b>	<b>215.612</b>

## Exhibit 6 continued

### Consolidated Balance Sheet

(after profit appropriation in NLG)

Source: Landis Annual Report 1998 and 1997

#### ASSETS

	31/12 1998	31/12 1997	31/12 1996
<b>FIXED ASSETS</b>			
<b>Intangible fixed assets</b>			
Goodwill	4.310.871	3.351.008	85.590
<b>Tangible fixed assets</b>			
Other fixed assets	6.774.265	3.954.995	807.148
<b>Total fixed assets</b>	<b>11.085.136</b>	<b>7.306.003</b>	<b>892.738</b>
<b>CURRENT ASSETS</b>			
Inventories	64.408.230	31.182.142	11.390.125
<b>Receivables</b>			
Trade receivables	109.635.640	45.526.168	25.311.065
Other receivables	13.863.795	4.316.060	3.059.122
Total receivables	123.499.435	49.842.228	28.370.187
<b>Cash at banks and in hand</b>	<b>2.152.656</b>	<b>2.340.062</b>	<b>41.265</b>
<b>Total current assets</b>	<b>190.060.321</b>	<b>83.364.432</b>	<b>39.801.577</b>
<b>Total assets</b>	<b>201.145.457</b>	<b>90.670.435</b>	<b>40.694.315</b>

#### EQUITY AND LIABILITIES

	31/12 1998	31/12 1997	31/12 1996
<b>Shareholders' equity</b>			
Minority interest			106.096
<b>Long-term debt</b>			
Subordinated loan	9.375.000	10.000.000	1.000.000
<b>Total Liability Capital</b>	<b>96.389.958</b>	<b>21.622.357</b>	<b>5.686.733</b>
<b>Provisions</b>			
Deferred tax liabilities			240.817
<b>Current liabilities</b>			
Banks	16.704.003	22.457.788	9.462.828
Trade creditors	65.265.675	38.732.744	20.329.553
Taxes and social security liabilities	18.308.713	6.281.307	3.776.458
Other liabilities	4.477.108	1.576.239	1.197.926
<b>Total Current Liabilities</b>	<b>104.755.499</b>	<b>69.048.078</b>	<b>34.766.765</b>
<b>Total Shareholders' Equity and Liabilities</b>	<b>201.145.457</b>	<b>90.670.435</b>	<b>40.694.315</b>

## EXHIBIT 7

### Consolidated Profit and Loss Account

(in EURO \* 1000)

*Source: Landis Annual Report 2000 and Interim Report 2001*

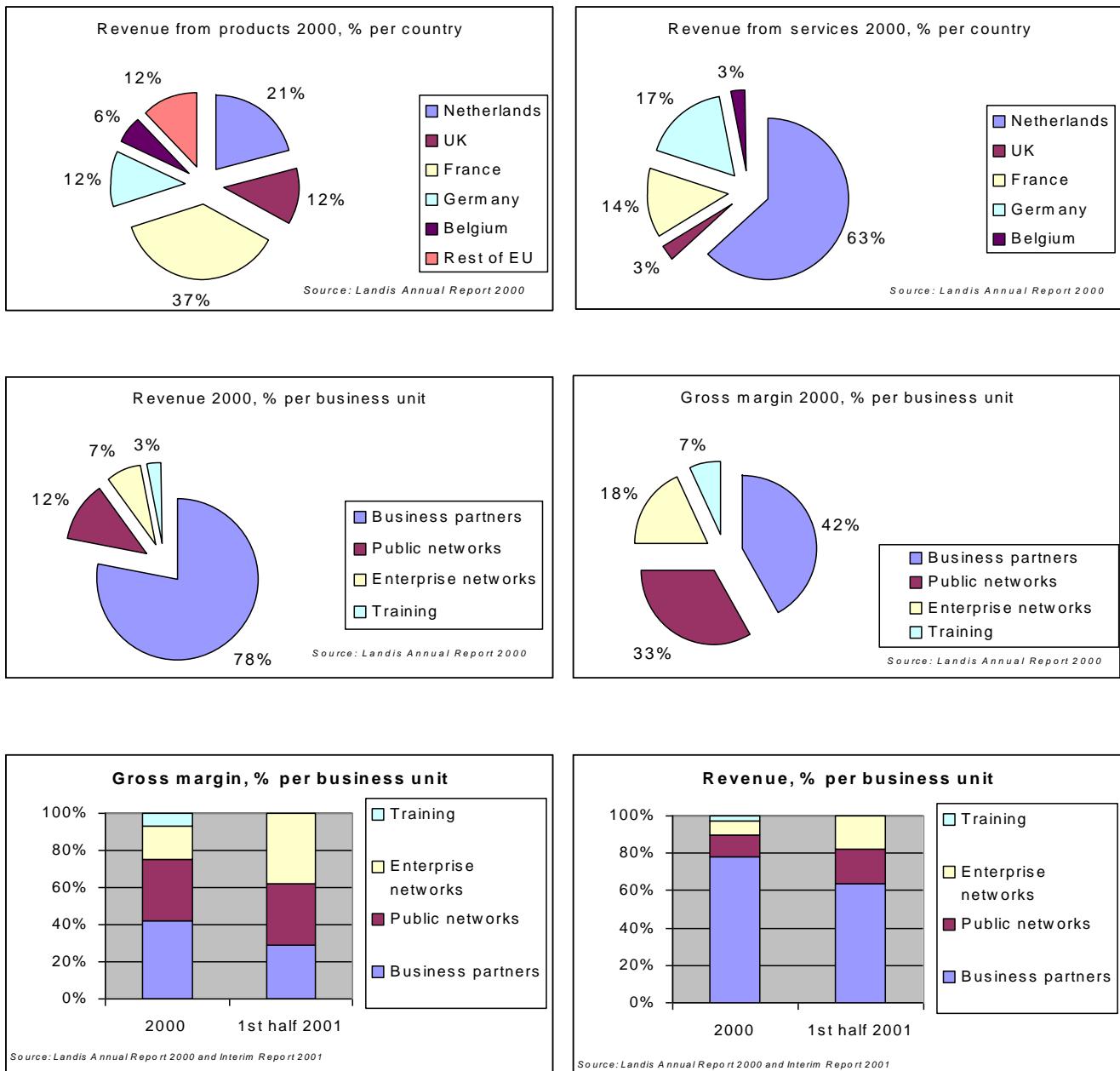
	1st half 2001	2000	1999
<b>Net sales</b>	388.947	667.291	643.205
Cost of sales	291.790	498.604	548.341
<b>Gross margin</b>	<b>97.157</b>	<b>168.687</b>	<b>94.864</b>
<b>Operating costs</b>			
Salaries	N/A	74.578	33.789
Social security charges	N/A	12.137	7.940
Pension costs	N/A	2.109	711
Depreciation	N/A	7.043	3.433
Other operating costs	N/A	33.648	30.014
<b>Total operating costs</b>	<b>76.217</b>	<b>129.515</b>	<b>75.887</b>
<b>Operating result</b>	<b>20.940</b>	<b>39.172</b>	<b>18.977</b>
Net financial costs	5.822	4.412	3.453
<b>Result from ordinary operations before taxes</b>	<b>15.118</b>	<b>34.760</b>	<b>15.524</b>
Taxation	2.663	10.564	5.629
<b>Result from ordinary operations after taxes</b>	<b>12.455</b>	<b>24.196</b>	<b>9.895</b>
Extraordinary income and expenses after taxes	N/A	715	-3
Result from investments	N/A	-197	
<b>Net profit</b>	<b>12.455</b>	<b>24.714</b>	<b>9.892</b>

## EXHIBIT 8

<b>Consolidated Cash Flow Statement</b>				
<i>Source: Landis Annual Report 2000 and 1998</i>				
	(in EURO * 1000)		(in NLG)	
	2000	1999	1998	1997
<b>Operating activities</b>				
Operating result	39.172	18.977	21.976.946	9.391.058
Adjustment for depreciation	7.043	3.433	2.053.320	759.975
<b>Changes in working capital</b>				
Change in inventory	-6.067	-1.855	-33.226.088	-19.792.017
Change in receivables	-112.047	11.172	-73.657.207	-21.472.041
Change in current liabilities (excluding banks, taxes and interest)	-1.868	-7.917	38.677.503	19.132.261
Change in provisions	4.613	-7.452	0	0
<b>Cash flow from operations</b>	<b>-69.154</b>	<b>16.358</b>	<b>-44.175.526</b>	<b>-11.980.764</b>
Balance net interest paid and received	-4.412	-3.453	-3.598.040	-1.326.937
Taxes paid	-23.482	-7.309	-3.602.070	-1.025.223
<b>Cash flow from operational activities</b>	<b>-97.048</b>	<b>5.596</b>	<b>-51.375.636</b>	<b>-14.332.924</b>
<b>Investment activities</b>				
Additions and disposals in tangible fixed assets	-16.830	-9.197	-4.099.093	-3.723.299
Investment in intangible fixed assets			-1.464.703	-3.294.352
Acquisition of group companies	0	-57.157	-259.901	-155.589
Other	-281	0	-8.756	0
<b>Cash flow from investment activities</b>	<b>-17.111</b>	<b>-66.354</b>	<b>-5.832.453</b>	<b>-7.173.240</b>
<b>Financing activities</b>				
Change in subordinated loan	-1.134	-1.134	-625.000	9.000.000
Change in banks	134.615	8.294	-5.753.785	12.994.960
Shares issued		79.647	64.004.468	1.810.001
Other changes in shareholders' equity	-20.116	-29.003		
Exchange rate differences	517	506	-605.000	0
<b>Cash flow from financing activities</b>	<b>113.882</b>	<b>58.310</b>	<b>57.020.683</b>	<b>23.804.961</b>
<b>Net cash flow - net change in cash in the balance sheet</b>	<b>-277</b>	<b>-2.448</b>	<b>-187.406</b>	<b>2.298.797</b>

## EXHIBIT 9

### Revenue and Margin Charts



## **EXHIBIT 10**

### **Employee Breakdown as of Dec. 31. 2000**

	Products	Services	Total
Netherlands	231	1,726	1,957
Germany	126	337	463
Belgium	56	104	160
France	183	134	317
UK	76	56	132
Other EU	134	20	154
Non EU	29	0	29
<b>Total</b>	<b>835</b>	<b>2,377</b>	<b>3,212</b>

## **EXHIBIT 11**

### **5 year Landis Stock Price Development**

