EASTERN EUROPE TRIP REPORT: A NEW WORLD IN BETA

We have spent the better part of the last six weeks exploring the computer community in Central Europe and the Soviet Union, which together comprise Eastern Europe (plus Soviet Asia, still a small market). This issue covers East Germany, Hungary and the USSR; we will address Bulgaria, Czechoslovakia, Poland and Yugoslavia later. We had two goals on our trip -- to find the right attendees and speakers for our East-West High-Tech Forum in October, and simply to get a clear picture of what is going on. We have found a fine if still incomplete group of people for the Forum, but in many cases it's unclear what is going on...all the more reason for the Forum.

What follows is an attempt at description of a world too complex, diverse and unstable to summarize. Overall the situation is improving in most East-bloc countries, with Hungary and Yugoslavia and West Germany [sic] leading the way. The sheer length of this report should serve to deter the faint-hearted, who are better off at home anyway. But if you're looking to grow your business by investing rather than just by winning some incremental sales, these markets should pay off grandly. The customer base is eager and literate; the programmers are smart and inventive (they've had to be!); few people are complacent (although many are scared); the changes are irreversible if unpredictable. In short, all these problems are truly opportunities; no one needs the "solutions" everyone claims to be selling more than this part of the world does. It's more fun to change your customer's life than to convince him your product is 10 percent better than the other guy's. To do this you need patience, not genius.

Imagine a race that will be run according to clear, specific rules...but no one knows when those rules will take effect. Contestants are already running -- and pushing and shoving -- so they'll be ahead when the rules kick in. The future is clear, but the immediate situation is utter confusion. Everywhere government company officials are making plans to go private; the only question is who will own the spoils.

Although each country has its own unique disintegrating government companies and market conditions, they all share to varying degrees a lack of

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infrastructure. Indeed, one reason we’re holding our conference in Budapest is that from there you can most easily telephone both the United States and the Soviet Union, while East Germany, say, is hard to reach from anywhere outside its borders.

You can now get a fax machine in most of Central Europe, but can you get an office to put it in, what can you hook it up to, and who will read your faxes for you when you’re out of town? We know of an East German who hired a secretary because of her telephone at home -- something he couldn’t get for his office. The lack of infrastructure also includes a lack of hard currency, management skills, business services, distribution channels, office space...

Of course, the precise problems vary from country to country, as do laws, politics, national tensions, languages, income levels, market conditions and other factors. (See the chart on page 7.) In East Germany especially, Westerners are rushing in to sign deals with people who may not have (or keep) the authority to do so. Some of the Westerners are naive; others know exactly what they’re doing: When the dust clears they may not have a contract, but they’ll have a relationship on which to base negotiations.

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In Hungary, there’s a long tradition of small private businesses, but new liberalization is changing things rapidly, as are freer currency exchange and increasing foreign investment. In the Soviet Union, it’s still possible the free-market race will be canceled -- but the would-be participants are angling for position just in case. The Soviet government treats private businesses much as it treats the Baltic Republics: It recognizes their rights in principle, but it’s making things as difficult as possible in reality.

A world of beta versions

The East European computer market is a beta world: lots of good ideas and functionality, but incoherent and unintegrated. Nothing quite works yet. In beta tradition, there’s no marketing, no documentation (of laws, let alone of deals) and no one knows exactly what the other guy’s got. Inside the computer community, there’s a small coterie of technically savvy people who do a lot of R&D and freely share their work. Given the current state of the market and copyright laws/enforcement, they generally couldn’t sell it anyway. But because they can’t sell it, they don’t bother with user-friendliness, or finding the last few bugs, or supporting the people they give their beta versions to.

Meanwhile, outside the computer community, the end-users don’t know the technology well enough to be good customers. (Good customers demand good products, improving vendors’ ability to compete elsewhere.) They don’t know what to ask for or look for, and they tend to buy complete systems. If they do buy components or software packages, either they buy the top brand, or they go for price (or cheap copied software); there’s not much room for...
small firms to get noticed because there's no marketing. Finally, because there's neither market nor effective central coordination by increasingly beleaguered bureaucrats who couldn't tell an interface from an interrupt, there is a lot of redundant software development going on. It's one thing to steal someone's work (which also happens); it's another to make the same long effort and not even produce anything better.

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THE IDEOLOGY OF TANGIBLE VALUE

If you look at the Eastern bloc on a macro basis (or just at the countryside), you'll see a devotion to heavy industry at the expense of both agriculture and services. The negative impact of neglect of agriculture is clear to everyone, but the impact of inattention to services is more subtle. It starts with the notion that value is strictly tangible; asking people to pay for intellectual property, or distribution of goods as opposed to the goods themselves, is considered exploitation. Things should be valued at marginal cost (if there were such a notion). The proper Communist attitude would be, "Why should we pay for common knowledge" or a sunk investment?

Service is considered servitude, and information and distribution (aside from transportation) are public goods. Since they can't be effectively charged for, few organizations bother to provide them.

Take distribution -- a grossly undervalued, underinvested-in function in Eastern Europe. In the Soviet Union, for example, buying goods just to resell them is still technically illegal in most cases. And profits are considered to be revenues minus cost of goods, with no allowance for the other costs of running a business. (While the Japanese have too much distribution and consumers pay to support excess services, in Eastern Europe the public also de facto subsidizes the few independent resellers who do exist because they have so little competition, and bears the costs by waiting in line unproductively when they could be working, or doing without.)

Distribution is both a physical function -- moving things from place to place -- and an information one -- deciding what and how much to move where, and how to price it. Efficiency is not free; it requires information that has to be paid for to be generated -- as long as the extra efficiency or value outweighs more than the cost. How much more is a newspaper worth to you today than tomorrow? How much more is it worth to you here than there? How much is it worth to you to know that you can have a fax machine repaired within 24 hours? How much more is a machine worth if someone teaches you to use it? What is the value of a tangible pair of shoes -- if no one wants it? How much will you pay for the security of knowing that your ketchup will taste the same from bottle to bottle, your hamburger the same from town to town. In the Soviet Union goods may have their prices etched into them: Goods cost the same at the tiniest little shop in a village, served by a train once a week, as in the center of Moscow. (On the other hand, you can get them in Moscow.)
Call the Eastern attitude and the resulting underinvestment a problem, or call it an opportunity for investment in services in general, in distribution in particular, and in the transformation of individual intellectual property into knowledge capital (software) that can be replicated and exploited in the best sense of the word. At present, a lot of programmers are writing redundant programs; that labor productivity could be harnessed by a market discipline that would force the productive exploitation of the knowledge capital they are so far neglecting to create.

The investments required generally aren't huge amounts of capital, but rather ongoing expenses for training, education and the trial and error involved in setting up systems and procedures. It takes time to learn how to run even a small business, how to service customers, how to pick and merchandise goods, how to use equipment bought or copied from the West. Moreover, there are fewer economies of scale, thus putting smaller companies at less of a disadvantage. As Ralph Land, general manager of Eastern export operations for Rank Xerox (UK) puts it: "Transfer of expertise as opposed to technology is a challenge. It's not just finding the answer to 'Can you give me the algorithm for the cement industry?'"

In the West we're moving to capitalize our expertise, with expert systems, groupware, software templates and the like. But in the East where labor is cheap and smart, economics still works in favor of human capital (and as BusinessWeek notes, systems integration is an increasingly important part of packaged software sales). So let's automate the factories and train the people to work in small service businesses. If Western firms can legitimize and train responsible, entrepreneurial dealers as well as factory managers to exploit (in the best sense of the word) these countries' assets, they will have changed the world. With luck, they'll be rewarded for it.

Ralph Land of Rank Xerox UK: "Transfer of expertise as opposed to technology is a challenge. It's not just finding the answer to 'Can you give me the algorithm for the cement industry?'"

RECOMMENDED READING: MICHAEL PORTER'S COMPETITIVE ADVANTAGE

During our trip we read most of Michael (Competitive Strategy) Porter's new book, The Competitive Advantage of Nations (Free Press). This is a long, detailed book which includes suggestions on which chapters to skip. But it's well worth reading. The fundamental message is that competitive advantage is a fragile thing; you've got to keep moving. An advantage becomes a disadvantage as you come to rely on it and grow lazy (in business as in life). Local competition is good: It makes you tougher for when you venture out onto the world market. As firms compete not just for customers but for employees in the same specialty, the employees upgrade their skills, other people go into the business of training them, and the most qualified candidates enter the field. Take Silicon Valley as a prime example.

Porter begins by asking the fundamental question: How do we measure national economic success? Is it a trade balance? GNP growth? Per capita income? Savings rate? All of these are involved, but ultimately, it's the standard of living of one's citizens -- all of them. (See below.)
Competitiveness is not something you can predict on the basis of statistics, just as you can't invest based on financial statements. There's a collection of factors that count well beyond the traditional natural resources, geographic location, and education level of the population. The factors include far more micro features than analysts like to deal with: The precise nature of the education. Local talents in particular fields. Clusters of competing and complementary firms. National character (favoring large or small firms, for example). The quality of demand: Do local customers foster product improvements, or simply go for the lowest prices? (A key, changing factor in Eastern Europe.) Competition: Is there enough competition to spur product improvement and risk-taking? Are there disadvantages to overcome that make you extra-competitive outside?

"The principal economic goal of a nation is to produce a high and rising standard of living for its citizens [-- all of them, we would add]... Productivity is the prime determinant in the long run of a nation's standard of living, for it is the root cause of national per capita income. The productivity of human resources determines their wages, while the productivity with which capital is employed determines the return it earns for its holders... The only meaningful concept of competitiveness at the national level is national productivity... Sustained productivity growth requires that an economy continually upgrade itself. A nation's firms must relentlessly improve productivity... by raising product quality, adding desirable features, improving product technology, or boosting production efficiency... Cheap labor and a 'favorable' exchange rate are not meaningful definitions of competitiveness. The aim is to support high wages and command premium prices in international markets." --- Michael E. Porter

Unfortunately, Porter does not address the East European economies directly -- they weren't ready yet! But his book provides a useful framework for thinking about them (as well as solid advice for the US1 that we hope legislators will hear on the Today show even if they can't get through the book).

A basic tenet of the book is that small firms competing tend to grow (as a group) fastest. Thus it's in the interest of each country to encourage internal competition. But it's in the interest of each individual firm (short-term at least) to monopolize the market. Thus when the government owns, and its party members run, the largest or only firm in an industry, the contradictions and conflict of interest are clear.

1 Improve the educational system. Encourage competition. Think long-term; don't go for short-term earnings -- and promulgate a tax policy to foster these goals. Create new products, not new alliances. Invest in R&D, but don't rely on the military as a customer because its needs are different from those of commercial or consumer markets. Reduce the stifling impact of product liability laws on innovation and risk-taking. Support free trade, both in and out! Revel in competition!!! In fact, there's so much in the book, and it's so honest about acknowledging contradictions and citing special cases, that almost anyone will be able to use it to support his particular point of view.

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SOME ANALOGIES: THE EIGHTIES AND THE NINETIES

Some ten years ago the pc industry got into full swing. There were a number of false starts, most notably the Texas Instruments home computer. A lot of big companies tried and failed or ended up as bit players (TI, DEC, Xerox, MSA, Cullinet, Informix, Sears); in fact, only one big company really successfully entered the business as a big company -- IBM. The most successful grew up in it and of it -- Apple, Lotus, Compaq, Microsoft, Borland, Corporate Software, Softsel. Partly this was because of focus, and partly, we believe, because smaller companies have more ability (and perceived incentive) to innovate, and less to protect.

We believe this will be the case in Eastern Europe as well. The success stories will be not the big government organizations that are so easy to find -- Robotron in East Germany, Videoton in Hungary, Tesla in Czechoslovakia, Minradioprom and Minpribor in the Soviet Union, Iskra in Yugoslavia. It's partly a question of focusing single-mindedly on one business, but also the ability to innovate not so much in product as in corporate structure and culture, attitudes towards risks and profits and customers and even promotion policies. In the West, large companies tend to be run by people who are good (or at least competent) at corporate politics; in the East, they tend to be run by people who are good at the real thing -- party politics. (Beware the deadly notion that we want to get rid of the Communists and have the new government install a free market. Free markets aren't installed or imposed; they are encouraged to grow. By themselves.)

So we prefer to focus on the smaller, younger, so-far disenfranchised. Many of them come from those same government firms, just as many of our entrepreneurs came from our establishment -- Rod Canion and crew from TI, Steve Jobs (sort of) from Hewlett-Packard, Dave Liddle and Adele Goldberg from Xerox, and so forth. The other big source is university and institute research organizations, which play the role of US corporate R&D facilities.

To carry the analogy a little further, who can play the role that Wall Street and venture capital did in the Eighties? It probably won't be the financial community. It's more likely to be large US and other Western technology companies, investing knowledgeably not just money but expertise and management in building infrastructure to support sales and service efforts, and in plants and people to support development and production efforts. And they are more likely to invest wisely.

Our big fear, of course, is that too much of this will be left to governments and quasi-governments. Banks would rather lend to large, government-backed institutions, small start-ups would rather represent large well-known firms, Western companies would rather deal with established (i.e. government) firms than start-ups of questionable viability. No one wants to take the risk of saying, "This guy may not have a track record, but he's got promise." If everyone takes this attitude, of course, they'll be right, because the start-ups won't have a chance. But if enough people are willing to take risks on the untried and unproven, as venture capitalists (sometimes) do in the West, they will be the winners in the long run.

Is that an expense or an investment?

What's needed is a shift in perception. We keep hearing about the costs that West Germany will have to absorb in the integration of East Germany.
We find this thinking fundamentally wrong-headed. West Germany is an economy approaching slowdown (or Michael Porter calls the wealth-driven phase, a condition also besetting the US): People are too satisfied; wages are too high; there are too many goods; there’s little room for improvement.

East Germany is a huge investment opportunity which has arrived in the nick of time. Here’s an economy where investment will provide more than incremental returns. Yes, growth in consumption may slow a little as the country’s productivity is directed towards investment rather than immediate consumption, but that’s healthy.

For the rest of the world, the situation isn’t as neat as in unifying Germany; why should we in the West invest in the East when there are crumbling railroads, inadequate housing, pitiful schools right here at home? That’s a good question. But for individual companies, you’ll clearly make bigger returns long-run entering new markets than growing incrementally in saturated ones. Sure, you can make a few bucks by shipping products in through a middleman (who makes his cut by converting, say, rubles to beer bottles to Deutschmarks), but that’s like trading in the stock market. You’re not building anything that will generate markets, revenues and profits over the long run.

Yes, yes, we know you have to be realistic. But "realistic" didn’t build the pc industry, nor, indeed, did it liberate Central Europe. So, please read on and meet some of the wild and crazy guys who are trying to build the New Europe (page 12). But first, a word from the sponsors (page 8)...

### COMPARE AND CONTRAST: EASTERN EUROPE AND THE UNITED STATES

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (mil)</th>
<th>DOS pcs (000)</th>
<th>Phones per 100 p</th>
<th>GDP/capita ($$)</th>
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<td>60</td>
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<td>8000</td>
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<td>65</td>
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These numbers are estimates! They are not necessarily comparable and different sources disagree, but they provide a useful perspective. Amounts measured in currencies are probably misleading, and the numbers of pcs are especially flaky. (Bulgaria looks high, but its government has been active in making and promoting the use of pcs; more on that in a future issue.) But the population figures are pretty good!

Sources: CIA, Ashton-Tate, United Nations, others

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This is the year that many large computer companies (from Compaq and Microsoft to veterans IBM and Oracle and DEC) are getting half or more of their revenues from overseas, mostly in Europe. Western Europe is growing fast now, but 1992 promises more competition and an increasingly penetrated market. Eastern Europe, on the other hand, is only a small part of Europe, and it’s minuscule (a point or two at most) as a percentage of anyone’s worldwide business. But that’s why its potential is so great. As pc chief Reiner Hallauer of Siemens says: "I don’t need a way to make profits this year; I need a way to grow my business long-term."

And this (June) is the month that export-monitor Cocom is expected to relax restrictions on technology exports to Eastern Europe (although controls on the Soviet Union will stay a little less relaxed).

So Eastern Europe is attracting interest from a large number of vendors. But like Western Europe, it is not an "it;" they are a collection of widely differing countries. Of the three countries covered here, East Germany should be the simplest to enter by piggybacking on West German channels -- or the toughest to stay in because of vigorous West German competition. Hungary has the most developed market economy, reflected also in the vigor of its private and public-going-private computer companies and software houses. Finally, the Soviet Union has by far the largest market potential, and the greatest obstacles to realizing it.

The most successful companies in Europe are those that have decentralized (or never centralized). Each country is run independently, with its own marketing, pricing and strategies. Yes, some customers complain because they want to buy on a global basis, but the fact is that each country has different products. In software, there are different languages. In hardware, there are different support policies, distribution strategies, etc. (As Eastern Europe is learning, value is not always manifested tangibly.)

MICROSOFT SETS A PRECEDENT

Microsoft, as befits its position, is one of the more active players in Eastern Europe. It might as well be active, since on a passive basis (no revenues) it probably has an installed base of a million copies of DOS (to the nearest million). Pcs imported from Western firms tend to include legitimate OEM copies of DOS, but those built by government organizations or imported from non-Cocom countries tend not to. Marketing is a question of persuading people who are already using your product to pay for it.

The Eastern response is, How can I afford to pay for this thing when you won’t take rubles or forints or whatever? This is a reasonable question in the circumstances, and one that gave Bill Gates pause when he heard it recently on a trip to the Soviet Union.

The upshot is that Microsoft is talking to a number of Soviet pc producers about an OEM deal for Russian DOS for rubles, for use only on pcs that are themselves sold for rubles. Microsoft is not so concerned with dollars now as with its market share four years from now, Gates says (a sensible concern given increased activity by Digital Research in this marketplace). Meanwhile, Microsoft distributor JV Dialogue (see Release 1.0, 89-11) is already

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selling Cyrillic DOS for dollars to end-users, and Cyrillic Windows 3.0 and Works are on the way within a year.

The importance of DOS-for-rubles (as opposed to DOS-for-free) extends beyond Microsoft. It establishes the precedent that software, even systems software, is valuable intellectual property that should be paid for. As in the US, the copying problem is far worse with systems software, tools and languages than with applications, for obvious reasons concerning customer expertise and contacts with fellow users. As the computer community becomes larger copying would increase in the normal course of events, but with luck it will diminish in the Soviet Union because of two new constraints -- improvements in the law and its enforcement led by the government’s good example (if Microsoft concludes a deal), and programmers’ own interest in seeing software protected and a market established.

DEC MAKES AN HONEST PARTNER OUT OF HUNGARY’S KFKI

In a similar vein, Digital Equipment has formed a 30-person joint venture with Szamalk, a Hungarian state-sponsored company (page 21) and the Central Research Institute for Physics of the Academy of Sciences (KFKI) to sell and support VAXes and other DEC(-like) systems in Hungary. DEC gets 51 percent; the two Hungarian parties hold 24.5 percent each, but DEC has the right to buy them out and form a wholly owned subsidiary in the future. Until recently, KFKI had been making its own hardware (several thousand units all told); now DEC will get product and support revenues from an installed base considerably bigger than what it ever sold here. Customers for KFKI’s "TPA-11" include Hungary’s three large power plants, the Hungarian (government) oil industry and the Hungarian Post Office.

IBM: NOW YOU CAN TRY THE REAL THING!

IBM already has representation in various legal forms throughout Eastern Europe, and it is coming out of hibernation there like the region itself. We get the sense that once Cocom restrictions are reduced (IBM conservatively still says "if" for the record), IBM will swing into action. Eugen Hahn, ROECE (Regional Office for Eastern & Central Europe) chief in Vienna, says, "We’re beginning to count on exceptions" to Western trade restrictions in applying for export licenses. The company is loath to discuss its plans until they become reality, but it is hiring rapidly (mostly locals, in accordance with IBM tradition) and talking broadly to potential marketing partners. It has new country managers in both Czechoslovakia and Hungary. Unlike some other competitors, IBM has both the resources and the need to invest, not just sell, in new markets. Rather than a quick buck, the company is looking to establish broad-based, support-intensive companies in each market -- and understands better than most the uniqueness of each country.

IBM’s unit in Hungary is a wholly-owned subsidiary. The rest of its country-based units are offices or representatives, sometimes using contract employees according to whatever local regulations require. In the Soviet Union, in addition to its own office (reporting to World Trade in Paris), IBM has just recently authorized two dealers -- or rather, two dealers opened and got IBM resale authority (see page 25). Although theoretically the dealers could resell products from their franchisers -- MicroAge and ComputerLand -- the Soviet Union is more complicated; each has an agreement directly with IBM and must buy from IBM in Europe at what amounts to US list prices. Other agreements are likely as more dealers open for business.

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In Eastern Europe as elsewhere, IBM will be selling into markets that know its name and consider its products the top of the line. After using copies or out-of-date systems for so many years, much of the market is eager to use the real thing. In a still risk-averse, support-short society familiar with the inadequacies of home-made equipment, customers may be less willing to rely on clones. There's IBM, and there's everyone else. (This is particularly true in the more isolated areas such as the Soviet Union.) Moreover, IBM will also benefit from an influx of other foreign companies and investors who will want to use the computers they're familiar with from home. As in the US, pricing differentials between direct sales and third-party channels will be an inevitable source of tension, but that's nothing new.

**COMPAQ HELPS TO BUILD THE INFRASTRUCTURE**

As a dealer-oriented company, Compaq has a tradition of working within local systems and through local people that has already served it well in Western Europe. As far as Eastern Europe goes, it is especially culturally attuned because of the presence of Zelimir Ilic, managing director of Europe International, who is Yugoslavian and has directed Compaq's expansion in the "rest of Europe" (everything outside France, the UK and Germany) since 1984. Compaq is increasingly active in Central Europe and the Soviet Union, despite the lack, except in Hungary and Yugoslavia, of the broad third-party distribution channels it prefers to use.

The company has already sold a substantial order of systems to a large Soviet customer on a one-off basis through a Finnish dealer. (Details are confidential for now but the company filed all the requisite paperwork and got all the approvals from the proper government parties.) But Compaq is talking with a number of local Soviet dealers for a more permanent presence in the Soviet Union itself when trade gets easier. That Soviet transaction, for example, required huge amounts of paperwork (as would any further business with 386es, at least until this summer). And the customer was lucky to have access to hard currency.

Compaq is much happier with its activities in Central Europe. In Yugoslavia, for example, it wasn't just Ilic's connections but a January 1 change in currency regulations that led the company to open ties with four dealers in Yugoslavia. In addition, since Yugoslavia is not a USSR satellite (although it is Communist), export restrictions aren't as severe. The dealers include a 20-year-old engineering and service firm with government ties, which distributes Lotus, MicroPro and SAS; and a private start-up, a spin-off from a mainframe service center for a consortium of chemical companies. Hungary will probably come next; interest has been intense and the company has been receiving lots of letters from would-be dealers there. It also recently hired, among others, Hungarian Matias Rajkay, who formerly worked for NCR's pc division and will sell into Central Europe for Compaq.

Compaq should be a significant force in helping to create the channels and infrastructure needed by it and its customers and even its competitors. Together, they can be an important counterbalance to the weight of established government manufacturers and large Western firms who want to build their own subsidiaries and sell direct.
SIEMENS IN EASTERN EUROPE -- STARTING WITH A MOVE NEXT DOOR

For Siemens more than any other large computer company, Eastern Europe is next door. Siemens has long done business with the Soviets in turbines and medical equipment; now it sees telecommunications as an especially promising field. It is talking with the Soviet ministry of post and telecommunications about setting up a joint venture with a factory near Kiev to produce equipment there, which would even provide goods to export for hard currency. "We have some doubts on when and where," says international operations spokesman Jurgen Oberg, "but we have a big interest in doing it."

Put aside its much-publicized still-in-abeyance deal for 300,000 pcs with the Russian Republic (not Soviet) Ministry of Education, which is still in abeyance; the third partner, a British countertrade firm which was to provide the hard currency, hasn't come through. The deal is still on, but now Siemens has to figure out what the Ministry has (access to) that Siemens could sell abroad. In addition, the Soviet government has offered Siemens an old military factory where it could assemble pcs -- an appealing prospect, but Siemens pc business vp Reiner Hallauer wants to see the Soviet government put in some money too before he ships in both parts and production equipment. So for now things are at a standstill, and Hallauer and his colleagues have lots else in Central Europe to keep them busy.

Hallauer's group is talking to prospective dealers throughout East Germany, looking to sign up 50 by year-end. "No one has a track record," he notes, "so we have to go more on personality. But we take firm control with the budgeting, marketing, payment terms and so forth." Siemens is giving free week-long classes in business, not just computers, to hundreds of would-be entrepreneurs in Berlin or East Germany's Leipzig. Ulrich Zimmer, one attendee (page 15), thought the training was terrific, far more important than anything technical would be. Hallauer's own staff are delighted too, he says: "My guys came back and said it was so much fun; these people really want to learn." (In addition to DOS pcs and local support, Siemens can offer ComfoWare, its answer to IBM's OfficeVision -- a user-friendly suite of integrated office-automation tools which runs on Windows.)

Naturally, East Germany is the most active area for Siemens overall currently. The company already employs 30,000 people in West Berlin; when the border really goes, it will employ 30,000 people in Berlin. It has plans to produce PABXes in Leipzig, NC machines in Chemnitz, and a joint venture in software with SAP, West Germany's biggest software company, and Robotron, East Germany's giant state computer company (see page 12). It would take an investment of 10 billion DM just to bring East Germany to West Germany's level of phone lines per capita, from 11 per 100 to 46 per 100. (These numbers are calculated differently from those in the table on page 7.) Siemens sells 6 million new lines worldwide per year, or a little more than the 5 million total needed in East Germany alone.

Finally, Siemens has had a sales and service joint venture, SiContact, in Hungary since 1974. It hopes to turn it into the first wholly owned Siemens subsidiary in Eastern Europe this summer (East German operations don't even count). It works through government agencies in Czechoslovakia and Yugoslavia, and is investigating Poland, Bulgaria and Romania. Overall, notes Oberg, only 1.2 percent of Siemens' turnover -- 700 million DM, or less than with Switzerland -- is with the Eastern bloc. Consider it room for growth.

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East Germany is also the simplest case to predict: Within a year or two, it will all be part of one unified Germany, with common laws, currency, vendors and distribution channels, and an increasingly common culture. Most Western vendors have pulled "East Germany" (or the DDR, for Deutsche Demokratische Republik) out of "Eastern Europe" and assigned it to whoever is covering West Germany. Those who use distributors figure that their West German distributors will expand East, and that they needn't do much to follow them aside from increasing sales quotas.

But of course it's not that simple. The short term is utter confusion, as government firms disintegrate with no time for new structures to grow to replace them. Those new dealers have to be trained and supported; both workers and customers must be educated; managers and systems must be installed. Although you could just say, "Leave it all to the Germans," it's worth understanding the dynamics. Just as Boston isn't Atlanta, Dresden isn't Frankfurt.

Robotron: Public and ponderous

First of all, the DDR probably has one of the least vigorous computer markets, since the government company Robotron controlled almost everything. Robotron is a massive, 66,000-person "Kombinat," the equivalent of a Japanese zaibatsu but state-owned. It is headquartered in a huge building overshadowing much of Dresden, where many bombed-out areas remain as large open squares that are just now filling up with sausage stands and peddlers. Robotron controls almost all the computer business in the DDR, and in addition exported 60 percent of its production, mostly to the Eastern bloc. (The USSR alone accounted for about 40 percent of sales, including many of the 100-plus mainframes it produced each year.) Unlike, say, Hungary's corresponding state company Videoton, Robotron took little interest in full compatibility with Western products, since it produced software as well as hardware; East Germany's stated goal was independence of capitalism -- and capitalist products. On the other hand, Robotron's computers and software tend to be recognizable copies of Western standards -- PCs, DOS, VAXes, UNIX. ("The biggest difference was the name," says one Robotron staffer.

Right now everyone is making deals but very little real investment is going on. "A businessman is not a gambler," says Rolf Heinemann of Robotron-Projekt. "For four to eight weeks [until the currency unification on July 2] we can do a lot of marketing but no sales."

Revenues for 1989 were 12.8 billion Ostmark (or about $7 billion at the new rate, $2 billion at the old rate; neither figure is really meaningful.) Rolf Kilian, head of sales and marketing of the shrinking parent company, won't give profit figures, but notes, "We brought money to the state. We operated effectively for our era. But it's true we've spent too much on R&D because we had to do everything ourselves." One eighth of its employees are in "administration," or nonproductive pursuits, acknowledges Kilian. Many have jobs doing such things as monitoring gasoline consumption to meet government reporting requirements. In the new era, he says, it's clear "we can't stay in this form." For his own part, says one former employee, "I
wasn't interested in living with the politics of a place like Robotron. It's better for the country if we get managers from West Germany or the US."

The entire kombinat has 21 operating and sales subsidiaries, doing everything from mainframes to pc software, as well as the phone/tv console we found in our Dresden hotel room. These units are about to face competition and need to adjust to hardware two generations ahead of what they were using. Most of them are turning into "GmbH"s\(^2\). Each of these for the moment will be owned wholly by Robotron, which itself will ultimately become an AG. Who will own Robotron's shares? Probably one or several banks; the general feeling is it would be hard to sell stock in Robotron. "Who will buy it?" asks Kilian. "People have to believe it's a good investment. We'll cooperate with people from the West and make agreements on how to divide the market."

Public take the hindmost

In fact, some of the joint ventures and smaller units should be attractive investments; it's the skeleton and fat they'll leave behind that will be tough to absorb -- antiquated production facilities (but valuable buildings), old, semi-compatible technology, and a huge payroll at new, higher Deutschmark rates. Many divisions that built products will probably turn to selling and supporting Western versions of those products. For example, IBM has announced that it is hoping to work with two Robotron units to support Robotron's ESER systems, mid-range computers based on the 360/370 architecture. Perhaps someday the joint venture will sell and support the real thing.

"Who will buy [Robotron]?" asks Kilian. "People have to believe it's a good investment. We'll cooperate with people from the West and make agreements on how to divide the market."

Robotron software spin-offs

One of the most promising sources of people and partners is Dresden-based Robotron-Projekt, Robotron's software arm. Unlike manufacturing, software is a fairly mobile business. All you have to move is the people -- although you still need office space, telephones and computers. With about 1200 people, Robotron-Projekt is a small chunk of the 66,000-strong parent, and splitting into even smaller chunks. It currently provides everything from a DOS-like operating system for Robotron pcs to mainframe systems software and custom applications for a wide variety of customers both in the DDR and all over the Eastern bloc and even in the West. "We lived from large projects," says Peter Schymik, deputy director for software exports, including large-scale systems for Gosbank, Kamaz (trucks), Togliatti and Moskvitch (autos), and the Second Moscow Clockworks in the USSR, the Csepel auto plant in Hungary and the Bharat Petroleum Corporation in India.

\(^2\) GmbH stands for Gesellschaft mit beschraenkter Haftung, or discrete, privately owned company. AG stands for Aktien Gesellschaft, or publicly held company; Aktien means stock. We get the sense that these acronyms are used as euphemisms for words that just weren't used under Communism.
With low salaries and no market, that made sense. But now, says Schymik, "We need to have standard programs because salaries are going up." Notable new packages (as opposed to projects) include a hotel-management system now installed both in the local Bellevue Hotel and the Grand Hotel in Berlin. R-P is selling the package in the West through a joint venture with Dataprint of West Berlin, which sells the hardware (from AEG Olympia) to go with it. The package costs 20,000 to 100,000 DM (or $12,000 to $60,000), hardware (including a Novell network) extra.

In addition to Dataprint, Robotron-Projekt is embarking on several other spin-offs/joint ventures. One we met with was b+r Compusoft, a joint venture with publisher/reseller B+S Multisoft of Bochum in West Germany, but we've heard conflicting reports since (and haven't been able to get direct word) about its progress. According to the plan, R-P would own 42.5 percent of the new venture; B+S Multisoft would own an equal share, and the remaining 15 percent would go to an investment firm in Dortmund, West Germany. The joint venture has 15 to 20 people, and is run by Peter Ruef, former manager of MicroPro (and before that SPI) in West Germany. (This is one of those situations we mentioned, where operations are beginning before the paperwork is concluded. We'll keep you posted!)

As planned, the joint venture will sell and support Western products which B+S is already selling in Western Germany to the Robotron pc user base throughout the Eastern bloc -- an attractive distribution channel for Western companies hoping to go east. Even as the customers switch to fully compatible DOS pcs, the Robotron connections should help sell B+S's DOS line. The company was negotiating for deals for Ashton-Tate and WordStar, among others. There are about 10,000 [illegal] WordStar users in the DDR, former MicroPro manager Ruef estimates -- all candidates for an upgrade with readable manuals, support, etc. (But the software the East Germans have, unlike most in the rest of Eastern Europe, is frequently in the local language because it comes from Western Germany. Most other countries have either buggy local versions, or copies of the real thing in English.)

dBASE of the East?

Another planned spin-off that seems to be progressing more smoothly (but is also not yet complete) is Datenbank Software, to be created from the unit of Robotron-Projekt specializing in database software. It has its own mainframe hybrid network/relational database, DBS/R (240 copies installed), a new project called Interbas developed with a Soviet software house (but probably not marketable), a text-retrieval program, AIDOS, and Redabas, a clone of dBASE III/III+. It is working on distribution agreements with Oracle and Ashton-Tate -- an appealing prospect to Ashton-Tate for one because of its 15,000-copy upgradable installed base of Redabas, says Wolfgang Schroder of Ashton-Tate GmbH. Datenbank chief-to-be Rolf Heinemann, 44, who got into database by working on inventory-management systems in a Dresden factory, acknowledges that the technology of Sybase and Paradox may be more appealing ("newer," as he puts it politely). But he's clear-sightedly aware that Oracle and A-T have more to offer of what he really needs -- marketing and money, not high-tech. Its own Interbas and AIDOS are high-tech, but unfortunately that's not what sells. Yet he will put seven people onto AIDOS, hoping to support and resell it at least within East Germany.

Aside from that, Heinemann has 100 prospects for Oracle in mind -- most of them are already using it. Meanwhile, there are situations such as the
Trabant, the East German car maker, which uses DBS/R. It is about to start working closely with Volkswagen, which uses Oracle. The potential is clear!

Beyond Robotron's reach

There are a few exceptions to the hegemony of Robotron. One is ACOS, a spin-off-to-be of a government statistics office in East Berlin with about 20 people. This is a fairly typical story of user-turns-vendor. There will be others like this sprouting up all over the place, much on the model of many co-ops in the Soviet Union (see Release 1.0, 89-5) or Muszi, an agricultural software firm in Budapest that spun off from the Ministry of Agriculture's statistical operation. As in the Soviet Union, the parents provide important resources -- space, telephone, people, customer contacts. ACOS, for one, is still located in a forbidding government building. When manager Burghard Zacharias came downstairs to meet us last month, after we had been unable to call ahead, he declined to take us upstairs, even for a moment, and instead spent 20 minutes with us down in the lobby. "Too much paperwork," he said, pointing to the state guard at the entrance.

More unusual is VEB ORT, for Organisation und Rechentechnik. ORT will shortly drop the VEB and become a private GmbH, says general director Ulrich Zimmer, just as his city, Karl-Marx-Stadt, is about to regain its old name of Chemnitz. ORT has 80 people but needs only 50, and earned revenues of 5 million Ostmarks ($3 million at the new rate) last year.

"We were disciplined and we made our plan, so we were left in peace," Zimmer says. "But inside, we worked more freely; we were less rigid."

Zimmer and six colleagues started ORT 20 years ago. It was a state organization created to provide processing services for a few local companies. The government gave it a couple of Robotron PDP-11 clones and put it into business. The government had no particular interest in seeing ORT grow, but Zimmer did. (His father, a banker, had worked in the US for six years before the war, and passed on some of his initiative to his son, who was born in 1942). "We were disciplined and we made our plan, so we were left in peace," he says. "But inside, we worked more freely; we were less rigid."

In addition to processing payrolls and the like, ORT started to write and sell software. Its products weren't necessarily part of anyone's plan, but enough companies could find room in their budgets to enable ORT to grow slowly over the years to its present 80 people. "Most other firms got all their business through the state," says Zimmer. "But we've been selling for 20 years, doing ads and mailings to find customers. We have about 150 customers who come to us at least once a year."

In addition to finding customers, ORT scrambled to find resources in a country where ordering chairs was a year-long, paper-filled process and the plan didn't allow for small growth companies. But ORT could use its own earnings

3 Volks Eigener Betrieb is what they call (state) companies in East Germany; it means the people's own company.
if it didn't flaunt them. "Rather than pay our profits back to the state," says Zimmer, "we kept investing them." Right now ORT is in two rented state buildings, but it has bought and is renovating a third building where it will move shortly. The big hitch will be getting telephone capacity and switches at the new location; the company currently works off a monstrous, temperamental mechanical switch that fills most of a small room.

ORT was once de facto restricted to Robotron equipment; indeed, it has followed Robotron around the Eastern bloc to customers such as the Ikarus bus works in Hungary and the Leon Tadjer chemical works in Bulgaria. In East Germany, its customers include a wide range of government companies and smaller outfits. But now it has branched out to UNIX and Western equipment, and is looking to sell and support hardware for some Western firm wanting a foothold in the East. He attended Siemens business training and has had discussions on reselling its products -- but like everything else in East Germany, those discussions have yet to be concluded.

"For two years," says Zimmer, "we've been working and talking with Western firms, and we've learned something from each of them." For example, two years ago it got an order from a West Berlin rent-a-car firm that wanted a system built on Open Access. First they asked, "What is Open Access?" Then they learned the product. ORT has just concluded an agreement with Software Products International to sell and support Open Access, SPI's database-based office automation line, in East Germany.

Zimmer's goal is to turn ORT into a privately owned company, perhaps with some outside investors but with control in his and his partners' hands. Exactly how all this will work is unclear; they don't exactly have the funds to buy the state out. Perhaps they could do a leveraged buyout with a bank; perhaps SPI would invest. Meanwhile, Zimmer has started a small private company on the side to which he could steer business if he has trouble keeping control of ORT. The conflicts of interest here are clear, but the ethics are muddy. From Zimmer's point of view, he and his partners devoted their lives, 15 hours a day, to building ORT; don't they deserve some reward? That's a question hundreds of thousands of East Germans will be asking -- much like would-be divorcees who married before the age of pre-nuptial agreements.

From Zimmer's point of view, he and his partners devoted their lives, 15 hours a day, to building ORT; don't they deserve some reward? That is a question hundreds of thousands of East Germans will be asking -- like divorcees who married before the age of pre-nuptial agreements.

On his own

Jurgen Mehnert, 46, is just one example of the new style of entrepreneur in East Germany. Without the clout to carry even a small part of Robotron with him, he left the firm last April after 20 years in service and then sales. He plans to build his own business as a computer reseller in his home town of Dresden. "I've been in sales forever but I never got a commission," he says. "Just a little prize or so. Now I want to see the results of my initiative!" He plans to sell turnkey systems complete with fax (or more likely telex, at least until the infrastructure improves). He will have no trouble hiring people, based on his long experience and contacts. However,
he has only one employee so far -- his 38-year-old brother, formerly a sup-
port specialist at Robotron, because he doesn't yet know the shape of his
business and is loath to hire anyone until he does. He says most of his
friends are sitting in their government offices and waiting. They say,
"Well, good luck. You have a lot of courage. Call me if it works out!"

Aside from his brother, who is currently training at a potential supplier in
West Germany, Zimmer has one significant asset: He owns the building he
lives in, on a quiet, hilly Dresden street across from a gutted (bombed-
out?) house that serves as a beaver farm. He has already cleared and re-
wired the bottom floor to serve as showroom-cum-office.

His big problem is finding a supplier he trusts. The supplier is an impor-
tant part of the equation, supplying goods on credit and marketing mater-
ials, and training in both computers and business practices. It's hard to
produce a business plan because he doesn't know the tax rate, the exchange
rate or almost any financial details, but he figures he can break even on
500,000 to 700,000 DM ($30,000 to $40,000) in the first year. Smaller com-
panies like the ones he hopes to serve know that they need computers to be
competitive; they also know that they must concentrate on their own busi-
nesses and leave the programming and installation to specialists. "These
firms want only to use the software, not to program it," says Mehnert.

On the other hand, he won't be alone. There are lots of small firms start-
ing, either people who were laid off or wanted to leave, because so many
people see an open market and no competition; they will all run into each
other. Meanwhile, the potential customers -- both new private firms and
crumbling old state ones, may have problems; many will go bankrupt, or if
they have money they'll prefer to buy from the Western firms coming in.
Moreover, they want to buy tangible products, not the services and value-
added the start-ups will be selling.

Not everyone in East Germany is delighted about reunification; many
fear the advent of money-grubbing capitalists and the end of a calm
way of life. When we got to the square in front of the Dresden train
station, there was a 20-person taxi line in the May Day sun and not a
taxi in sight. Two East Germans who had chatted with us on the train
showed up and generously offered to walk with us to the hotel -- a
pleasant ten-minute walk if you have no bags. Each took one of our
bags and we walked to the hotel, the Bellevue, a Western-style place
complete with swimming pool -- and prices in Deutschmarks. We chatted
a bit about events, and the man confessed some doubt whether all the
changes would be to the good. "Those taxi drivers who weren't there,"
he muttered darkly, "they were probably driving someone around for
Deutschmarks. Anything for money!" A poignant thought. We're sure
he was right about half of them. But we reckon the other half were
simply taking the day off.

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COMPUTER BUSINESS IN BUDAPEST

Hungary is the most commercially developed of the East European countries (although Yugoslavia is close in some respects, such as a proliferation of small firms). It has had private companies for years, now including manufacturers, computer resellers and the like. Joint ventures with foreigners have been permitted since 1972, and 100 percent foreign ownership since 1988. Thus there's more business spirit and more small businesses (per capita) than in any other East-bloc country. There are small businesses for other small businesses to sell to, and a sophisticated clientele for small dealers to sell to. Budapest is just half a day's drive from Vienna -- or you can take the hydrofoil along the Danube (be sure to ask for one with windows that open and a no-smoking section if you're so inclined!).

Hungary as a whole faces a tough year or two. With the advent of hard-currency pricing in East-bloc trade and general Soviet economic troubles, much of its export business (in everything, not just computers) has dried up, and production is down so far this year. As in East Germany, inefficient state companies are splitting up into smaller units.

But entrepreneurs are hopeful; they're just waiting for the newly elected Democratic Forum coalition government to get around to making the laws and regulations that will guide business practices. To its citizens' relief, the government is taking a more moderate, slower approach to change than Poland. The results may not be as fast, but they won't be as wrenching. (Don't make the mistake -- as we did in conversation -- of confusing the government and the state; it annoys people! The state is the people, who collectively own almost everything; the government is the people currently or formerly in power. In East Germany that distinction is tenuous and a source of conflict; here it's much clearer.)

Videoton

Videoton is the Robotron of Hungary, the giant state computer company, but unlike Robotron, it has vigorous local competition, as described below. When the USSR parceled out the business,4 Videoton got minis and embedded computers rather than mainframes and pcs, which left the Hungarian pc market much more open technically as well as politically and economically to products for the West. The company began as a private outfit in 1938 and was taken over by the state. It got into electronics in 1956 with television sets, and into the computer business in 1969 through a technology license with CII, a French company later absorbed by Groupe Bull. In fact, it has had fairly close relationships and many license agreements with Bull all along, which made its recent joint venture with much easier (in sharp contrast to a company such as Robotron, which eschewed capitalist influence). Eighty percent of its production went to the Soviet Union, of which 80 percent (65 percent of the total) went into heavy industrial uses such as railroads and petroleum facilities.

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4 East Germany got commercial computers, Bulgaria got peripherals, Czecho- slovakia got electronics (Tesla), Hungary got industrial computers and instruments and software.
Videoton generates total revenues of about $400 million a year from three basic businesses: "professional electronics," formerly military products, now in a joint venture with Standard Elektronik Lorenz (German, owned by France's Alcatel) focused on civilian products in areas such as communications; consumer products such as televisions; and computers. Videoton has 18,000 workers, of which 3200 are in the computer division. The computer division's revenues are about $150 million; this amounts to about $50,000 per person or half as much as Zenith, notes Gerard Bloch-Morhange of Bull's International Business Operation, who has just masterminded the joint venture with Videoton's computer group.

Bull has made an initial investment of 294 million forints ($4.5m) for a 49 percent share in the joint venture, which will carry on most of Videoton's computer-related activities (after going through an internal and external audit by Price Waterhouse). Like the military business, the computer group is seeing some of its old business fade away -- in its case, exports to the Soviet Union.

Don't make the mistake of confusing the government and the state; it annoys people! The state is the people, who collectively own almost everything; the government is the people currently or formerly in power. In East Germany that distinction is tenuous and a source of conflict; in Hungary it's much clearer.

The hope is to expand the unit rapidly with sales to other markets using newer Bull and Zenith technology -- pcs, printers, UNIX systems. Perhaps Videoton can win some of the Soviet business back, even for hard currency, with more up-to-date products. (Hungary has already signed a letter of intent to start trade with the Soviet Union at the rate of $1 per ruble starting next January.) What made the deal so attractive to the Hungarians and unusual overall, says Bloch-Morhange, is that Bull's ultimate goal is not just to sell through Videoton but to use it as the basis of a new production facility, replacing parts and pieces Bull currently buys in Asia such as monitors and keyboards, thus bringing more of the value-added inhouse. It will start with low-tech parts and work up to higher-value-added ones.

After two years, Bloch-Morhange hopes, Videoton-Bull will be fully integrated with revenues of $200 to $300 million per year. He sees the venture as an important entree to the East European market. He may well be right. East Europeans can't help but react eventually to all these Western carpetbaggers bringing in goods from outside; even a hybrid, with partly Western ownership and technology but Eastern production facilities, has got to be more welcome.

Muszertechnika

Muszertechnika is billed as the Apple of Hungary, a shareholder-owned board vendor founded in 1981 by a couple of engineers. About two years ago it began to grow in earnest, using a distressed computer factory it bought from the government. (It kept only 30 percent of the employees -- a fine indicator of staffing policies.) It is now the country's leading pc manufacturer (as opposed to assembler), and has a 28 percent market share with revenues of 2.1 billion forints ($32 million) in 1989. Most other Hungarian pc firms do the minimum of "assembly" required by law to earn tax benefits.
and leave it at that, but Muszertechnika builds its own boards and even sells them abroad through a network of subsidiaries under the name of Procomp in the US, West Germany, Switzerland and Taiwan, and offices in Italy, Kuwait and the USSR. Worldwide revenues were $54 million last year.

Muszertechnika chairman Gabor Szeles is a member of the Democratic Forum, the party which won in the recent elections and is leading the country gently to freer markets. As its strategic advisor on Hungarian industrial strategy, you can expect him to push for freer trade and foreign alliances: Muszertechnika works closely with 3Com, Novell, CADkey, PCDraft, WordPerfect, InterGraph, TI, Fujitsu and Siemens.

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Novotrade

Privately owned Novotrade, a distributor, retailer and software house, among other things, is perhaps the best-known Hungarian computer company outside Hungary, and it's not even totally Hungarian. It has just raised $7.5 million in an offering underwritten by Austria Girozentrale bank, following a previous offering in Vienna for $500,000 last year. New York-based Georgetown Group and Lauder Investments of the US took half the new offering; the rest went to a consortium of US and European investors. The new money purchased half the company, valuing the entire firm, with revenues of $44 million and profits of $2 million last year, at $15 million.

Novotrade is extremely popular among Westerners because founder Gabor Renyi is a born businessman/entrepreneur -- and less popular among its more technical-minded competitors for the same reason. He's eager to do business and expand, and has spent considerable time overseas. His wife, Gabrielle, lived in England for a number of years, and both speak English fluently.

A former engineer who purchased foreign goods -- especially consumer electronics -- for Skala, Hungary's leading (and government-owned) distributor/retailer, Renyi founded Novotrade in 1983 as Hungary's first private stock company. Such a venture, with funding from several Hungarian banks and a few private investors, was unusual at the time and required a lot of energy from Renyi, who had learned about the intricacies and rewards of capitalism by watching the travails of Erno Rubik, who relied on government organizations and failed to build a business out of his hugely successful product.

Renyi eagerly recounts his adventures getting permission for almost everything he tried to do, from selling the stock to opening stores to setting up affiliates both in Hungary and overseas. In fact, Novotrade has acted as something of a venture capitalist for many of its employees who wanted to strike out on their own. It has investments ranging from 5 to 100 percent in 60 affiliates employing 1000 people in everything from computer stores and books to film production and biotechnology.

Now an established computer and software reseller, Novotrade sells products (under license) from Borland, Peter Norton Computing, Ashton-Tate, Digital

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Research and Lotus, several thousand units packages annually in all (as well
as its own packages for a variety of applications). It is also the second
largest publisher of computer books in Hungary (after Szamalk). It has 12
stores of its own and sells to 100-plus dealers in five Hungarian cities,
and has just opened plush new offices in downtown Budapest in the refur-
bished building of a textile museum which still occupies part of the second
(top) floor. (Security is tight, as it is anywhere in the East bloc where
computers are located. The concern is theft of equipment, not of data.)

The company also generates some overseas revenues from its programming ef-
forts -- mostly games published by US companies such as Broderbund, Atari,
Mastertronic and Commodore. It has greater hopes for Art & Film Director
Professional, a multimedia toolkit similar to Macromind’s Director but
higher-end, limited to support of a high-resolution board from Everex, which
is published under its own name by Novotrade International of Palo Alto, CA.

Microsystem

Microsystem’s major competitors come from a more technical milieu. Although
smaller overall, Microsystem is neck and neck with Novotrade in the computer
business. Microsystem is more focused on computers and more technically in-
clined; it sells high-end systems as well as pcs and has only one store
(with plans for five or six this year). Three-quarters of its revenues come
from hardware sales and support; one-quarter from software and support (but
the software sells the hardware). Microsystem has branches in several
Hungarian cities, representatives in Moscow and joint venture branches in
Austria, Czechoslovakia and New York (MicroCoop). Staff numbers about 200,
plus another 200 part-timers.

Microsystem co-founder and president Peter Vadasz, 45, has a Fortune article
on Steve Jobs pinned to the wall of his office. Founded in 1983 with $4000
in capital, Microsystem now sells several thousand clones yearly, including
386es, and had revenues of about $23 million in 1989. It installed the
first PC-based LAN in Hungary in 1985, and went on from there. Its product
range now includes software from Ashton-Tate, Borland, Novell, WordStar and
Computer Associates, as well as LANs. It has developed and sold several
hundred of its own packages for payroll, inventory management and hospital
administration. It also offers telephones and fax and telex boards -- in
the Eastern bloc, where phone lines are noisy if available at all, telex is
still a big business. And finally, it services IBM AS/400 machines and
applications as an IBM partner in a recently established relationship.

Software

Hungary is well-known for its software capabilities, second only to those of
the Soviet Union in the Eastern bloc and more commercially developed. The
state has spawned several software and services firms, most of which are
dividing into little pieces and going private in the face of increasing com-
petition from small private firms and their own managements’ desire to gain
both ownership and control -- albeit of only small chunks of the whole.

Szamalk

The largest of these is Szamalk, the Computer Applications and Service Com-
pany, founded in its present form 10 years ago. It grew out of three
predecessor organizations whose job was to deliver and support computers for other state companies and organizations. In a budget cut, the three were combined into one (an event insiders likened to a nearby statue in honor-the-farmer style of three oxen tied together by their tails). "The first director [of the combined company] was a party hack who grew the organization too fast," says consultant and former Szamalk director Gyozo Kovacs.

After that first general director died five years ago, the current general director, Miklos Havass, started splitting the organization back into smaller, autonomous units with marketable specialties. Szamalk is now the proud parent of 34 joint ventures and subsidiaries in which it averages a 60 percent interest, including the group that will be supporting DEC machines in conjunction with the Central Physics Institute (see page 9). Another is the company's personnel department, which is going into the headhunting business; it has an excellent database of programmers and needs outside work as Szamalk itself splits up and contracts.

Many of Szamalk's businesses are now open to competition from smaller firms, including the retail business that several Szamalk units want to enter. Less-competitive areas, such as servicing Robotron mainframes and Videoton equipment, aren't seeing much growth!

In short, Szamalk does everything -- sales and support of hardware and software (including Microsoft products) both to state companies and direct to individuals through five stores, education, custom software development, computer book publishing. It has a variety of relationships with a wide roster of Western companies, including Microsoft, Novell, ICL, DEC, IBM and Philips. The problem is that many of its businesses are now open to competition from smaller firms, including the retail business that several Szamalk units want to enter. (Less-competitive areas, such as servicing Robotron mainframes and Videoton equipment, aren't seeing much growth!) But the education business (as opposed to low-level application training) looks promising; here, Szamalk's major competition is still state institutions, which are slow to react. In addition to formal computer education and some management courses, Szamalk offers a popular three-day time-management course (a bargain at 21,000 forints or $325), and employs 100 full-time teacher/trainers. Overall, the company has 1200 people and made revenues of 4 billion forints ($60 million) last year.

SzKI

The state's second large software company, SzKI, started as a research institute in 1968. It specializes in once-esoteric but now increasingly commercial areas such as desktop publishing, image management, expert systems and optical character recognition. It currently has about 700 people (400 with university degrees) and generates annual revenues of $20 to $25 million, including about $6 million in hard currency, mostly from Austria and Germany. Like many state organizations, SzKI is now splitting up into little units -- six or seven of them in this case.

Over the years SzKI has tried to move from consulting work to selling products, including a PC clone called Proper. "Selling programming services in Hungary is like selling sand in the Sahara," says SzKI science director

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Balint Domolki, "even if it is quality sand." SzKI's biggest and earliest revenue generator in the West was MProlog, a modular version of Prolog originally distributed by Logicware, now defunct. The group that produced MProlog, no longer a big seller, spun off in January as IQ-Soft SzKI Intelligent Software Co. Ltd., owned 60 percent by SzKI, 25 percent by Zentralsparkasse of Vienna (also a major customer for SzKI expert systems and other projects), 11 percent by one of Hungary's new commercial banks, and 4 percent by its 30 employees. The company is run by Domolki, who formerly oversaw its activities as part of SzKI. Its goal is both to market a generalized version of its banking software to other financial houses, and to expand into the business of selling and supporting Western software in Hungary, starting with Oracle. SzKI is familiar not just with IBM and clones, but the full line of Siemens hardware -- a useful skill as Siemens expands through Central Europe.

"Selling programming services in Hungary is like selling sand in the Sahara," says SzKI science director Balint Domolki, "even if it is quality sand."

SzKI also developed and has sold about 4000 copies of Recognita Plus, an MS-DOS or Windows-based OCR package (about $1800 in Deutschmarks) that you may see advertised on the side of several of Budapest's ubiquitous trams (amidst all the political ads). Other products include licensed, localized versions of MS-DOS, Ventura Publisher and DR-DOS, expert systems for medical, electronic and other applications, and Pigalle, an image-management system.

IBM

IBM Hungary has stayed in Budapest through thick and thin: A company history 1936-86 displays a half-century of photos with barely a mention of the war, the Soviets or the Communists. This local wholly-owned "corresponding subsidiary" of IBM is suddenly getting active again, with plans to increase staff dramatically this year. Its headquarters building, with about 100 people now, is about to become too small.

The country manager, Elek Straub, is new as of mid-March, and is unusual for IBM: He comes from outside the company, although in his ten years at the state office of statistics (ending as vp) he was IBM Hungary's largest customer (three mainframes) and an habitue of its office for years. "I evaluated the situation," he says, "and it's clear that public services [such as his state employer] are in decline, while this business offers a challenge no one could resist." He is working on increasing IBM's presence in Hungary, and is actively signing up third-party marketing partners. Microsystem (above) is one of six or seven so far, who are each focused on a particular market or specialty, such as manufacturing equipment and foreign trade (goods, not currency). There's no official, authorized retail outlet for IBM PCs as yet, but it seems likely that either a Hungarian reseller or an expanding Western chain such as ComputerLand will be carrying them soon. IBM has the advantage of an existing installed base of both its own equipment and a substantial number of clones.

Other important computer companies in Hungary include MTA Sztaki, the Institute of Computer Sciences and Automation, with 500 people, and Control, a private reseller with about 100 people. More on them, and a follow-up on Muszertechnika, in the future.

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MOSCOW MICROS: NEW DISTRIBUTION CHANNELS

The situation is perhaps scariest and least promising in the Soviet Union, but it remains the largest potential East-bloc market at 290 million people, even if you discount that by two or even ten. (See table on page 7.) Information is scarce but rumors are rife, including one of a $1-billion or $1.6 billion order (depending on your source) for IBM PCs. That's like a rumor about reducing the US budget deficit: Certainly everyone wants it to happen, and it's probably being discussed, but who can make it happen?

The distribution scene in Moscow is heating up as US entrants pile in, finally making visible progress in efforts begun a year or two ago. They join such existing joint ventures as Interquadro (widely rumored to be the subject of acquisition offers by IBM, but we think a mere reseller agreement is far more likely) and JV Dialogue, which localizes and resells Microsoft software as well as a variety of US hardware from HP, CompuAdd and others. However, to call these new efforts "stores" -- even though several are linked to traditional retailer/dealer companies -- is misleading. They sell for dollars mostly, and their facilities are showrooms, rather than stores where there's a proliferation of inventory for sale. As Jack Byers of JV Dialogue (which sells direct-only) points out: "Stores are irrelevant here. I mean, in the hard-currency food stores they don't have windows because they don't want to cause a riot." Besides, most Soviet salesclerks still consider service to be servitude; they don't say, "May I help you?" but rather, "I'm listening." One-off sales by returning tourists or business travelers remain a major form of retail distribution.

"Stores are irrelevant here; in the hard-currency food stores they don't have windows because they don't want to cause a riot," says Jack Byers of JV Dialogue. Computers aren't much different.

Sweet as an apple, cozy as a cat

The most promising of these new resellers is CAT, for Computer Aided Technologies, Ltd. (or KOT, for KOmputerniye Tekhnologiyi; kot also means cat in Russian), a joint venture between Softsel/Microamerica and a number of Soviet entities, including the All-Union Economic Society and the Institute of USA-Canada Studies. Officially, KOT sells service and support, acting as an agent for a Swiss company which does the actual selling. Run by Mikhail Krasnov, formerly head of the computer lab at the USA-Canada Institute (see Release 1.0, 90-1; he attended the 1990 PC Forum). At the Institute he was exposed to an unusual amount of Western thinking and people, and is eager to put his expertise to work in a field he knows well. KOT's goal is to find and support a number of resellers in Moscow and ultimately throughout the Soviet Union, pretty much following the Softsel/Microamerica pattern.

5 -- an accommodation to Soviet laws which forbid firms to profit from "mere" reselling. Resellers are considered speculators, and mark-ups are profiteering. That's probably why only a third of the potato crop ever makes it to the dinner table, and why you can rarely buy anything without standing in line.
However, there aren't a lot of resellers out there waiting around to be authorized, so the script goes a little differently. First of all, KOT's first customers will be akin to "internal VARs," including affiliates of its Soviet partners which have 150 locations throughout the Soviet Union. Most of the value-added will come from CAT's team of programmers and support people -- most of them people Krasnov met through his work at the Institute and some still employees there. (Most Soviet government jobs aren't so taxing that people aren't eager to work on the side, especially for a joint venture with access to computers and hard currency.) Since the volume of business isn't clear yet, Krasnov plans to start with a small full-time staff and use a lot of part-timers to work on specific projects. But first, he has to find office space.

All in all, the deal, signed last month, took more than a year to negotiate. As time passed (things weren't necessarily "progressing") the laws kept changing, and they're changing still. But the situation is worse for the co-ops, which pay taxes around 35 percent on all the revenues they bank (the government basically considers revenues minus cost of goods to be profits).

KOT will be reselling a wide range of US products and doing a lot of support and service work, including developing and selling licensed Cyrillic versions of US software for rubles. But unlike the two dealers described below, KOT does not plan to open its own stores or even showrooms; it will provide support first to large customers and ultimately to resellers once that market becomes established. As Microamerica's Jack Littman-Quinn says, Microamerica is used to this sort of thing: "When we started in 79 there was no one in the business in the US. We were the first to start training programs there, too."

Soviet stores: I'm listening, comrade

Two "stores" are also opening in Moscow. The first of these is the ComputerLand outlet opened in March, not quite a five minutes' walk from Red Square as reported -- more like a 15-minute subway ride south and then a five-minute walk to the Hotel Orlyonok, where it's located on the ground floor in the back, with an outside display window. Sales will generally be made for hard currency to state units that have hard-currency accounts, and the odd joint venture. Like most high-end outlets (and in the Soviet Union pcs are a high-end item!), this is more a showroom than a store where a lot of folks will pop in for a second printer, a spare pc or the latest version of 1-2-3. It has a cluster of computers on a central stand and a collection of software packages (one box each) arrayed on a wall-mounting.

ComputerLand Moscow was conceived and organized by Mike Tseytin, a Soviet emigre who owns a couple of ComputerLand stores in New Jersey and Philadelphia. It has the enthusiastic support of ComputerLand corporate in Pleasanton but started (anomalously) independent of ComputerLand Europe. It is a fine example of the kind of inventiveness that many people employ to succeed in the Soviet market, but it is also vulnerable to that very cleverness. Legally speaking it is not a store at all; it's a showroom under the umbrella of Reklama [Advertising] 90, a "campaign" sponsored by VLKSM6 (the

6 ...the last in the series of youth groups that includes Oktyabryonki (little Octoberists), Young Pioneers, and the Komsomol.

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All-Union Lenin Communist Soviet Youth group), the organization that also runs the hotel that houses the showroom. Reklama 90 also sponsored Comtek 90, a trade show organized by Tseytin and his Soviet partners. This maneuver enabled Tseytin to open the store with a minimum of legal fuss -- precisely the kind of rigmarole that has kept MicroAge (below) waiting a year and a half years until last week to open its facility. But should the political climate change, ComputerLand’s position is tenuous.

Tseytin, who left 10 years ago when he was 18, started in the computer business in the service department of Ed Ramos’ Future Information Systems. In 1988 he acquired the ComputerLand franchise in Secaucus, NJ, and now also owns a store in Philadelphia. In the Soviet Union he relies on his partner Boris Kogan, 40ish, who left the Soviet Union two years and formerly worked for the government in telecommunications. Kogan goes back every couple of months and has good contacts that will serve ComputerLand in good stead as it looks for customers. The venture, which employs about 15 people, is wholly-owned by Tseytin and his partners Kogan and Lenny Pollak (although they manage Comtek with a Soviet joint venture, Crocus). It sells hardware for dollars only, but provides support and some software for rubles.

ComputerLand recently shipped one of its largest orders, for 100 AST Research 286es, for Gosplan, the state planning agency. Gosplan has less to plan as more and more production goes private, but the new goal is to forecast demand as well as order production -- a much harder task. The computers have already been shipped, says AST’s Safi Qureshey, and the payment, about $100,000 in dollars, is on its way. Tseytin’s contacts make more such orders likely, but AST is also working through a number of other resellers, including California Microelectronics (below), which has 16 showrooms in the USSR. (Qureshey hopes to deal directly with a number of large accounts -- state ministries and institutes that act as de facto purchasing agents for an entire industry. For now, this approach makes a lot of sense, as these organizations control the purse strings and their markets are wide-open. But in the long run, if perestroika is successful at all, these operations will shrink and the power and funds and growth will happen in the private sector -- best reached through distributors and resellers as in the US.)

ComputerLand also has other orders coming and some that have shipped, says Tseytin, but this one was especially visible because Russians are mostly still buying no-name clones. He cites one other order, for $1.3 million of Compaq 386es, from Gossnab, but there are a number of hitches: The 386es are still tough to bring in, Compaq still isn’t selling in the Soviet Union, and finally, there’s a Finnish company that got the order last year and still has claims to it, although it hasn’t been able to fill it either.

Comtek 90 itself was probably a far more lucrative business. There were 70 exhibitors, several of whom complained about the US-style prices for exhibit space and the sample-hungry crowds of attendees. Moreover, there were some tensions between Comtek and companies such as JV Dialogue, which are both competitors and suppliers (as the exclusive distributors of Microsoft products). Competition is a strange game! Whatever, Comtek 91 will take place June 24 to 29, and will be twice the size, says Tseytin.

MicroAge: Tortoise reaches the starting line

The MicroAge presence in the Soviet Union is largely the work of Geoffrey Carr-Harris, a Toronto-based private investor who spent three years studying

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(and singing and dancing) in Soviet Georgia and couldn't forget the place. His company, the Phargo Group, is a partner in three joint ventures in the Soviet Union (each with its own Soviet government partners). One, Agro-Engineering, works with farm and natural resources (first project, a sheep-skin processing plant that exports, generating countertrade dollars). The second, Kniga Printshop (a joint venture with the government's Kniga (Book) Publishing House), runs the AlphaGraphics dollars-mostly print/copy shop, so successful on downtown Gorky Street that it has opened a second branch in the Cosmos Hotel, a haunt of dollar-rich foreigners, and two bookstores. Kniga also distributes a daily same-day summary version of the LA Times to 500 Moscow subscribers and recently arranged the printing of 3 million tray liners and 3 million order pads for McDonald’s.

The third is RepCo, with 250 people, which holds the MicroAge franchise and is involved in a wide range of technical projects. Phargo has a 50 percent interest; the other half belongs to the Ministry of Health of Georgia (40 percent) and two co-ops in Moscow and Tbilisi (Georgia).

His experience with AlphaGraphics impressed on Carr-Harris the importance of computers as well as of franchising7, and so he jumped at the chance last year to take on the MicroAge franchise for Central Europe and the USSR. Manager of the Moscow operations (the only ones so far) is Victor Belilovsky, 44, a mild-mannered former manager (and avid computer user) who left a job at the state Institute for Soviet (internal) trade where he was doing computer models of trading patterns -- almost an ideal background. An electrical engineer, he has also worked on voice synthesis and has published about 50 articles on various technical topics. At the Institute he ran into Carr-Harris, who was gathering information on Soviet business.

Like Krasnov and Kogan, Belilovsky brings to his task a substantial range of contacts which will be useful both in getting business and in finding the staff to handle it. Since 1988 he has been a member of a co-op, Monitor, which sells software for retail operations, trading and hotel management, with some colleagues mostly from the trade institute. (That software may come in handy for the MicroAge operation!)

Belilovsky is well aware of the problems he faces. He will be selling a range of high-end systems -- IBM, H-P and NEC printers, Bernoulli drives, Borland and A-T software, most of the MicroAge standards -- to a price-conscious, budget-squeezed clientele. (He and Carr-Harris are also eager to sell the Macintosh, familiar from the AlphaGraphics connection, when the time comes.) As a former government man himself, Belilovsky knows what it’s like to try to justify computer expenditures to a bureaucrat who "doesn’t understand about service or quality and just wants you to buy where it’s cheapest!" He would be delighted to sell for rubles, he adds, "but we can’t pay our suppliers in rubles." Support will be in rubles, but service with spare parts will be for dollars. "We have to sell things that aren’t available elsewhere [or for rubles], such as high-end systems and networks."

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7 As it happens both AlphaGraphics and MicroAge are headquartered in Arizona. Moreover, both AlphaGraphics and MicroAge are licensed overall as Mac resellers by Apple, although in Moscow other concerns such as Apple’s own posture and Cocom still stand in the way.
With his friends and connections, Belilovsky explains, customers will come to MicroAge, obviating at least at first the need for hard-to-find salesmen. However, he does plan to run ads in newspapers and magazines and the grand opening got some television time on May 24. Unfortunately the event was somewhat upstaged by economics czar Ryzhkov’s speech on the market economy, but MicroAge’s two founders Alan Hald and Jeff McKeever were in attendance with 250 other people, including Bruce Marquart of Ashton-Tate.

The operation is opening at two sites which took more than a year to find and gain rights to: a showroom of 1200 square feet in downtown Moscow (genuinely five minutes from Red Square) and a warehouse, training center, etc. of 4500 square feet on the outskirts. It will start with a staff of about 20, hiring part-timers for software and other projects as they are needed. Already Belilovsky is looking forward to new managerial freedoms he didn’t have at his institute: "We’ll hire people on probation, and if they don’t work out we don’t have to keep them." The goal is to open 26 locations across the country eventually, and he is already on the lookout for people willing to train in Moscow and then move out.

Given his familiarity with the Soviet Union and his access to countertrade channels, Carr-Harris is more comfortable with rubles than your average foreigner. "Non-convertible does not mean no-value," he asserts. "Rubles are the 'junk bonds' we use for doing LBOs of Soviet businesses. In the short run, we can use rubles to create and support the new infrastructures; in the long run, these new infrastructures and businesses will exist in an economy with a convertible currency, and will produce products sold for real money."

Existing operations

These new ventures join an existing infrastructure that consists of a large number of individuals importing computers on a one-off basis (with minimal service and support), a few somewhat larger local co-ops, California Micro-electronic Systems, and two well-known joint ventures, Interquadro and JV Dialogue. JV Dialogue, Microsoft’s distributor and a full-service reseller, was fully described in Release 1.0, 89-11.

California Microelectronic Systems is a California-based hardware-oriented reseller that has spent three years setting up a business in the USSR. But the effort paid off: In its first quarter of shipments, ended last December, it made revenues of $477,000 from shipping mostly 286 pcs from US manufacturers such as AST to the Soviet Union. CMS sells to 16 product demonstration centers managed in conjunction with Soviet partners, usually quasi-state organizations that provide access to particular vertical markets, such as the Polygraphy Institute of Leningrad (publishing/printing), the Ministry of Automobiles and the Health Ministry (hospitals, clinics, medical libraries). CMS doesn’t provide much in the way of software support, which is left to the customers (or other units of Soviet partner organizations), but as noted elsewhere distribution is a valuable service. Even stocking spare parts is tough because export regulations prohibit exporting parts without a specific customer in mind -- and written down on the proper forms.

Interquadro is a 400-person Soviet-Italian-French joint venture founded in 1987 by Lev Weinberg, also active as the head of the Soviet Association of Joint Ventures. Interquadro is the most business-like of the resellers, and does well selling to government institutions and a large number of foreign
operations including law firms and Monsanto through 24 offices throughout
the Soviet Union. It has 160 programmers on staff, and a stable of about
1000 outside programmers available for specific projects. It has developed
its own office automation package, Iris, which handles documents as objects,
and has installed it in about 150 organizations. It also sells and supports
68000-based UNIX-like systems for factory automation mostly. Total revenues
were about 30 million rubles (but that figure includes dollars and rupees as
well as rubles; consider it the equivalent of about $40 million) in 1989,
including 6000 DOS-style pcs.

Interquadro sells hardware from third parties and also products made by its
French partner for hard currency, and it sells its own software and old ver-
sions of Western software for rubles. De facto, it has been the exclusive
supplier of legal, up-to-date Borland software, for hard currency, but now
it will have competition from MicroAge.

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The actual amount of computer business in Moscow (or the Soviet Union
overall) is small by US standards. One hundred pcs is a big order.
Hard currency is hard to come by, and most organizations don't yet
have a compelling motive to buy computers in the first place.
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Finally, there's Nantucket, which has its own office (20 people led by a
couple of returned emigres) and sells for rubles. As in the US, dBASE is
widely used but is rapidly losing ground to other suppliers with better pro-
ducts using the Dbase language. Nantucket sells Clipper for 6000 rubles a
copy, and has sold 700 so far. (This is an awful lot of bread where people
typically make 200 to 300 rubles a month, but much less in terms of typical
prices for electronic goods or dollars; a pc can cost 100,000 rubles, and a
black-market dollar can fetch 20 rubles. See page 30.)

All in all, the actual amount of computer business in Moscow (or the Soviet
Union overall) is small by US standards. One hundred pcs is a big order.
Hard currency is hard to come by, and most organizations don't yet have a
compelling motive to buy computers in the first place -- productivity and
profitability. Thus pcs are used to accomplish specific tasks rather than
improve operations overall -- just as they were in the US years ago. On the
other hand, pcs are used relatively more in operations than in the US, so it
may be easier for Soviets to make the transition to -- or start with -- net-
worked systems, groupware and process automation than it has been for us.
In a society hampered by Cocom restrictions, downsizing is hardly necessary;
in all but the richest organizations there are no mainframes to start with.

Free advice: ParaGraph's open letter to Compaq

Unlike, say Hungary, where you can easily cross the border and buy a pc in
Austria, in Moscow you're dependent on outside suppliers coming in. That
makes it especially risky to buy a clone from a black-market dealer: You
can't find your "dealer" when your machine breaks down, nor can you find
spare parts. This means that the Soviet market is likely to end up more
quality-conscious than those in Central Europe. Likewise, although program-
mers read periodicals from PK Mir (the Soviet version of PC World, now ex-
panding with local news as well as translated material under a new editor)
and Byte to Release 1.0, the public in the Soviet Union is under-informed

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about brands and reputations. There's IBM and perhaps Apple, newly active in this market -- and everything else. (As IBM Hungary's Elek Straub observes, "In Hungary, we know about Olivetti and DEC, but in Moscow it's only IBM. Here we know Burger King; there they know only McDonald's.")

That's why Stepan Pachikov, general director of ParaGraph, is so adamant that Compaq should follow the strategy outlined below.

Pachikov, who co-founded the Children's Computer Club with Gary Kasparov, is a visionary masquerading as a businessman. Through sheer force of will he has turned a software co-op into a joint venture, ParaGraph8, which is now an effective sales unit for some of the best programmers around in Moscow -- and unique among computer ventures in so far selling only the products of its own dedicated staff. For better or worse, the organization would probably disintegrate without Pachikov to hold it together. He's an extremely effective negotiator, but not much of a system-builder. Regardless, he's an ardent fan of the Compaq LTE, and wants nothing more than Compaq's support in promoting it -- and perhaps a distribution agreement. But he adamantly doesn't want an exclusive, because he doesn't believe in exclusives. On the contrary, one motive driving his effort, he says, is his reluctance to see anyone have a monopoly at the high end. (In this case, that would be IBM, but it's a matter of principle, he notes, not IBM per se.)

Pachikov's thesis is that no one in Moscow has heard of Compaq, and if it comes in with its full line potential customers will dismiss the company as just another clone vendor. Instead, he argues, Compaq should come in as the LTE Company, establishing its name with a unique product. (Pachikov would like to give samples to economist-about-town Abel Aganbegyan, Gary Kasparov, poet Yevgeny Yevtushenko, Ogonyok magazine editor Vitaliy Korotich and possibly a radical (free-market) politician or two, just to start the trend. He has already shown his to a number of Moscow City Council members.) Then, later on, the company can sell its full line once it has established its reputation. In a country where few people have one computer, let alone two, a portable has great appeal. It's also easier to lock away from thieves.

RELEASE 0.5: MONEY, RUBLES, MONEY

Currency is a strange thing in the Soviet Union. One evening, for example, we went to a co-op restaurant that took rubles and had a wonderful meal. The night before, our restaurant had no coffee; this restaurant had coffee, but only if we paid with hard rubles. Hard rubles is a strange currency denominated in rubles but payable only in a hard currency -- as through a

8 The joint venture partners are the Academy of National Economy of the Council of Ministers of the USSR (25 percent), the Central Economics Institute of the Soviet Academy of Sciences (25 percent), and Matrix USA, a holding company controlled by US TCBC computer chain franchisee Scott Klososky in Oklahoma. The company's people worked together as part of a co-op, Kontur, and went to work en masse for ParaGraph once it was formed. (They left with Kontur's approval and left the money they had earned behind in a de facto leveraged buyout.) See Release 1.0, 89-5 and 90-1.

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credit-card transaction. (That explains the 1.50-ruble AmEx chit on our expense account!) If this baffles you, that's the point: Inconvertible currencies make you go through contortions to pay and be paid.

That's for foreigners. Your average Russian, the papers say, earns two or three hundred rubles a month. On the other hand, his apartment probably costs 20 rubles, milk costs 18 kopeks, health care is free, and there's this huge ruble overhang -- people can't find anything to buy. Although you can't get the food you want, the food you can get is cheap. People aren't short of money; they're short of things. "We don't say 'buy'," explains a friend, "because it's the getting that's the hard part."

To be sure, most of our Soviet friends, programmers and business types, have fancy apartments (by Soviet standards), electronic gear and so on. But somehow the overall impact is different. People like their things, but they don't like "being rich" the way Americans do. If anything, there's a stigma attached to wealth, as if we were all on the verge of Trumphood. In Soviet society you don't "earn" a salary; you get it regardless of the work you do or don't do. So it's assumed that excess money comes from exploitation, speculation or underhand dealing.

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People aren't short of money; they're short of things. "We don't say 'buy'," says a friend, "because it's getting that's the hard part."

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The positive part is that in a society where money is meaningless, people have fewer hang-ups about it, and regard things as things. There's less obsession with money; one of most societies' most prevalent measuring tools is meaningless.

But that leaves Soviets with an inability to quantify or compare things. In part that's good; they don't confuse apples with oranges. But it's bad if you have apples and want oranges; there's no easy way to trade. Perhaps we err in thinking precise quantification tells us much, but the Soviets surely err in the other direction.

It may account in part for Soviets' notorious vagueness: "How many pigs do you plan to produce this season, Ivan?" "Well, that depends. Pigs are very important to society; they provide food and nourishment, and they also help to eat waste. And pig farms, of course, they employ people." "How many?" "Well, our pigs tend to be of higher quality than most. It's difficult to say exactly...." Laws, values, amounts -- none of these are clear or precisely stated in this society that's still new to the information age.

It's more democratic, but there's still a wide gulf between your average driver and your average bureaucrat, a gulf which has more to do with power than with money. With access, not money. It's harder to get access; you can't just work for it or trade for it the way you can for money. That's why it's corrupting in a way plain money (usually) is not.
RESOURCES & PHONE NUMBERS

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Csaba Barath, Videoton (Budapest), 36 (1) 176-7087

Note that European numbers don’t always have the same number of digits even in the same city; in German areas, main numbers usually end in 0, with extensions replacing the 0 when you dial direct.

COMING SOON

• Slated for June: Finding the next new market by going back to the drawing board.
• The computer business in Bulgaria, Czechoslovakia, Poland, Yugoslavia.
• Online services.
• Database by design.
• Network navigation.
• The Douglas brothers -- Hofstadter and Lenat.
• MathSoft and Mathematica.
• Application servers.
• And much more... (If you know of any good examples of the categories listed above, please let us know.)

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June 24-28  Design Automation Conference - Orlando, FL. Sponsored by IEEE and ACM groups, for vendors and users of design tools. Call P.O. Pistilli, (303) 530-4333.


June 26-29  Tools '90 - Paris. Co-sponsored by Greco de Programmation of the CNRS and the University of Nantes. Keynote: Jean-Marie Huillot, NeXT Inc. Contact: Jean-Claude Rault, (33 1) 40560358, fax (33 1) 40560581.


July 2-6  ACM symposium on parallel algorithms and architectures - Crete, Greece. Contact: Tom Leighton, (617) 253-3662.

July 10-16  *PC World Forum - Moscow. Sponsored by IDG. An exposition, with a software conference. Call Frank Cuititta, (508) 879-0700, or Karin Griffhorn, West Germany at 49 (893) 60860.


July 29-August 3  *AAAI-90 - Boston, in the heart of AI-land East. Sponsored by the American Association for Artificial Intelligence. With speeches by Craig Fields, ex-DARPA; DEC's Sam Fuller. Contact: Claudia Mazzetti, (415) 328-3123.


August 13-17  International parallel processing conference - St. Charles, IL (25 miles from O'Hare). Sponsored by Pennsylvania State University. Contact: David Padua, (217) 33-4223 or Benjamin Wah, (217) 244-7175, or Roger Anderson, (415) 422-8572.

September 5-7  *Breakaway 90 - New Orleans. Sponsored by ABCD. With a panel featuring Mike Shabazian, Mike Pickett, Mike Swavely, moderated by Esther Dyson. Contact Jeff Rosenberg, Computer Emporium, (914) 565-6262.

September 9-12  18th mini/microcomputer industry conference - Boston, MA. Sponsored by Cowen & Co. Contact: Amy Burns, (617) 523-3221.

September 10-12  DataStorage 90 - San Jose. Sponsored by Disk/Trend, Inc. and Freeman Associates. Call Darlene Plamondon, (408) 544-6644.

September 10-13  NetWorld '90 - Dallas. Sponsored by H.A. Bruno. Call Annie Scully or Mark Haviland, (201) 569-8542 or (800) 444-EXPO.

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<td>September 25-27</td>
<td>PC Expo - Chicago. Sponsored by H.A. Bruno. Contact: Steve Feher, (201) 569-8542 or (800) 444-EXPO.</td>
<td>Chicago, IL.</td>
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<td>October 3-5</td>
<td>Seybold Conference - San Jose. Electronic publishing in all its guises. Call Kevin Howard, (213) 457-5850.</td>
<td>San Jose, CA.</td>
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<td>October 7-10</td>
<td>CSCW '90 - Los Angeles. Computer-supported cooperative work, with a slight (but lessening) academic flavor. Sponsored by ACM. Call Frank Halasz (back at PARC after a tour at MCC) at (415) 494-4750, or Tora Bikson, (213) 393-0411.</td>
<td>Los Angeles, CA.</td>
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<td>October 8-12</td>
<td>SoftTool USSR - Moscow. Sponsors: All-Union Society of Information and Computer Technology, Phargo Group. Software tools and technology. Call Gene Zarwell, (703) 284-7330 in USA or Levan Tatunashvili, 7 (883-2) 99-94-03 in the USSR.</td>
<td>Moscow, Russia.</td>
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<td>October 8-12</td>
<td>Interop '90 - San Jose. Sponsored by Advanced Computing Environments. Call Dan Lynch, (415) 941-3399.</td>
<td>San Jose, CA.</td>
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<td>October 18</td>
<td>Massachusetts Computer Software Council's fall membership meeting - Boston. Call Joyce Plotkin at (617) 437-0600.</td>
<td>Boston, MA.</td>
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<td>October 21-24</td>
<td>EDventure East-West High-Tech Forum - Budapest, Hungary. By popular demand. Explore the problems and opportunities of high-tech business in Eastern Europe and meet your peers in a limited-attendance conference focused on contacts, not speeches. Sponsored by EDventure Holdings, with a roster of speakers and attendees from both sides. Call Daphne Kis, (212) 758-3434. By invitation only.</td>
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Associate Publisher

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