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Biometrics Market Outlook 2004

Welcome to 2004 - Last year was a mixed bag of progress and pain for the biometrics industry. Though, once again, industry revenues fell short of expectations and many vendors struggled to stay afloat, developments in both the public sector and commercial arena indicate genuine market expansion is on the near-term horizon.

Public Sector - The long awaited US VISIT RFP was released in November. This \$10 billion dollar behemoth - considered by many to be the holy grail of biometrics adoption - has raised as many questions as it has answered. Are we really ready to implement a biometrically enabled program of this magnitude? Do we really have the requisite knowledge and expertise? Only time (and the RFP responses due in May) will tell. In Europe, progress towards large-scale public sector projects also advanced. The UK initiated a voluntary 10,000 user test in advance of full deployment of biometric passports and the EU Commission's Justice and Home Affairs Council moved ahead with draft proposals laying down a uniform format for visas and residence permits for third country nationals which include biometric identifiers.

Commercial - On the commercial front, 2003 saw at least \$100 million US of capital infused into the biometrics market and the ushering in of a new phase of industry maturity. The scope of deployments began to become truly large-scale with financial service and healthcare logical access applications of 5000 plus, a single sensor company, AuthenTec, shipped over 1.5 million sensors, the one millionth iris ID was completed in United Arab Emirates and possibly the largest biometric ID project ever (seeking Guinness World Record status) on track in the Tirumala Temple in India. In addition, a small but growing minority of market players began applying rigorous analysis and targeting to their nascent market development efforts.

So, what will this new year bring? Once again, it is crystal ball time. Here are a few of Acuity's 2004 market prognostications...

1) EU Takes the Lead on Public Sector Programs - Europe's traditionally more measured approach to large-scale systems development will begin to shift public sector ID project leadership across the Atlantic. The EU's commitment to eGovernment and to addressing overarching social and systems issues (privacy, data protection, interoperability, shared resources, distributed versus centralized program implementation and control, ownership and individual rights) in advance of issuing RFPs, pays off as integrated, interoperable biometrically enabled ID systems proliferate across Europe. This shift in leadership will accelerate as the US struggles to resolve issues associated with supplier-defined programs, foreign reciprocity by non visa waiver countries and domestic civil liberties challenges. By the end of the decade, Europe will have established the models and standards for how these programs ought to be developed and introduced into democratic states. The newly founded European Biometrics Forum (EBF) will prove critical to this market evolution as they aggressively pursue the cohesive, appropriate and socially responsible use of biometric technologies.

2) 2004 Traction; 2005 Land Grab - While the majority of biometrics companies struggle to

survive, an emerging minority of highly focused organizations pursuing targeted opportunities report solid, incremental growth. These players will achieve market traction to the extent that they can effectively lay a foundation and position themselves for the much more intense market share scramble coming in 2005. Players that do not establish a market foothold, including tight integrator relationships (see #3) that can be used as an effective launching point for the land grab, will find themselves out of luck when the market heats up and customers look to market leaders for solutions.

3) Technology Provider/Integrator Relationships Solidify – The loose affiliations and strategic relationships that have characterized the early market phases of industry development begin to tighten up - permanently. As research and test programs morph into real business, integrators sort through the pack and pick their favorite core technology and mid-size solutions providers. Companies lacking a clear strategic focus and those that cannot consistently deliver on price/performance, product and service reliability, operational efficiency and quality support will start to drop like flies. The big competitive shake-out begins in 2004 and many casualties will have fallen permanently into "The Chasm" by the end of 2005.

4) Capital Flows – At least \$100 million US of capital flowed into biometrics companies - public and private - worldwide in 2003. To quote from last year's Acuity forecast "though it would seem that the torrent has dried up, fear not. There is PLENTY OF MONEY for investment". This not only remains true for 2004, but in all likelihood this year's tally will at least double last year's amount. As integrators begin to pick the winners for large-scale public sector projects and commercial deployments build momentum through targeted application of repeatedly demonstrable convenience and cost savings, last year's investors will begin to smile and even their most hesitant colleagues will open their wallets and begin to bang the biometrics drum.

5) One of the "Big Boys" Bids Adieu - In the scramble to re-assess their position, at least one of the biometrics market mainstays fails to adequately adjust and by the end of the year is no more. This will be no face-saving merger. At worst a complete shut-down. At best a dressed up buy-out of a company that continued down a failed path in repeated denial of ominous warning signs. This loss, while seemingly detrimental to the industry, will actually clear the path for players with clear strategies and realistic business plans and represents nothing more than a natural evolution of this emerging technology's market.

Biometrics 2003 Notable Faux Pas

Last year also saw some rather pronounced faux pas by some of the big names in the biometrics industry. While no one likes to dwell on the sour notes, these events influence the perception of our industry and ought to serve as reminders of where we need to focus efforts to improve our credibility. The organizations mentioned below are easily identified due to their media notoriety. As is often the case, the most familiar names tend to bear the brunt of all our sins...

- **Sagem gets caught with their hands in the cookie jar:** The Nigerian National Identity Card program proved to be a nasty mess when Sagem SA's local business partner, Niyi Adelagun, was arrested (along with a number of high ranking government officials) for "corrupt and false enrichment". Whoops! The \$214 million contract for the implementation of the National Identity Card Scheme was supposedly awarded to SAGEM after due process. However, it turns out SAGEM agents in Nigeria, including the Regional Area Manager of Identification Systems, French national Jean Pierre Delarue, along with Adelagun, were responsible for distributing bribes to the charged Nigerian officials. Biometrics in and of themselves are frightening and threatening enough to many individuals and organizations without association with illegal activity. This is particularly true in regards to the willingness of democratic societies to do business with companies providing biometric technology to governments with less than stellar records on civil rights, let alone companies accused of participating in local corruption. :

- **Iridian plays musical CEOs:** What was going on with Iridian this year? On May 13th the iris recognition technology provider announced the appointment of Frank Fitzsimmons, former COO and acting CEO, to the position of CEO. This was followed two weeks later by the announcement that Cletus B. Kuhla, co-founder of Iridian progenitor IrisScan, had been appointed President and CEO. And then in an interesting reversal, Iridian announced the appointment of Frank Fitzsimmons as President and CEO on October 28th. This type of organizational wrangling does little to instill confidence in either the particular vendor or the biometrics market as a whole and suggests more time is being spent on political infighting that strategic business development.
- **Viisage-ZN deal stuck in low gear:** On March 28, 2003 Viisage made a well-conceived and decisive strategic move announcing their intention to purchase ZN Vision Technologies of Germany. ZN would become a wholly-owned subsidiary and serve as the facial recognition company's European base of operations. The acquisition was expected to be finalized in July, though seven months later the deal lingers. Deadlines have been extended several times with a current target closure date of January 31, 2004. In all fairness, the delays are apparently due to Securities and Exchange Commission issues regarding Viisage's accounting methodologies. Nonetheless this on-going inability to *close the deal* represents a kind of immobilization somewhat endemic in the biometrics industry and flies in the face of expectations that emerging-technology market players ought to be responsive, quick and nimble.
- **Market forecasts fall short:** The numbers are in for 2003... well the estimates anyway... and, once again, fall short of market forecasts. Granted this is the unfortunate norm for emerging technology markets (and biometrics is no exception) where analysis methodologies developed for well-established, predictable and slow growth (less than 10% annually) markets are applied to immature, unpredictable, wildly fluctuating emerging markets. Post 9/11 projections by various organizations including IBG, IBIA and Frost and Sullivan indicated global revenues (in US dollars) of between \$500 million and \$1 billion in 2003 for biometrics core technology. Actual numbers look to be closer to the \$240 to \$400 million range. This is all part of a rather painful cycle in which vendor sale projections and end-users purchase forecasts are correlated and published in reports that are then sold back to the source organizations to be used as justification for capital acquisition and strategic planning. *What's wrong with this picture?* Though most sophisticated managers, executives and investors know the data is questionable, they seem addicted to the process and unable to break themselves away from reliance on this habit. Lest we not forget the vendors providing the base data who either consistently underperform or exaggerate their financial potential are no less part of this dismal cycle of confusion. (BTW: Acuity does not generate these type of broad-based market projections for precisely thee reasons, but rather depends on highly targeted, interactive scenario modeling tools to provide a basis for strategic market and opportunity analysis)

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[Sample](#)

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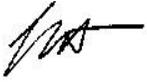
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Wishing you a happy, healthy and prosperous 2004!



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