

In this report

- [News](#)
- [Impact assessment](#)
- [Products](#)
- [Strategy](#)
- [Competition](#)
- [SWOT Analysis](#)

Will Smartner look to acquire beyond its traditional European markets for growth?

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Recently, Visto bought out European-based Psion's mobile technology platform, and both it and Good Technology have begun making noise about getting into the European market. Research in Motion (RIM), meanwhile, began to make some serious subscription advances in Europe beginning with the second half of 2003. Given this scenario, we've wondered how Smartner – the one mobile groupware pure play actually based in Europe – was faring. We recently spent some time with the company, which believes it's in the right place at the right time.

Finland-based Smartner claims that an increase in RIM subscriptions is finally a sign of real life in the mobile market. It has begun to see similar increases in its own business. Smartner says it's working hard on new funding and that it may soon be well positioned to take the game directly to the US – possibly with acquisitions.

Impact assessment

The message

Smartner has successfully integrated the push technology it gained through its Commtag acquisition last year, and has slowly pulled together a reseller-based partner network. It has added about 30 enterprises to its customer base, which currently includes 10 global wireless carriers. The company believes the next step is to aggressively go after growth opportunities in the US.

Competitive landscape

Smartner competes directly in the mobile email and groupware space, putting it directly in play against Research in Motion and Seven Networks. Visto and Good Technology have both made noises recently about getting into the European market, but it's questionable whether either can muster any real business there. If Smartner makes moves into the US market, Good and Visto would be more direct competition.

The 451 Assessment

Smartner made a good move in acquiring Commtag, catching a spike in mobile email and groupware interest that began last fall. We believe the company can hold onto a fairly sizable number two position behind RIM – primarily by offering an alternative to RIM's BlackBerry and building enterprise momentum through less-expensive subscriptions. We see Visto and Good becoming possible acquisition targets if Smartner can pull off new funding. Whether Smartner can play – or should even look to play – in the US is debatable, but the European market should keep the company viable in any case.

Products Smartner has finished integrating the technology it bought through its Commtag acquisition, and now markets the combined product as Smartner Duality Always-on Mail. The product suite is delivered through carriers as a hosted service, and allows users to access email, tasklists, calendar entries and contact lists. Most mobile devices – with the exception of PalmSource-based devices that Smartner claims it doesn't see – are supported, as well as laptops equipped with wireless Internet connections. Duality supports older phones through WAP and SMS, and PDAs and smart phones through the Commtag technology, as well as other configurations.

Duality is sold in various configurations. Consumer and professional editions are

roughly €4 (\$4.90) per month for an individual subscriber, and the enterprise edition is roughly €12-24 per seat per month. Both Microsoft Exchange and IBM Lotus Domino are supported on the back end, as well as POP and IMAP.

Smartner says the key to success, especially against RIM, is providing both offline and connected service with seamless OTA synchronization capability. Smartner says it is now gaining traction in several ways with Duality. First, carriers do not want to sole-source RIM products. They are looking to Smartner to deliver a viable and competitive second product, and Duality is winning enough market share to make the business viable. The company says that it closed 2002 – a tough mobile year by any measure – with €2m in revenue, and that it now has over 50,000 subscribers, 10 carriers and 30 enterprises as customers. Revenue for 2003 is not available yet.

Smartner, which currently employs 40 people (down slightly from an earlier peak of about 50), says that new business prospects look quite good. Currently, 10 mobile operators are conducting pilot programs, and it expects another 10 carriers to move into pilots from pre-pilot evaluations. The company also says that some carriers are delivering its services as Smartner-branded products, a move away from earlier OEM deals under which carriers fully rebranded Smartner technology.

Strategy Smartner has two distinct strategies. First, it believes it must position itself as the clear-cut alternative mobile email platform of choice within Europe. The company believes it can ride RIM's 'momentum coattails' here, and says it applauds RIM's success as a measure of the market's legitimization. Smartner says that though RIM's BlackBerry Connect technology will compete somewhat against its own broader device support, the offering only provides partial functionality on non-native devices.

The company also understands it needs to hold off both Visto and Good, although it strongly believes that neither will pose much of a challenge within its home boundaries. In acquiring European-based Psion's mobile technology, Visto likely removed potential confusion from the European marketplace, a move that favors Smartner. Smartner believes (and we concur) that the integration work for the combined Visto/Psion development team will take a long time because the two technologies are not complementary.

The second side of Smartner's strategy – which seems perhaps rather farfetched – is to tackle the US market, possibly by entering it as a fairly aggressive acquirer. The potential targets are not hard to imagine. Much of this strategy depends on the level of funding the company can secure. With €15m total invested in it to date and a yearly revenue stream of at least €2m, the company seems well positioned to secure that funding. Having the money in hand and actually being able to pull off an acquisition in the US are two different things, of course.

Competition Smartner competes directly in the mobile email and groupware space, putting it directly in play, at least in Europe, against Research in Motion and Seven. Seven remains a strong and viable competitor, and we believe that much of Smartner's energies will likely go into competing with Seven Networks. RIM will no doubt continue to build on its substantial momentum, which Smartner sees as a good sign for its own business opportunities. The company thinks its carrier partners will provide its product suite as an alternative to RIM and that this, coupled with its own direct initiatives within the enterprise space, will keep its top line growing.

Visto and Good have made a fair amount of noise about getting into the European market, but we don't believe either will generate enough revenue here to make a go of it. These two companies, in fact, are beginning to look like acquisition targets. If Smartner makes moves into the US market, major investors in both Good and Visto might start viewing being acquired as a viable exit strategy and a way to recoup some of the enormous sums of money that have been poured into both companies to date.

SWOT analysis

Strengths

Weaknesses

A complete mobile email and groupware platform that offers the same always-available services RIM is known for, at cheaper cost, and with significantly better non-BlackBerry device support. Strong partners and longstanding relationships with European carriers will also help drive business.

Opportunities

Although slower to emerge than in the US or Asia, the European market will also find 2004 is the year that mobile begins to take off. Essentially, all Smartner has to do is to continue pursuing business as usual to gain a share. With new funding, it may be well positioned to make a move into the US.

To take advantage of new opportunities, particularly in the area of expanding beyond its traditional borders, the company will need to secure new funding. We don't doubt it can do so, but if it takes too long (beyond the third quarter of 2004) the overall market may become too big for it to pull off an acquisition.

Threats

Aside from RIM, all the other mobile email pure plays will face the same threats: IBM Lotus is set to deliver its own rich mobile client in the second half of 2004, and Microsoft, once its next full rewrite of Windows Mobile is out of the way, will turn its attention to building mobile services into Exchange. While this won't necessarily wipe out the entire mobile groupware market, it also won't leave much room for all the other pure plays to survive.

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