

Sonera's Big Bet

By *Sophie Nachemson-Ekwall*

It is generally agreed that Ericsson and Nokia turned Stockholm, and Sweden, into "Wireless Valley", in which companies flock to develop products for the mobile Internet.

And it's also generally agreed that financial services over the mobile Internet will promote a new world market.

If that's correct, Across Wireless – a software specialist in secure wireless, and with roots in AU-System – is Sweden's first truly successful Internet company, and is exceptionally well positioned for future expansion.

Like so many other companies, Across Wireless can give thanks for its success on the early investments by Ericsson and Telia in GSM wireless technology. These two companies laid the rails and served as the locomotive to get the Swedish telecommunications industry rolling at high speed. But competition is not far behind, and competition means price pressure. Companies must act fast to gain global market positions when wireless electronic business really takes off in several years.

When Sonera, a Finnish telecom operator, in mid-April paid almost USD 800 million in stock for Across Wireless, many in the industry bowed in admiration – or shook their heads in surprise. The price was extremely high for a company with only 115 employees, sales in 1999 of about USD 10 million, and losses of USD 6.5 million.

But Sonera would have even been willing to pay more.

If the deal had been sewn up several weeks earlier, the stock Sonera used to pay for the company would have been worth about USD 1.2 billion. Obviously, Sonera placed immense value on getting into the market first.

"If you look at the potential for wireless e-commerce, USD 800 million is a small amount," says Anders Ingeström, managing director of Across Wireless.

He gives some figures to back this up. In several years there will perhaps be 500 million wireless phone subscribers with access to the Internet. They will spend five or ten dollars each to be able to carry out safe and secure financial transactions. This adds up to a market for secure transactions via wireless Internet worth several hundred billion dollars.

Payment for these products and services will be shared by the consumer – who now carries five to ten different

credit and payment cards in his or her wallet – and banks, businesses, card companies and wireless operators.

"Across Wireless and Smarttrust, a Sonera subsidiary, are one or two years ahead of competitors in competence," says Mr. Ingeström. "The question for us is whether we will take 30-40 percent of the market, or 50 percent."

Mr. Ingeström tries to sound very cautious when he says his figures are conservative, and not optimistic.

He says that one must have an industrial perspective and compare today's developments in wireless Internet with Microsoft's situation in 1981. Then, nobody envisioned that the company would be a giant ten years later. Mr. Ingeström might sound like a dreamer – but who can tell what's in the future?

Across Wireless has been known until now as an innovative developer of software for secure wireless electronic business. The company's solutions contain both positioning and "push" technologies: systems can search for and locate a subscriber's wireless device and present sales or other offers that are pre-programmed to the user's location and interests.

The technology is fully compatible with the new WAP technology. Across Wireless has taken a step ahead, developing its own WAP services that are stored in a SIM card instead of in the mobile handset. Such WAP handsets are not being sold yet in any great number. SIM (Subscriber Identification Module) is a smart card within the phone. It stores subscription information and provides authentication of the owner. The intelligence in a SIM card provides flexibility, high security standards and encryption. Across Wireless's system has already attracted some 50 mobile network operators.

Sonera subsidiary Smarttrust, with 150-200 employees, works directly with content suppliers, such as banks and retailers, offering them safe and secure e-commerce. A new company formed by merging Across Wireless with Smarttrust will reach the entire customer base of operators and contents suppliers. In two or three years, the new company is expected to have 1,000-1,500 employees, of whom some 500 will be working in the American market.

Naturally, nobody knows today what the competitors will do. Most haven't even started to get going in this field.

They include the giant credit card companies, Visa, Mastercard and American Express. A Canadian company, 7-24 Solutions, of which Sonera owns 20 percent, has developed applications for financial information via mobile devices for the American market.

Within PKI-based security solutions, are Baltimore (which cooperates with Smarttrust in the Internet), Entrust, and iD2 (which originated from AU-System and cooperates with Across Wireless).

“The most important point is that Across Wireless and Smarttrust together have several years’ lead compared with competitors in the USA,” says Mr. Ingeström. “They are more advanced in the Internet but are behind us in wireless. And

right now, mobile e-commerce depends 90 percent on knowledge of wireless technology and only 10 percent on the Internet. In five years, these ratios will be the reverse.”

Obviously, the big question is when will the market for mobile e-commerce really take off?

In order to handle commercial transactions, mobile operators must improve network capacity, first by installing the new GPRS technology and later the new 3G technology. This third generation mobile network will enable transfer of large amounts of data.

Anders Ingeström has absolutely no doubts that the market will definitely exist.



The runner: Anders Ingeström, of Across Wireless, is a man in a hurry. When BrainHeart Magazine's photographer asked him to sit down for a picture, he took a 35 second break from his jogging tour.

THE WIRELESS LEADER

Anders Ingeström's formula for success

"People in general want an attractive workplace, offering everything from leisure time activities to stimulating opportunities to improve skills and competence," says Anders Ingeström. He talks of the importance of creating organizations that are thoroughly open, that are devoid of the hunt for prestige, and that emphasize the individual employee.

"An environment in which executives treat their employees as individuals creates tremendous opportunities for people to make own decisions," he says.

He then names the most important concept behind success: finding the right person who can drive an idea forward.

"If you can't find the right person, it's better to put off launching the idea," he says.

Anders Ingeström will be part of the management group in Sonera's new Smarttrust organization. He points out that even top executives must be good team players. He believes that it will be easy to merge Across Wireless of Sweden with Smarttrust of Finland. Personnel who held several percent of the Swedish company have remained. Now, instead, they have received stock in Sonera worth several hundred million kronor (some US \$30 million).

"The incentive program for employees is important, since it gives personnel the same motivation as shareholders," he says.

He draws a parallel between the success of Nokia and Ericsson and that of the Swedish truck makers, Volvo and Scania – except that developments move so much faster today.

"We in Scandinavia must cooperate if we are to meet the competition from the USA," Mr. Ingeström says. "We will never be able to build up global organizations if each company works by itself."



ACROSS WIRELESS HISTORIC BACKGROUND

Across Wireless has Ericsson, Telia and super-entrepreneur Ulf Jonströmer to thank for being the company it is today.

It all began in 1974, when Ulf Jonströmer founded AU-System, a database consulting company. Ericsson, the telecom equipment giant, and Telia, Sweden's state-owned telecom, were Jonströmer's partners, investors, mentors and clients from the very start.

AU System specialized in developing database payment systems. The Stockholm Stock Exchange was an important client.

When mobile phone operators started to build out their GSM networks in the early 1990s, interest grew in AU-System's talents. In 1991, Ericsson and AU-System teamed up to develop a system for handling mobile operators' SMS (Short Message System) traffic. Several years later, Telia assigned AU-System to personalize the SIM (Subscriber Identification Module) cards in the GSM network. This was needed to allow operators to gain central control of customer traffic.

This assignment became the foundation of the communications platform that became AU-System Mobile. (In the autumn of 1999, AU-System Mobile changed its name to Across Wireless.)

In 1996, AU-System was still a small company, with only about 15 employees. But because it has backing and

ANDERS INGESTRÖM

Born: 1957, in Vimmerby, Småland, in the heart of a region famous for small business entrepreneurs.

Education: Engineering degree from Linköping University.

Career: Ericsson; entrepreneur in small and medium-sized businesses, including Connectus.

Family: Wife, Else-Marie; two daughters, eight and six.

Resides: Täby Kyrkby, just north of Stockholm.

Leisure: Summer home in Småland; skiing.

Motto on leadership: Be responsible for both business and the individual.



PHOTO: ALEX GIACOMINI

support of Ericsson, it was able to get contracts from giants, such as Telecom Italia.

Anders Ingeström is today managing director of Across Wireless. But back in the early 1980s, his first job, after he received an engineering degree at Linköping University, was with Ericsson. He was given responsibility for two of Ericsson's projects, of which the development venture with Ulf Jonströmer's AU-System was one.

But it was years later, after he had been a private entrepreneur, that he applied for a position with AU-System. That was in 1994, and Internet had become big in Sweden.

Telia, which had been in and out of AU-System as a shareholder over the years, finally sold its 41 percent stake in the company in spring of 1999. Buyer was Schroeder Ventures. Telia had decided to concentrate fully on being an operator and not be involved in developing products. At the same time, AU-System wanted to expand internationally.

By now, AU-System had formed three separate operational units: Across Wireless and iD2, both specializing in security solutions, and the original consulting business.

A financially strong partner, with management competence, was needed to back expansion of Across Wireless. Schroeder Ventures acquired 74 percent of the company,

Ericsson retained 25 percent, and Jonströmer 1 percent.

In the spring of 1999, the whole of AU-System was valued at SEK 900 million – just over USD 100 million. Less than a year later, AU-System was valued at SEK 10 billion (USD 1.2 billion), Across Wireless at SEK 7 billion (USD 825 million), and iD2 an additional several billion kronor.

But Anders Ingeström says it would be wrong to criticize Telia for deciding to sell out when it did. How would Telia know that in a few months, Finland's Sonera would pay SEK 7 billion for Across Wireless?

"It's always difficult to foresee developments in this type of business," Mr. Ingeström says. "Sonera is doing just the same now when it plans to sell off Smarttrust, even if it chose to hold on longer."

Ericsson will remain as a shareholder in Sonera's newly created Smarttrust-Across Wireless when this company goes public next year. This is an important signal to the industry. Ericsson, Nokia and Motorola recently joined in developing a common standard for wireless e-commerce. Here, the Across Wireless platform can play a central role. □

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