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Bundling up profits

Bridgewater company a key provider to the iPhone explosion

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BY TOM JOHNSON
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When Tom Roderick activated his new iPhone, it took him all of eight minutes, including the time it took to port his mobile phone number from his old wireless company.

The telecommunications analyst at Thomas Weisel Partners used software developed by Synchronoss Technologies, allowing customers to activate the much-hyped Apple device using their iTunes account. While there were scattered anecdotal complaints from some consumers about starting service, fewer than 2 percent of customers had troubles with activation, according to Synchronoss.

"It's a tremendous success. They (Synchronoss) are taking an activation approach that has never been seen in the wireless sector," Roderick said. "Anything below 5 percent is considered pretty good, and anything below 3 percent is quite good."

A week after the debut of the iPhone, the favorable launch earned Synchronoss a multi-year contract from service provider AT&T to continue supporting the iPhone activation process into the future.

The Bridgewater company, which went public last July, has seen its stock quadruple in the first 12 months, consistently topping analysts' earnings estimates while growing revenue by more than 50 percent, rising to \$72 million in 2006 from \$54.2 million the prior year. Net income last year was \$10.1 million.

The company's software allows phone, wireless and cable television companies to sell their services online, an automated process that slashes customers' costs while speeding up transaction times for new orders. It also offers consumers the amenity of not having to wait on line at a retail store to activate their device, allowing them to choose when and where to begin service.

In the words of one of its founders, Chief Executive and Chairman Stephen Waldis, the company serves as an "air traffic controller system" for its clients, allowing them to automatically activate customers quickly and cheaply when they open new accounts.

With the advent of bundled TV, phone and data services offered by cable companies and big telecom carriers, Synchronoss' growth prospects are promising. Its software allows companies such as AT&T, Vonage and Time Warner Cable to activate new accounts, handset purchases and account changes, replacing labor-intensive call centers previously used.

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John Bright, an analyst with Avondale Partners, said the software services Synchronoss uses can reduce activation costs by as much as 60 percent. Beyond the bundling of so-called triple play packages featuring Internet phone, high-speed Internet access and television, Bright said the company also should benefit from the growth in Web-based customer service transactions, a market that is expected to grow from \$10 billion in 2006 to \$150 billion in 2010.

Waldis, a former AT&T executive who became chief executive when Synchronoss was spun off from Vertek, a privately held telecom firm, said that oddly enough, the telecommunications downturn at the turn of 2000 worked to Synchronoss' advantage because it forced the big carriers to realize they could not spend their money as freely as they once had.

"The challenge was to get them to realize it was something they could outsource," Waldis said during an interview in his office in the company's headquarters off Route 202. "In a downbeat market, it was a message that was well-received."

With no real competitors offering similar products, analysts said the challenge for Synchronoss is to translate its success with AT&T and Apple into new clients. More than 65 percent of its revenue comes from one client, AT&T, Roderick noted.

AT&T and Apple decided to use the in-home activation system because so many people have iTunes accounts and are familiar with the iTunes Web site, according to Mark Siegel, a spokesman for AT&T Mobility.


"This is the way we decided to go," he said. "We are very pleased with the way activation took off."

Analysts said the next big opportunity for Synchronoss, which employs about 200 people, might be overseas, in particular securing the deal to activate iPhone service in Europe with whatever telecom carrier wins the exclusive rights to carry the phone and data service on its network.

"We're starting to get on a lot of radar screens," Waldis said. "We've got a lot of great stories to tell, but we haven't done a great job yet of getting it told."

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