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Intrinsyc eyes other sources of mobile OS revenue with its new Soleus platform

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Mobile Software
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The smartphone market tends to dominate the mobile OS scene. But in truth, the feature phone segment is where all the real dollar action is, and will be, happening. Mobile software veteran **Intrinsyc Software** – with its new feature phone OS and application development platform, Soleus – falls directly into the feature phone camp. But is the company too late or just in time? Will there be a market for its new mobile OS?

Impact assessment

The message

Mobile software vendor Intrinsyc has announced the availability of its new Soleus feature phone OS and application development software developer's kit (SDK). The company has a fairly long history of building mobile device reference designs and support tools, and it has a deep relationship with Microsoft, whose core WinCE platform is the technology Soleus is based on.

Competitive landscape

Savaje, Symbian, Access Inc, Sky MobileMedia, MontaVista, and TrollTech compete with Soleus for feature phone development.

The 451 assessment

The exponential growth of the feature phone market makes it a no-brainer for Intrinsyc to try and get a share of the segment. We like that it has taken a WinCE-based approach, and believe this is enough of a differentiator to, at the very least, get ODMs and OEMs to scope it out in their labs. If Intrinsyc can deliver a bug-free, easy-to-use platform, it will grab that share of the business. Will it prosper? It's important to understand that Intrinsyc's future as a company won't depend on Soleus. It has room to breathe and to develop its sales channels here, and should do well in the longer term.

Context | Intrinsyc is a 10-year-old company that trades on the Toronto Stock Exchange. It has been publicly held since it was founded in 1996. Intrinsyc has a revenue stream that currently reaches about CDN$18m (US$16m). In March 2006, Intrinsyc sold 26.8 million new shares and raised CDN$24.1m, so it has cash in hand. The company has 195 employees (about 80% of which are in the engineering and professional services camp), and intends to hire at least 50 new people in 2006.

Its latest product development centers on a totally new mobile OS and development platform – Soleus – that was formally announced in March 2006. Soleus has been developed solely in-house and will be an entirely new revenue stream for the company, assuming Intrinsyc can successfully sell it. Key partners include **Microsoft** (Intrinsyc is one of only three Microsoft WinCE Gold partners). Current customers **Freescale Semiconductor** and **Texas Instruments** are potential partners for the Soleus team. Intrinsyc currently has one Soleus pilot under way with **Wistron**, a potential customer.

Technology | Soleus is based on the WinCE kernel, but that doesn't make it a Microsoft-like OS. Microsoft licenses WinCE in three configurations: Core, Pro and Pro+. The latter two include all of the Microsoft-branded UI elements, none of which are part of Soleus. At the heart of Soleus is v5.0, the very-small-footprint WinCE core kernel OS, which Intrinsyc started with and then rebuilt to include its own telephony stack and related services for controlling the feature phone. Completing the Soleus package is a UI design framework that Intrinsyc calls Chameleon. The UI interface (or skinning engine) is a key tool providing developers with easy-to-use and extensive customization capability – necessary, among other things, for both product and brand differentiation.

This is truly a 'skin deep' description of the platform, but it should be enough to suggest what Intrinsyc believes Soleus will deliver. Ultimately, it is the same story told by the likes of **Savaje Technologies** and **Sky MobileMedia** – the question is which product will deliver the broadest capabilities at the lowest cost per device.

Strategy | Refer to our earlier analysis of Sky MobileMedia, **Symbian** and Savaje for details on why feature phones are the most important market to these vendors. But to summarize: it's by far the largest mobile phone market in terms of volume. Device makers and wireless carriers are not only selling billions of them worldwide, but the phones themselves typically see short six-month cycles before new iterations, while the collection of emerging mobile services continuously increases. There is also constant churn in phones among carrier subscribers, which translates into ever-increasing numbers of the devices being sold. Each and every one of those billions of phones represents revenue for the OS vendors. Even though Intrinsyc is last to the game, those numbers are so compelling that it makes sense for the company to jump in.

By basing Soleus on the WinCE kernel, Intrinsyc neatly ties the product to Microsoft's enormously well-known tool chain (e.g., Visual Studio, etc). Any developer familiar with that tool set will be able to quickly utilize Intrinsyc's SDK to develop Soleus-based feature phone applications. This, in turn, creates resources for both the device makers and wireless carriers, and is a key differentiator for the Intrinsyc business-side team in terms of selling and marketing.

As Windows Mobile-based smartphones become more established and prevalent, of greater interest is that eventually all of the tier-one device manufacturers (aside from **Nokia**, which is all-Symbian, all the time) will have more Windows Mobile phones in their product portfolios. Utilizing a feature phone OS based on WinCE means vendors can quickly port down key new features from their high-end Windows Mobile smartphones to their feature phone platforms. This gives Intrinsyc a perch from which to make inroads with the tier-one device makers. It may actually prove a key strategy long-term. Before that happens, however, Intrinsyc needs to land that first real reference customer. It is currently working with a large ODM – Wistron, a Taiwanese manufacturer – on this front.

Does the mobile device world really need another mobile OS and development platform? If Intrinsyc were delivering yet another Java- or Linux-based platform, we'd say absolutely not. However, we believe the company is onto a viable track here with the WinCE approach. Because it's public, Intrinsyc can't hide whether a revenue stream develops. Assuming the Soleus platform proves itself free of development bugs (something that has plagued competitor Savaje for some time), look for those public Intrinsyc revenue numbers to demonstrate some significant headway on both the customer and dollar front over the next year.

Competition | Savaje, Symbian, **Access Inc, MontaVista Software** and **TrollTech** compete with Soleus. Symbian is the major vendor, having devoted millions of dollars and significant human resources to moving its smartphone OS down into feature phone territory. It's still working on it. Symbian is also the likeliest threat to all the vendors here, especially from the perspective of simply driving down the cost for either wireless operators or device makers to deploy the Symbian OS on feature phones.

MontaVista, with its Mobilinux effort, is the next major competitor. Access Inc is firmly in the Linux camp as well, though its focus on the Asian wireless carrier market is most likely not a road Intrinsyc will travel. TrollTech competes to some extent, though it isn't an OS vendor, instead relying on running over Linux. Savaje clearly competes head-on, however. It's targeting the very same feature phone market Intrinsyc is going after. Sky MobileMedia is a tools platform vendor that takes the approach that it will run over any OS while providing the same level and kind of development support as Intrinsyc does for its Soleus. Sky MobileMedia is likely to show up to many of the same parties as Intrinsyc, and we'll be keeping an eye on this particular competitive match up.

Microsoft is notably missing from the list of competitors. Windows Mobile is currently targeted at the smartphone market, where it is likely to remain. We doubt Microsoft will look to bring its OS down to feature phones. In fact, it would do well to simply partner with Intrinsyc and leverage the fact that Soleus is a WinCE-derived platform, if it did want to scale down.

Last, the other competitor here is the still the extant collection of homegrown RTOS platforms each of the device makers has developed over the years. However, the cost-savings argument for abandoning these platforms is overly compelling. We expect this sort of competition to disappear as we move into 2007.

SWOT analysis

Strengths	Weaknesses
Intrinsyc draws on a large number of core technical strengths, and we believe Soleus is rock solid. Being based on WinCE is a plus in many ways (leaving aside the religious arguments here). Intrinsyc will be able to leverage the platform in a number of useful ways.	Soleus is literally the last out of the gate in getting its platform into the marketplace. While first-mover status hasn't meant much here – where in the world is PalmSource, eh? – – having last-mover status may prove a detriment.

Opportunities	Threats
The feature phone market is the sweet spot of mobile devices. The number of phones sold in this space will be in the vicinity of billions, and even a small percentage of the overall market will represent a solid revenue stream for vendors with the right stuff.	Although Intrinsyc is a public vendor with some real cash in hand and a solid R&D team, the likes of MontaVista – and especially Symbian – can throw a great deal of resources into the game. Will Symbian simply undercut everyone else on pricing? A combination of 'very cheap and good enough' could win the day over 'best of breed and somewhat more expensive' in the feature phone world.

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