

Strategies

Goals in the Market

SmartSynch wants to dominate the market sector of large commercial and industrial metering. The CEO of SmartSynch feels that this market is under-served today. SmartSynch's SmartMeter System of end-to-end metering services can provide not only billing data, but also provide the means for utilities, grid operators and energy customers, working together, to achieve load control and peak load management.

End User Target Market

The end user target markets are the 50 to 100 electric distribution utilities. As deregulation is rolled out across the United States, SmartSynch expects to add Retail Electric Providers to the list of customers.

Energy Service Companies (ESCO) providing information to commercial customers also present another selling opportunity. Commercial customers are very interested in finding out on a real time basis the power consumption at the customer facility. The ESCO can either provide its own energy management software to provide the real-time usage data to the commercial customer, or the ESCO can utilize the software of the SmartMeter System. The SmartMeter System can interface via an XML interface to the ESCO energy management software.

Partnerships and Alliances

SmartSynch has developed a strong alliance with Siemens Power Transmission and Distribution (SPTD), SkyTel Communications, and Motorola.

Siemens provides the Spectrum S4 meter which the CEO of SmartSynch describes as a very sophisticated meter for a reasonable price. Siemens was open to new technologies and has done well with the S4 metering platform.

The CEO was a former Vice President at SkyTel, and while there, worked on fixed network applications, such as the 1996 Olympic games and Coca-Cola. SmartSynch wanted to try a new approach, that of using a public communications network intelligently and with encryption, rather than building a new private network as some other companies have done, notably CellNet (now acquired by Schlumberger).

Motorola provides a very powerful device, with power up to 3 watts, which is important since quite often the meters end up transmitting out of basements and meter pits. Motorola is one of the few companies that can make a communication device capable of meeting the environmental specifications. Motorola had several predecessor products, and was willing to work with SmartSynch and others to develop the product that SmartSynch needed to implement the SmartMeter System.

Main products and services

SmartSynch has one main product, the SmartMeter System. This product is described as an architecture fundamentally. The software system manages the network protocols and security to link the various pieces of the system together. SmartSynch customizes the system for each customer rather than take one platform and try to make it work for everyone.

The SmartMeter System was developed to sell to utilities to meter the large commercial and industrial customers. The system is intelligent, allowing the utilities and the commercial and industrial customers to access the energy usage on a real-time basis, rather than 45 days later. The software architecture can interface with any software application. Using the public communication networks results in good coverage and lower costs. The system automates the billing, load curtailment, and outage notification and restoration, allowing the utility to reduce expenses and provide additional services to the retail customers. Some utilities have created new revenue streams from the additional information provided by the SmartMeter System.

Marketing Strategy

Distribution Strategy

SmartSynch has two channels for distribution of its product. One is the partnership with Siemens, the main distribution channel for the SmartMeter System. Siemens has established relationships with all of the major utilities. SmartSynch attends many joint meetings with Siemens and customers.

The other distribution channel is direct sales with the SmartSynch sales force. SmartSynch has just recently begun to advertise the SmartMeter System. The goal of the advertising is to increase the brand name recognition of SmartSynch.

Pricing Strategy

Utilities normally pilot the SmartMeter System. SmartSynch charges a fee for the pilot program. The CEO of SmartSynch believes pilots are more successful if the customer has "skin in the game." The pilots run for two or three months. Utility budgeting practices require the piloting approach. The utility budgets for the pilot program in the first fiscal year, and then can budget for the full rollout in the following budget year. During the pilot program, the utility receives the necessary training, and that makes it easier to ramp up to the commercial phase.

SmartSynch licenses the software to the customer. The customers typically want the enterprise software, and the recurring software maintenance agreements. SmartSynch also sells the intelligence device that goes under the glass of the meter, and the recurring airtime for retrieving the meter information from the meter. SmartSynch works with the satellite carriers to get great rates for the customers.

According to SmartSynch, price is not usually the issue with the SmartMeter System. The customers are looking for the communications and intelligence functions to be under the glass of the meter, for the communication system to provide good coverage at a reasonable cost, and for the data acquisition system to easily interface with the existing software the utility is currently using. For the communication system to provide the coverage at a reasonable cost, this usually requires, according to many utility meter managers, a wireless connection.

Sales Strategy

During a sales call, SmartSynch usually ends up discussing the other solutions to metering the commercial and industrial customers, and "describing why ours is superior," quoting from the CEO of SmartSynch. SmartSynch emphasizes the advantages of utilizing the public communication two-way paging network, which does not require a large up-front capital investment as is required if using a wide-area fixed radio network, such as with the Cell-Net system from Schlumberger.

Current Business

SmartSynch either has pilot programs or post-pilot installations in 15 of the 50 to 100 utilities in the United States.

In California, SmartSynch has installed or is in the process of installing the SmartMeter System for Pacific Gas and Electric (PG&E), Southern California Edison (SCE), Los Angeles Department of Water and Power (LADWP), and the City of Anaheim. When installation is complete, SmartMeter System will be monitoring 13,000 MW of the peak demand load, roughly 1/3 of the peak load in California. Of the 25,000 industrial and commercial customers in California down to the 200 kW peak demand level, SmartSynch will monitor all but a few thousand of those customers. Also in the West, SmartSynch is working with Portland General Electric.

SmartSynch is working with utilities on the East Coast as well. NStar is one of SmartSynch's earliest customers, and continues to roll the system out. Also, SmartSynch has done business with ComEd, Niagara Mohawk, Pennsylvania Power and Light, Pepco, Duke Energy, and Florida Power and Light.

Florida Power and Light (FPL) was set to go with another system and switched to the SmartMeter System when the meter manager at FPL heard about SmartSynch from Duke Energy.

Competitive Analysis

Strengths

SmartSynch has good market penetration, with business from 15 of the 50 to 100 utilities in the United States. Before beginning development of the system, SmartSynch spent a lot of time talking with the targeted customers, utility meter divisions, to find out what the customers wanted in a metering system for the target retail customers, the large commercial and industrial customers. The result is a true open architecture, device and communication system.

SmartSynch could work with any meter manufacturer. With the adoption of the ANSI protocol which provides for a common protocol to access the meters, SmartSynch can take a standard meter from any manufacturer and make it a smart meter by installing its intelligent device under the glass of the meter. Utilities have often invested in the knowledge of a particular line of meters. The utilities may have invested in training and meter programming devices for a particular meter line. It can be expensive to bring in a new and different meter.

SmartSynch has a lot of expertise in working with satellite communications systems. The company has invested in compression and encryption techniques that result in a good communication system with good coverage without a large capital investment for each new region. With the compression of the data, the load profile data can be transmitted over the two-way pager system at a lower cost than a private fixed area network.

Weaknesses

SmartSynch is not yet profitable, and its main rival, Itron, has earned a profit since the first quarter of 2000. In the third quarter of 2001, Itron posted earnings of 21 cents per share, and is expected to earn 22 cents per share in the fourth quarter. Itron already has a sustainable business, while SmartSynch is still working toward profitability. But at least ten utilities are paying to pilot the program, and others are rolling out the commercial system. At this rate, it will soon be time for SmartSynch to develop a new product line.

Main Rivals

SmartSynch feels it owns the market sector space of large commercial and industrial meters for utilities who need real-time capabilities. The CEO said other companies have focused on the residential market while ignoring C&I.

However, Itron is a clear competitor to SmartSynch with its Commercial and Industrial Network (C&I NetWork) and its enhanced MV 90 software. Itron has a strong presence in the residential metering market and additionally expects to have a major role in the commercial and industrial utility metering sector. The C&I Network provides an economical alternative to wide area fixed networks or the satellite two-paging communication method that the SmartMeter system currently emphasizes. The enhanced MV 90 software provides similar functions to the data collection and analysis software provided by SmartSynch.

Itron does not have the satellite two-way paging technology. The CEO at SmartSynch would rather think of Itron as a future partner than an out-and-out rival. No communications method can provide complete coverage for all commercial and industrial meter locations. The combination of the Itron C&I network and the SmartMeter system would provide excellent coverage without the high upfront cost of a wide area network.

Utilities are installing both the SmartSynch SmartMeter system and Itron's C&I network for the commercial and industrial customers. Both companies will have to consider the benefits of partnering or competing head-to-head. Both companies have a history of providing excellent customer service. Itron developed the MV 90 software that can accept meter information from any major meter manufacturer's meter. SmartSynch developed the SmartMeter System with open architecture as a priority.

Current Market Share

In California, SmartSynch has almost 100% of the target market of providing metering to utilities for large commercial and industrial customers. In various other markets, SmartSynch has captured the vast majority of the systems put in by utilities targeting the C&I customer group. SmartSynch estimates that if all of the utilities that are currently piloting fully deploy the SmartMeter System, SmartSynch will have a 50% market share in the U.S. market.

SmartSynch launched this product in March 2000, and it turned out to be a good year to begin. The California Energy Commission (CEC) was interested in the product and had the funds to go ahead with a full deployment.