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German serial entrepreneur Alexander Straub says that his service Truphone, which uses Wi-Fi to slash mobile phone bills, has the telecom giants running scared. Barry Mansfield reports

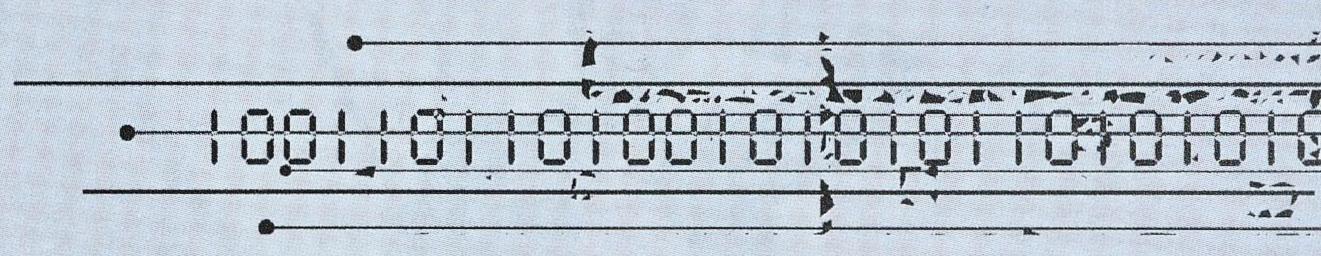
t sounds a familiar story. In the future, phone calls will take place over the internet at a fraction of their usual cost, even entirely free of charge. The healthy revenues taken for granted by large phone companies will be hit hard as they struggle to compete with these new 'disruptive' technologies. Back in 2003, Skype was providing these voice-over-internet (VoIP) calls for users of the desktop PC at home or in the office. However, it has struggled to bring the same convenience to mobile phone users. Now it's the turn of start-up Truphone, which is picking up the baton with a piece of

software that is more than an application – it is a service built into your phone's address book. According to Alexander Straub, who co-founded the London-based company, the whole process "is child's play".

The Truphone wizard can be downloaded free from the company's website or via text message, and should work on almost any Wi-Fi-enabled handset available on the market today. Users of the Truphone service can make free calls and send free texts to other Truphone fans. Since calls are carried via Wi-Fi over the internet, the call need never enter a regular phone network – fixed or mobile – meaning no operator charges are payable.

It is clearly an attractive package, and a customer base dispersed throughout 80 countries testifies to the global appeal of Truphone. Outside the UK and US, Italy has been the most enthusiastic adopter so far, which may have something to do with the super high-speed broadband recently introduced to cities such as Milan.

It is also possible to make vastly reduced-cost calls to non-Truphone users while international and long-distance calls are charged only at local rates. An



added bonus is that travellers can use Truphone from hotspots abroad to avoid expensive roaming fees.

Naturally, this threatens one of the major sources of revenue for the existing mobile operators, who have shown signs that they are beginning to crack. Truphone's most famous moment to date is last July's successful High Court battle with T-Mobile UK, which had illegally blocked the application from its network.

"The legal victory was a very important landmark for us, because we needed to put across the message that the move towards pure internet telephony is an unstoppable trend," explains Straub. "Beating" T-Mobile sets a good precedent. It has reminded the operators that they have to respect us. They cannot sweep us under the carpet. We're here to stay."

2007 was undoubtedly a good year for Truphone, which Straub founded with ex-Psion legend James Tagg in May 2005. Tagg was one of the inventors of touchscreen technology and he brought his telephony patents to the new venture. Last January Truphone secured €18m of investment and the World Economic Forum recognised it as a 'Technology Pioneer'.

Soon afterwards Truphone moved its headquarters from a rather cramped organic farm in Kent – the cows were frustrated at sharing space with people on laptops sipping coffee, jokes Straub – to seventh floor offices overlooking the Tower of London. Not a bad setting for a company so determined to secure its place in the history books.

Straub already has a hugely successful track record. He holds two engineering degrees, one from Darmstadt and one from Cornell University, and was a Rhodes Scholar at the University of Oxford, where he met future business partner Rouzbeh Pirouz. With Pirouz, Straub made his first breakthrough, winning prize money totalling €1.2m in a Sunday Times technology start-up contest. With this windfall the duo founded Mondus – an online business-to-business marketplace for companies looking to buy office equipment cheaply. Mondus was partially sold to the Italian Yellow Pages giant Seat Pagine Gialle in 2000, with Straub reportedly pocketing €14m from his stake.

Straub has also held positions with Goldman Sachs, McKinsey and as general partner at Lazard Technology Partners (LTP) in New York City. At Lazard he was the lead investor in 20 technology companies from a €215m fund focused on enterprises in software, telecoms and the internet. It seems likely that those well-honed negotiation skills played a useful part in securing last year's funding from Wellington Partners, Independent News & Media and Burda Digital Ventures.

Straub explains the logic behind Truphone and the direction the company is taking. He says that Truphone has recently worked on deals with free Wi-Fi hotspot providers, such as Irish firm freehotspot.com, so travellers can enjoy the benefit of free calls from a cafe or hotel. But he is quick to point out that Truphone's plans aren't based solely on this. "People just prefer to use their mobile phone in the home or in the office, even when a landline is available," he says. "Truphone is not relying on the future popularity of the free Wi-Fi networks. They may provide a boost for business travellers, but the biggest trend is people wanting to use their mobile phone where they already are."

Truphone users are given a special number, which looks like an email address, but they still retain their original mobile number. The beauty of Truphone is that when you are not in a Wi-Fi zone the Truphone number will still divert calls to the regular number for free, so you are always reachable. This means you can give your Truphone number to other users, but otherwise carry on as normal - you don't have to scrap the original number or confuse friends or business associates by giving them two numbers.

Truphone does have rivals. Other pretenders to the mobile VoIP crown include Rebtel, Fring and EQO,

## Beating T-Mobile has reminded operators that they have to respect us

and they all have impressive financial backing. Fring, for example, closed a €8.2m round this summer, headed up by North Bridge Venture Partners.

However, the difference in Truphone's approach is notable. It uses an open industry standard called Session Initiation Protocol (SIP), which is designed by handset manufacturers to work with maximum efficiency on their devices as a built-in feature. By contrast, Fring is a separate, independent application that is permanently switched on. It eats up battery life much more quickly.

Truphone's critics have complained that installation is painful and that it's not quite as functional as Fring, as it doesn't connect to Skype contacts. Fring's method means it is also less vulnerable to operator blocking. However, Truphone's use of SIP has allowed its developers to work intensively on important issues like voice quality. Straub claims that due to improvements made earlier this year, Truphone users now enjoy crystal-clear voice clarity. The service is still in beta, and the rapid expansion of the company's workforce to 40-plus – mostly coders – suggests more refinements are on their way. He has even hired a British ex-spy to headhunt staff for him.

TECH GUYS James Tagg, below, an ex-Psion engineer, founded Truphone with entrepreneur Alexander Straub, main





## Alexander Straub

Age 35

Nationality German

Career landmarks:

1999 Wins €1.1m prize from 3i venture capital group, sponsors of a Sunday Times entrepreneurship competition. Straub uses the money to launch Mondus, an online B2B marketplace for SMEs. Later receives €8.2m in venture capital funding from Eden Capital.

2000 Mondus sells 40.7% of equity to Italian publisher Seat for €102m (€95.2m in Seat shares and €6.8m in cash). By this time the company has 160,000 subscribers and employs 120 people in offices in London, Hamburg, New York, Helsinki, Paris and Stockholm.

2004 Nokia introduces Wi-Fi-capable handsets, complete with SIP technology, which makes them suitable for VoIP

2005 Founds Truphone with ex-Psion engineer James Tagg, one of the inventors of touchscreen technology. Tagg brings onboard his telephony patents and the trading name switches to Truphone from Software Cellular Networks Ltd (SCN)

**2007** Truphone is selected by the World Economic Forum as a Technology Pioneer

Other business interests Straub is CEO and co-founder of Pixsta, an image browse and search company at development stage. In 2006 it launched www.chezimelda.com, a comprehensive online shoe store (90,000 shoes indexed) browsable by image. He has also formed his own international venture capital company, Straub Ventures, with investment size ranging from €68,000 to €1.36m.

Home life Two children with wife, fashion designer Tilla Lindig. They live in London's Notting Hill.

Hobbies Sailing. Competed for Germany in the 1992 Barcelona Olympics

prints and fake grass are a source of never-ending amusement to Straub. Their presence says that Truphone has not forgotten where it came from. There's even a perspex box containing a bale of hay in the reception area. Certainly, the overwhelming vibe surrounding Truphone is that of a young, highly optimistic dotcom outfit, which may explain the scepticism of some industry observers.

As UK-based telecoms analyst Julian Keates points out: "In the end we always hit mass market economics. Last time I looked only around 5% of new handset sales in Western Europe qualified as smartphones. This puts a significant cap on the addressable market for Truphone today."

The company seems fiercely determined though and Straub also appears to be obsessed with disrupting traditional business models. The next

## I didn't want to become a pillar of the establishment

big thing in telecoms, he confidently predicts, will be 'peer-to-peer mesh networking', which involves handsets talking directly to each other, avoiding mobile phone networks entirely.

An early pioneer is Swedish startup TerraNet, which is working with Ericsson to bring free phone calls to the developing world using this method. "It may take a few years to really get there, but it's a very promising technology that will have a global impact," he enthuses.

So what next for Truphone? Despite getting
T-Mobile UK to unblock its calls, more resistance
can be expected from the mobile operators. Some,
like Vodafone and Orange in the UK, have crippled
the firmware on their branded handsets in order to
remove the embedded VoIP functionality. Straub says
the company is in talks with the operators to resolve
this issue. He seems unfazed.

"I didn't want to become a pillar of the establishment, like other Rhodes Scholars," he says. "I'm ambitious to really change things. That's what motivates me." 

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