

The Skype Hype

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What is Skype?

- Global Internet Telephony Company™ based in Luxembourg
- Founded in Sep 2002 by **Niklas Zennstrom**
- Provides a quick, easy, and cheap way for subscribers to make VoIP telephone calls
- **VoIP** is a way of allowing a computer with internet access to serve as a telephone

Features

- Skype video/audio chat
- SkypeOut – outgoing calls
- SkypeIn – incoming calls
- Skype Voicemail
- Skype SMS – send SMS
- Support for multiple languages
- Skype software, plug-ins, add-ons, extras can be installed on computers (PC/MAC), cellular phones, and PDAs

Pricing

- SkypeOut
 - Free in US until end of 2006
 - Int'l calls cheaper than phone cards
- SkypeIn - \$50/yr with free skype voicemail
- Skype Voicemail – approx. \$15/yr
- Skype SMS – 11 cents/message
- Skype to skype is ALWAYS FREE

Skype's Vision

- *" Our vision for Skype has always been to build the world's largest communications business and revolutionize the ease with which people can communicate through the Internet" -Zennstrom, CEO of Skype*
- Voice quality as good as traditional telephones
- Just a LOT cheaper

Vision: Disruptive innovation

- Technological innovation, product, or service that overturns the existing dominant technology/industry

| | |
|-----------------------|----------|
| Dominant Technology | Skype |
| AT&T telephone | Software |
| Long telephone cables | VoIP |
| Yahoo/MSN messenger | P2P |

Why Skype is Successful

- Peer to peer communication
 - Don't have to go through a server
- P2P + VoIP = cheap/good voice quality
- Work almost seamlessly behind firewalls
- Was bundled with Kazaa
- User-friendly (easy to install/use)
- Privacy ensured
 - Encrypted VoIP calls = immune to eavesdropping

Why Skype is Successful

- Established global partnerships which broadened its technology network
- **Advertising:**
 - Skype's marketing expenses = ZERO
 - 196 million registered users were persuaded to join Skype by word of mouth.
 - **HOW??**

It has what people want!

- Similar to a telephone experience
 - Familiar ringtone
- User avatar
 - feature that allows users to upload a picture that defines their personality
- Skypecasts – allows Skype users to discuss shared interests in live, moderated forums
- Easy to search for people, meet people
- Did not overcharge their credit card every month like most telcos did

Effect on the Telco Industry

- Forced Telcos to rethink their business model and start introducing VoIP services
- Price difference
 - SkypeOut is \$30/year in US
 - Local calling plans are about \$25/month
- Tough to gain new customers
 - *Entrant robs incumbent firms, steals profits*
- Skype entered during economic recession

Impacts outside US

- Very popular in Europe
 - High costs for international calls
 - Alternative to cell phone roaming
- Heavily used in developing countries
- China bans SkypeOut service in order to preserve its fixed telephone line industry
- Jordan bans Skype to increase the profits of the local incumbent
- Norway bans Skype – can't make 911 calls

eBay

- Bought out Skype in Oct 2005 for \$2.6 bn
- Why?
 - Did not have instant messaging platform
 - Skype making inroads in small businesses
 - Wanted to be the hot internet technology company amidst google and yahoo
- "Communication is at the heart of community and e-commerce, making Skype a natural fit for eBay," – Meg Whitman, CEO of eBay

New Pricing Strategy

- SkypeOut service is not free anymore
- **Market Adjustment**
 - Pricing relative to that of the local telco industries
- Revenue surge in 2007 due to increased pricing
- If everyone is on Skype to Skype, there is \$0 in revenues!
 - **Neg. Economies of Scale**

| | Q4 2006 | Q1 2007 |
|------------------------------|------------------|------------------|
| Revenues | \$66 million | \$79 million |
| Registered Users | 171.2 million | 195.5 million |
| Skype to Skype minutes | 7.6 billion | 7.7 billion |
| SkypeOut Minutes | 1.5 billion | 1.5 billion |

Skype in 2007

- Prices rise about 50%
- Skype is a public company and has to be profitable on its own
- eBay is responsible for skype shareholders and pressures Skype to make profits
- Skype will focus on where they have high volume demand

Skype's Mastermind: Niklas Zennstrom

- Smart and shrewd
- Founder of Kazaa
- Bundled Skype with Kazaa
- Joost: new company
 - HD TV on the web?
- From Sweden
- Enjoys adventurous sports



What next?

- Competitors changing to compete with Skype
- **VoipBuster**: new internet telephony service with low call rates – free to many countries!
 - Substitute and rival to Skype
- Vonage sued Verizon for VoIP patent infringement
- How much longer will VoIP be successful?
- **Is skype hyped up?**
 - High user base does not lead to high revenues!
- We'll see what happens in the future...

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