

Free VoIP might not lead to profits

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Big Telecom has been rattled by the advent of Internet phones, especially following the roaring success of the Luxembourg-based Voice over Internet Protocol provider Skype over the past few years. Yet while Skype has cashed in on its success by being bought out by online auction house eBay for \$2.6 billion, there is growing concern among industry analysts that while VoIP might be a great service for users, it may not actually be a very profitable business, at least for now.

Concerns about the prospect of making money in the Internet-calling business increased earlier this week when VoIP provider Jajah announced that it too will make part of its business free in hopes of increasing the total number of subscribers. The Mountain View, Calif.-based company, which was started up last year, said that it would offer free calling services to both landline and mobile calls to and within the United States, Canada, China, Hong Kong, Singapore and Taiwan. Meanwhile, landline calls to and within Australia, Britain, Germany, France Italy, and most other European countries will be free under its free global calling plan. The only catch is that both call participants need to be registered Jajah users, but registration comes free of charge.

Jajaja did, however, say that it has "created a system that depends on the Jajah community adhering to a 'fair use' policy, which simply asks people to keep their calls within a reasonable amount of minutes." As such, the company will be monitoring how many hours subscribers use each day to make sure no one abuses the system.

By getting people to register with the company and become familiar with

its services, Jajah is ultimately hoping that users will be prepared to pay for its premium services, such as its business account that caters specifically to corporate needs.

"We believe we can trust our customers to behave in a manner that best serves the larger community, and we are counting on them using a variety of services beyond free calling," said Daniel Mattes, co-founder of the company.

Still, Wall Street's faith in the ability of Internet phone providers to actually entice free users to becoming fee-paying subscribers at a time when more and more people are expecting a bigger chunk of their phone bills to be had for free is decreasing, if Vonage's experience is any gauge of the state of the industry.

Last month the Internet phone company launched its initial public offering but found its share price tumble 13 percent on the first day of trading, and Vonage's share price has continued to slide steadily from its IPO debut peak of \$17 per share since then. One major concern about the ever-declining share price is that many of the investors in the company are Vonage users, many of whom are now banding together to file a class-action lawsuit against the Internet company for leading them to invest in the corporate stock.

But many argue that the source of the precipitous decline in the first place has been because despite its brand name and recognition among younger users in particular, and a continued rise in number of subscribers, Vonage has been unable to translate user numbers into actual profit, which will likely remain a challenge for all VoIP providers going forward.

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