

The guerilla roots of the Skype calling service

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A Microsoft and Skype sign are displayed at a news conference in San Francisco Tuesday, May 10, 2011, announcing Microsoft's acquisition of Skype. (AP Photo/Paul Sakuma)

In buying Skype, Microsoft is getting one of the rare companies that has turned its name into a verb, like Xerox or Google. "Let's Skype" is a phrase understandable, with slight translation, in much of the world.

For most people, it means sitting in front of your computer to talk, often for free. Four out of ten times, there are cameras involved too, turning the session into a [video chat](#).

The service has become popular for long, rambling chats with distant friends and relatives. Children too young to talk on the phone can still be entranced by the image of Grandma on the [computer screen](#).

"Skype really is that inner circle, that inner set of social experiences," CEO Tony Bates said Tuesday.

Skype bypasses the traditional phone system by routing calls and video over the Internet, just like email and Web pages. The calls vault effortlessly over national borders, ignoring the fences that phone companies put up in the form of international calling charges. Usernames take the place of phone numbers.

Calling from computer to computer is free. Skype charges for calls to phone numbers on the traditional phone network. It also charges for getting a phone number associated with your Skype username, so people can call you from regular phones.

Skype wasn't the first to offer phone calls over the Internet when it launched in 2003, but the way it did it was unique and rebellious. It relied on a technology that had already disrupted the [music industry](#) - peer-to-peer file sharing, in which computers connect to share things directly, without an intermediary vulnerable to legal action.

The founders, Niklas Zennstrom, a Swede, and Janus Friis, a Dane, had run a peer-to-peer file-sharing network called Kazaa. They sold it to an Australian company in 2002 after coming under intense legal pressure from the [entertainment industry](#), which accused Kazaa of facilitating the theft of millions of copyright-protected songs and videos. The Australian company ended up fighting long battles in court, while Zennstrom and Friis walked away.

The pair turned their efforts instead toward applying the peer-to-peer principle to communications.

This was the genius of Skype: Thanks to peer-to-peer technology, it could get started with very little investment. The heavy lifting of running

the network - figuring out how to find users and connecting their calls - was mostly done by the users' computers. With very low costs, Zennstrom and Friis could afford to give the software away, feeding its popularity.

As Skype grew, eBay Inc. came calling. In 2005, it bought the company for \$2.6 billion, with a plan to integrate it into its auction site.

The synergies never materialized. Skype languished under eBay, with a rapid succession of CEOs. Despite low operating costs, revenue was small; just a few percent of active users paid any money to Skype. Those who did were mostly Europeans, as they made a lot more international calls. In the U.S., state-to-state calls are already cheap.

In 2007, eBay had to write down much of Skype's value. Two years later, eBay sold two-thirds of Skype to an investor group that included Zennstrom and Friis for roughly \$2 billion.

Microsoft announced an agreement Tuesday to buy the company for \$8.5 billion - three times what eBay had valued it at. [Microsoft](#) sees in Skype a way to support its own products.

Skype still has room to grow on phones, including those running Microsoft's Windows software.

Skype has been slow in getting onto cellphones, which have seen explosive growth since Skype was founded. Cellphone companies feared that allowing Skype on phones would hurt revenue by letting callers save their minutes.

The phone companies came around slowly after U.S. regulators started to take an interest in Skype's complaints. AT&T said in late 2009 that it would allow Skype calls over its wireless network. Since then, the other

major carriers have joined, figuring that Skype calls are a way to sell data plans.

Another area Skype has a foothold but no dominance is the living room. TVs are increasingly connected to the Internet. Panasonic and Samsung TVs come with the capability to do Skype video chats, but no built-in cameras.

"It's an area where we'd like it just to be easier," Bates said.

Today, Skype's technology doesn't give it much of an advantage over competing services. Video-chatting software isn't hard to create.

What Skype does have is a big user base - the roughly 170 million people who have the software installed, know how to use it and tell each other "to Skype."

Competitors have to replicate that user base somehow because communications software is only as good as the number of people you can contact with it.

[Google](#) Inc. is trying. Its Gmail service has more than 190 million users and serves as a springboard for voice and video chats. It can even be used to place calls to phone lines, just like Skype.

Other competitors are piggybacking on the popularity of Facebook, which has more than 500 million active users. T-Mobile USA, the No. 4 cellphone company in the U.S., launched software that lets Facebook friends call one another.

Facebook could adopt Skype itself, or launch its own calling service. In ten years, people might still say "[Skype](#) me," but the actual call might use some other software entirely.

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