

Microsoft agrees to buy Skype for \$8.5B (Update)

May 10 2011, By MICHAEL LIEDTKE and PETER SVENSSON , AP
Technology Writers



Microsoft CEO Steve Ballmer, right, and Skype CEO Tony Bates, left, shake hands during a news conference in San Francisco, Tuesday, May 10, 2011, to announce Microsoft's acquisition of Skype. (AP Photo/Paul Sakuma)

(AP) -- Imagine using your Xbox and switching from a game to a video chat with a faraway friend holding an iPad. Or going into your office email to invite Grandma to a virtual family reunion beamed on TV sets to relatives across the country.

Microsoft's \$8.5 billion purchase of Skype is supposed to make using the Internet for video phone calls as common as logging on to Facebook or instant messaging is today.

If it wins regulatory approval, the deal announced Tuesday provides

Microsoft, the world's largest software maker, with the means to sell more digital advertising and offer more popular conferencing tools to help businesses save money.

Skype's services also span hot markets - online socializing, mobile phones and digital video - where Microsoft has been struggling to catch up with Facebook, Apple and Google.

Analysts and investors couldn't seem to agree whether Microsoft is wasting its money on an unprofitable service or has pulled off a coup that will help it restore clout. Microsoft stock was virtually unchanged, falling 0.6 percent.

About 170 million people worldwide who use Skype regularly for calls and chats. Microsoft believes it can attract hundreds of millions more by weaving Skype into its products. Not just Windows, which runs on eight of every 10 computers and servers on the planet, but also its Outlook email program, software for phones and the Xbox video game console.

Microsoft already has a Skype-like service called Windows Live. But the real Skype is far more popular and bridges different computers and phones. Already, someone using the Skype application on an iPhone can talk to someone who has it installed on a Dell laptop.

For businesses, Microsoft has separate communications software. Building Skype into it would make it easier for corporate users to conduct video chats with people at other companies, or from home, said Bern Elliott, an analyst at the research firm Gartner Inc.

Skype allows users to make voice and video calls for free or pennies. Calls from one Skype account to another are free. Those to a landline or cellphone using the regular phone network cost money, but much less than going through the phone company.

It has become a popular way to avoid large phone bills. Skype is the largest provider of international calling services in the world, surpassing any single phone company, according to research firm TeleGeography.

Skype users made 207 billion minutes of voice and video calls last year - almost 400,000 years' worth. Most of that was free, which has made it difficult for Skype to make money. Only about 5 percent of active Skype users pay for it.

Microsoft pledged to keep Skype in all the places it is currently available, including mobile devices that run off the software of two major rivals, Apple and Google. Skype users don't have to pay to install the software on Apple's iPhone, iPad computer tablet or devices running on Google's Android system.

The new ownership probably means more advertising in Skype's video services along with potentially compelling new uses. Skype only recently began experimenting with ads. Microsoft, which has a much larger sales team, intends to expand them.

The partnership would also bring Skype to the Xbox video game console and has sold 50 million copies, making it the world's No. 2 video game system behind the Nintendo Wii.

Already, players using the Kinect motion-sensing controllers can videoconference with each other. The Microsoft-Skype partnership means a player could one day put a game aside and use the Xbox to call anyone else who has registered for a Skype account - a grandmother on her landline phone, a friend holding an Android phone, a coworker using Outlook email at work.

It's also conceivable that Microsoft could expand Skype's video chatting services into Facebook, the social networking site that has more than 500

million users of its own. Microsoft owns a 1.6 percent stake in Facebook, and both have an interest in cutting into Google's power.

Microsoft's pursuit of Skype may have even been motivated by a desire to make sure Google didn't buy it first, said technology analyst Rob Enderle. He believes Microsoft will plug Skype into Facebook.

"Either Microsoft or Google could turn Skype into an international standard," Enderle said. "Microsoft didn't want to be at the other end of that - that's why it got as pricey as it did."

The purchase is the most expensive in Microsoft's 36-year history, eclipsing its \$6 billion acquisition of online ad service aQuantive in 2007. That deal has helped Microsoft sell more online ads, although analysts aren't convinced it was worth the money. The \$8.5 billion is also more than three times what Skype was valued at 18 months ago when an earlier owner, eBay Inc., sold a two-thirds stake to a group of investors led by the private equity firm Silver Lake.

When eBay bought Skype for \$2.6 billion in 2005, it saw tremendous potential to bring together the millions of buyers and sellers in its online bazaar. But "Skyping" and shopping didn't fit together the way eBay envisioned, feeding the skepticism about whether Microsoft will be able to realize its ambitions.

"The onus is on Microsoft to execute with this deal," said Morningstar analyst Sunit Gogia. "It's really hard ... for shareholders to be optimistic at this price point."

Although it makes billions of dollars selling software for personal computers, Microsoft has struggled badly in its effort to become a bigger force on the Internet. In the past six years, Microsoft's online division has lost more than \$7.2 billion.

Skype has lost money consistently since its inception in 2003, mostly because it charges only a small fraction of its users. As a standalone company, Skype lost \$7 million on revenue of \$860 million last year.

That did not deter Microsoft. We are a super-ambitious company," Microsoft CEO Steve Ballmer said. "This Skype acquisition is entirely consistent with our irrepressible, forward-looking nature."

Skype was founded in 2003 by Scandinavian entrepreneurs Janus Friis and Niklas Zennstrom. They also created Kazaa, a file-sharing program that, along with Napster, roiled the music industry a decade ago.

Skype, based in Luxembourg, will become a new business division of Microsoft. Skype's CEO, Tony Bates, will run it and report to Ballmer.

The vast majority of paying Skype users are in Europe, where it's popular among people who want to avoid expensive charges for traditional country-to-country phone calls. In the U.S., calling state to state is comparatively cheap.

Microsoft can easily afford the purchase. At the end of March, it had a cash hoard of \$50.2 billion. Because Skype is based overseas, Microsoft plans to pay for the deal from the portion of cash that Microsoft holds overseas to avoid higher taxes in the U.S. The company hopes regulators will approve the Skype takeover before the end of the year.

That's likely. MF Global analyst Paul Gallant said regulators might even view the deal as good for consumers by helping Microsoft compete with Google.

©2011 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Microsoft agrees to buy Skype for \$8.5B (Update) (2011, May 10) retrieved 20 March 2024 from <https://phys.org/news/2011-05-microsoft-skype-85b.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.