

eBay's bid for Skype may backfire

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Rumors abound that eBay, the world's biggest and most successful online auction house, will buy out Skype Technologies, an Internet-based telecommunications group.

Both companies have steadfastly declined to comment on the speculation, even as major newspapers went ahead and published the report. Investors, however, were sufficiently spooked by the speculation that eBay could offer anywhere between \$2 billion and \$5 billion for the Luxembourg-based company that only started business two years ago, they were quick to sell off shares in eBay. While eBay has established itself as the grande dame of online-based businesses that has revolutionized the way consumers buy and sell used as well as new goods, many investors believed that acquiring Skype would go far beyond the core operations of eBay. As a result, eBay's share price tumbled nearly 4 percent to close just above \$39 Thursday.

Of course, rumors of a buyout are nothing new for Skype. The company became fodder for similar talks with Google only a month ago, which the company has flatly denied. Still, it is a testament both to Skype's undeniable top position in the Voice over Internet Protocol market on the one hand, and growing fears among analysts that other bigger companies want to get into the VoIP business now too, which could hurt Skype's prospects in the long run.

Over the past two weeks alone, both Google and Yahoo! have announced plans to expand their own VoIP platforms, while Microsoft and America Online too have increased their commitment to improving their Internet

voice connectivity. In fact, both Microsoft and Yahoo! bought out Skype's competitors in recent months in an effort to bolster their VoIP business.

There is no doubt, however, that for now, Skype continues to dominate that particular market, with its 52 million subscribers who have downloaded Skype software for free, which allows them to talk to one another over the phone at no cost. Meanwhile, Skype has scored 2 million paying subscribers who are paying customers, which allows them to use Skype to initiate a call but then requires payment to connect to a landline phone. By using broadband access, however, Skype calls can be made for a fraction of the price charged by conventional telecommunications companies, which makes Skype particularly attractive to frequent international callers.

Nevertheless, as competition in the VoIP market heats up and the biggest companies with more cash get serious about providing a similar service, it may prove increasingly difficult for Skype to stay ahead of the game. As a result, it would make sense for Skype to seek out a partner, especially an established one.

The problem is, however, that if it were to merge with eBay, Skype might gain more from the marriage rather than eBay, according to some analysts.

Scott Kessler, an analyst with credit raters Standard & Poor's, stated that "we do not think Skype would be very strategic to eBay, notwithstanding its franchise and cache. We also think similar acquisitions made in recent months by Microsoft and Yahoo were considerably less expensive. We would view this deal as a negative, based on relevance and possible price, and the implication that eBay's business model could become less appealing."

On the other hand, some analysts are optimistic about a potential Skype buyout by eBay.

"Due to the immediate response nature of (instant messaging) or VoIP chat technology, we believe eBay could potentially use a VoIP service to roll out instant messenger/chat functionality to enhance buyer/seller communication," said a J.P Morgan advisory note to its clients. "We believe faster communication could help increase auction success rate," the New York investment bank added.

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