Microsoft and the future of Skype

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16 May 2011

The announcement Tuesday May 10 that Microsoft paid $8.5 billion for the online voice and video service, Skype, has prompted much speculation as to Microsoft's motives and the future of the Skype service.

By any estimate, the deal was overpriced for a company that last year made a net loss of $7 million on revenues of $860 million. The projected Initial Public Offering for Skype was estimated at 50 percent less than what Microsoft paid for the service. This is Microsoft's largest ever acquisition but still represents a small fraction of the software giant's massive wealth. Microsoft has a net worth of around $220 billion.

Skype was first launched in 2003 by software developers Niklas Zennström and Janus Friis. The two had previously developed the peer-to-peer file-sharing service Kazaa. Skype is based on the same underlying technology, which allows the service to utilize the power of user's computers rather than investing in expensive server technology.

The ability to make international voice calls from computer to computer, and later to landlines, independently of the telecommunication giants proved instantly attractive. Skype had 50,000 registered users by September 2005, doubling that figure to 100,000 by April 2006. Today, an estimated 170 million people worldwide are Skype users. By 2010, Skype was said to be responsible for a quarter of all international telephone calls.

Skype's overwhelming success made it an early target of corporations seeking ways to capitalize on the user base. Online auction site eBay bought Skype for $2.6 billion in 2005 with a view to integrating it into its auction services. The integration never happened, and in 2009 eBay sold 70 percent of Skype to an investment group that included founder of Netscape, Marc Andreessen. The 70 percent stake was valued at $2.75 billion.

The purchase by Microsoft poses a real threat to democracy and the free exchange of ideas. What has become an essential utility for millions of people is now controlled by one of the world's largest corporations, and one that has a record of subverting technological advances in the interests of maintaining its own monopoly. (See, "The Microsoft law suit, software development and the capitalist market")

It is not yet clear how Microsoft intends to make a profit out of the Skype technology, or if Skype will go the way of so many previous purchases by the company, including Groove, Placeware, Massive, LinkExchange and WebTV, all of which were shut down.

Some commentators speculate that Microsoft could integrate the Skype services into its email client Outlook and the Exchange mail server, in the hope that this would encourage businesses to pay for the service. Other business possibilities include enabling real time video and voice services for the XboxLive network in the hope of encouraging a wider subscription base.

Though Microsoft already has its own video and voice technology in its MSN chat service and the NetMeeting service which is widely used in business, what it lacks is the massive user base of Skype.

It is entirely possible that Microsoft's interest in Skype is bound up with the threat that it poses to the company's profits through increased commercial use of the Skype service over NetMeeting. Skype not only offers cheap telephone calls and free computer to computer communications, but now features screen sharing and video conferencing, which make it an attractive free alternative to products such as NetMeeting.

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Concerns as to the future of Skype were already raised following the eBay acquisition in 2005. One concern was the closed character of Skype development and the use of proprietary rather than open standards. Though there are free and open alternatives, there is no way for users to convert their Skype contacts over to an alternate system.

In 2007 an increasingly popular alternative to Skype emerged called the Gizmo Project. Though the Gizmo client itself was proprietary, the service used open transportation standards such as Session Initiation Protocol (SIP) and Extensible Messaging and Presence Protocol (XMPP). One advantage this project had over Skype was the ability to register a conference phone number and have people call in by standard phone as well as from a computer. Gizmo growth was slow due to the overwhelming dominance of Skype and the inability to access the Skype user base. Just as Gizmo began to stabilize and gain a significant user base, it was purchased by Google in November 2009. Google subsequently killed Gizmo in favor of its own Google Voice platform in April this year.

The development of the technology that made Skype possible is bound up with the technological advances of the last two decades that has led to unprecedented social interaction across borders. Along with social networking tools such as Twitter and Facebook, Skype was cited as a factor in spreading the mass protests against the Mubarak regime in Egypt earlier this year. Services such as Skype not only risk falling prey to profit seeking capitalist corporations, but also government interference and even outright suppression.

In February of this year the *New York Times* reported, “The F.B.I. has been quietly laying the groundwork for years for a push to require Internet-based communications services — like Gmail, Facebook, Twitter, BlackBerry and Skype— to design their systems with a built-in way to comply with wiretap orders."

The newspaper quoted the F.B.I.’s general counsel, Valerie Caproni stating, “Due to the revolutionary expansion of communications technology in recent years, the government finds that it is rapidly losing ground in its ability to execute court orders with respect to Internet-based communications.”

Given Microsoft’s record in silently complying with government subpoenas, the FBI will no doubt welcome the acquisition as a means of establishing better control of this inherently subversive alternative to big business telecommunications giants who aided the Bush administration’s illegal domestic spy program and were granted immunity by the Democratic controlled Senate in 2008.

This author also recommends:

US Senate moves to grant immunity to telecoms complicit in illegal wiretapping

[26 January 2008]

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