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SHAKE IT UP

First published in
Chief Executive Officer

Four years ago, Niklas Zennström and Janus Friis revolutionised the telecoms industry with Skype. Now they are set to rewrite the rules of the TV industry as well, Barry Mansfield discovers.

This year's World Economic Forum in Davos, Switzerland, which took 'the shifting power equation' as its theme, attracted more than 2,000 business, political and academic leaders to discuss social networking and digital media.

No surprise, then, that Skype co-founder Niklas Zennström was so in demand at this, his third event – few technologies have been as disruptive as the free internet telephony service he launched with Danish business partner Janus Friis in 2003.

But it's not only Skype that has assured the Swede's place in the limelight this year. Just days before his appearance at Davos, he unveiled a plan that looks set to shake up the television industry in the same way that Skype forced major players across the telecommunications industry to rethink their business models.

RINGING SUCCESS

When we meet at his headquarters in Soho, it is clear that Zennström wants change and reinvention to be the main thrust of the conversation. He says: "I am incredibly attracted to disruptive technology as a whole, particularly where the innovation strips away social hierarchies or monopolies and helps to make the world a smaller place. It's a transformation that is underway already, and we can't ignore it – so we have to embrace it."

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Zennström has already proved his point. Skype has been a phenomenal success: 195 million users have registered so far, and 200,000 new users are signing up every day. The company's net revenues amounted to \$79m during the first three months of 2007 alone.

Skype allows anyone to communicate for free to other users of the service across the globe. But, as Zennström explains, that's just a simple way of reeling in customers for their first taste of what the service has to offer. "We also charge people to make calls to and from the traditional land network for an extremely low fee. We've been attracting a lot of our free users to become paid customers." Among those will be users of the new service Skype To Go, launched in June, which for a small monthly fee enables subscribers to make cheap international calls from their mobile phone.

Although most revenue is made from voice calls, Skype is branching out. Zennström explains: "We're now working on developing other revenues, such as e-commerce and content. I think in the long run most revenue will come from e-commerce. We are going in a few different directions." Skype wants to be "where users want to use us – they don't want to sit in front of a computer all the time," says Zennström, who has been working with several Wi-Fi phones firms, so Skype can reach even more people.

CHALLENGING THE TV INDUSTRY

Just before his appearance at Davos, however, it became clear that Zennström had bigger projects on his mind. The imminent launch of a global broadband television service called Joost was announced to great fanfare at a press conference in London.

The arrival of Joost, initially dubbed The Venice Project, shows that Zennström's love affair with disruptive technology is far from over. It is intended to be the first free global TV distribution platform, uniting advertisers, content owners and viewers in a piracy-free interactive service.

According to Zennström, TV has been too slow to embrace the possibilities of the internet. "Joost is taking the best things from TV and the internet and putting them together," he explains, adding that Joost aims to address consumer demand for improved choice – something TV has failed to deliver, but will have to adapt to in future.

"People really love television, but there hasn't been that much innovation in the way that content is distributed and consumed. On the internet, of course, there has been so much innovation. The connections are superior and PC monitors and TV displays are very similar now, so you can watch films on your monitor.

"Also, younger consumers, the MySpace generation, are spending much more time on the internet, and are demanding more engaging content. The time is right to deliver TV over the internet."

The international investor community seems to be in agreement here – in May the company, funded using part of the money from Skype's sale to eBay, gained an impressive £23m injection from Index Ventures, Sequoia Capital and the Li cKa Shing Foundation to "accelerate product development, global expansion, localisation and service offerings".

Zennström believes that convenience will be the key to Joost's success. "Being able to watch a show whenever you want is empowering. We're also adding Web 2.0 features and social networking aspects to our programming so we can include community services. People want to talk to each other about the football or a film while they're watching it."

MANAGING THE DISRUPTION

Retaining their day jobs at Skype and eBay, Zennström and Friis handed the day-to-day management of Joost over to chief executive Fredrik de Wahl, who has worked with them before. As Zennström likes to put it, with Skype he is "the player out there on the court trying to score, but with Joost it's now my turn to sit on the bench as team coach."

Having successfully delivered the beta version of the pee-to-peer application to millions of users worldwide, de Wahl eventually stepped down in May, with former Cisco executive Mike Volpi announced as his replacement. De Wahl remains at the company as chief strategy officer.

Visitors to the website are already signing up to test the new service and report problems ahead of the official launch, which is expected to be in the early summer. It has already attracted content providers such as CBS, Viacom, Warner Music, Endemol, Turner Broadcasting, the National Hockey League and Sony Pictures Television. Advertisers include T-Mobile and L'Oréal.

And in mid-June, the Joost team publicly stated its interest in working with equipment manufacturers to embed its video-playing software in TV sets and other consumer hardware, which will enable them to take viewers out of the bedroom or home office and into the living room in front of their plasma screens.

Additional features, says Zennström, are likely to include a service that analyses users' viewing habits and recommends similar programmes that they may enjoy – an intelligent sales tactic of the kind employed by online retailer Amazon.

THE FUTURE IN HIS STRIDE

Zennström has become known for his dispassionately pragmatic approach. Skype has a London office to access capital, a Luxembourg base for tax reasons and Estonian software experts because they are cheap (Estonia was a tech hub for the former Soviet Union). Little wonder he complains of spending his life in airports. His approach is not ruthless, just well considered, which is Zennström's key characteristic.

At the same time, he is uneasy about his status as Europe's millionaire tech startup poster boy. He has always been reluctant to reveal just how much he and Friis pocketed from eBay's \$2.6bn acquisition of Skype, where he has remained as CEO. The pair had already offloaded a significant chunk of Skype to venture capitalists, but it is thought they retained at least 15% each – stakes that would be worth £225m.

However, despite his modest demeanour, he never doubted Skype's potential: "When we created Skype we thought we could make it a very big business and potentially transform the industry. We are really pleased that we achieved our dream.

"But what we were really surprised about was the secondary effect – the social impact it has had. Everywhere I go I have people telling me what an impact it has had on their lives because they can stay in touch with their friends, family, colleagues and clients around the world."

This is a perfect example of disruptive technology, and a pattern Zennström is keen to repeat. With his track record and confidence, the TV industry might well be unrecognisable in a few years time.

Niklas Zennström, CEO and Co-founder, Skype

First published 22 September 2007

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