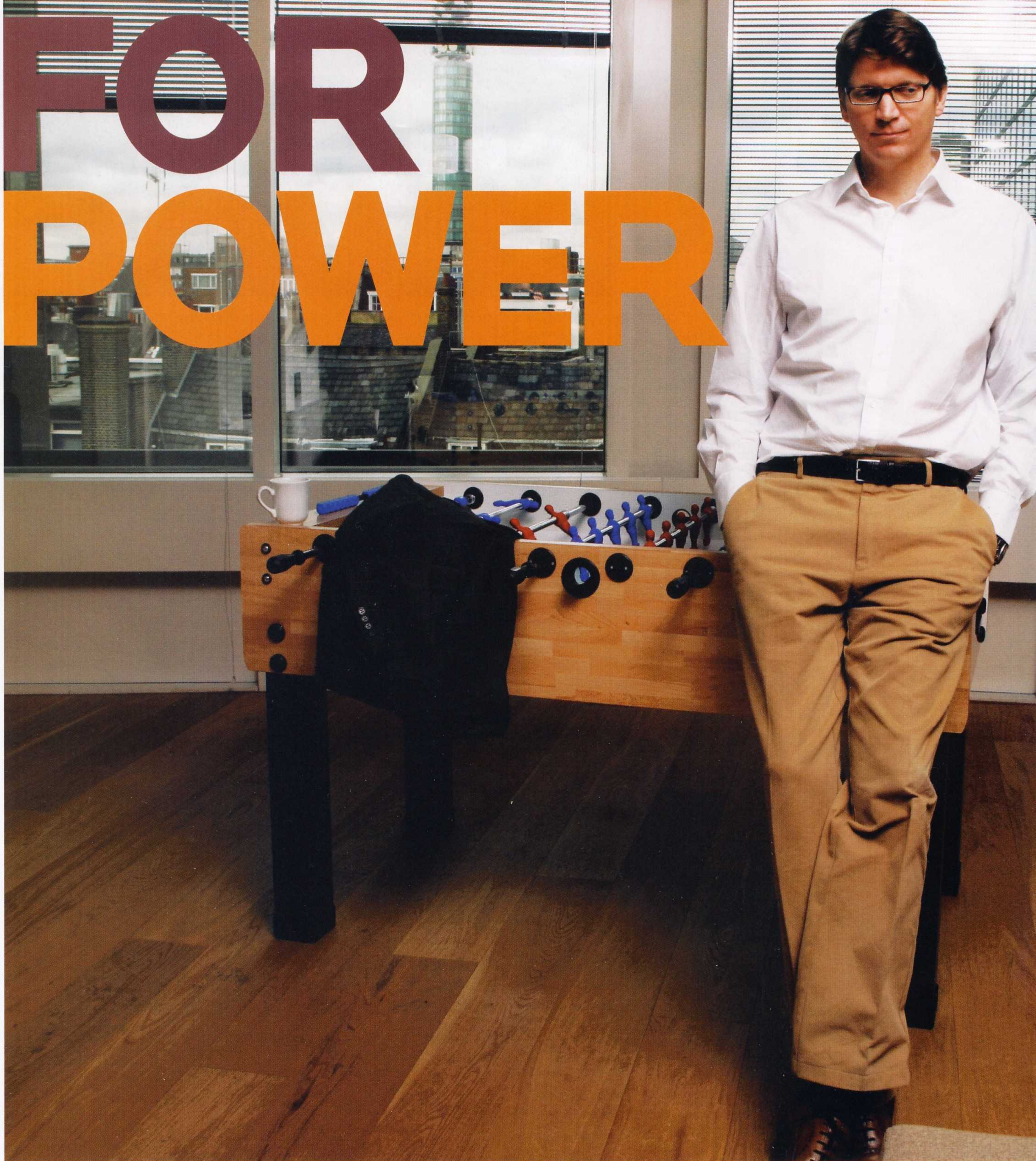


[TECHNOLOGY]

BOOSTING FOR POWER





Skype founder Niklas Zennström wants to transform the TV industry as much as he disrupted telephony by utilising the internet. BARRY MANSFIELD meets him face to face to ask how

Niklas Zennström is the man credited with bringing free internet telephony to over 100 million home and business users worldwide, eventually selling his start-up Skype to eBay for €2bn in October 2005. Now his latest venture, Joost, looks set to revolutionise the delivery of television on demand. But is the world ready for such technology?

It's been an action-packed few weeks for Zennström, who seems relieved to be back in the comfort of his plush Soho base after spending so much time away from London. One of his trips was to this year's World Economic Forum in Davos, Switzerland, the closest thing there is these days to a single forum for world leaders to ponder the planet's future.

Swede Zennström, 39, looks like a tousled schoolboy dressed to meet the City: a pale blue shirt, buttoned-down collar, no tie, tweed jacket, and floppy hair brushed Harry Potter-style across dark-rimmed rectangular glasses. He apologises for being late for our appointment – a meeting overran – and he seems weary as he speaks, which would make sense given the hectic quality of his life these days.

With social networking and digital media at the top of the agenda at Davos this year, it's no wonder Zennström was in huge demand – few technologies have been as disruptive as the free internet telephony service that he launched with Danish business partner Janus Friis in 2003. 171 million users have registered with Skype so far, and 200,000 new users are signing up every day. The company's net revenues topped €50m during the last three months of 2006 alone.

It's not only Skype that has assured Zennström's place in the spotlight this year, despite the fact that he continues as its CEO. To coincide with his appearance at Davos, Zennström has unveiled a plan that looks set to transform the television industry in the same way that Skype forced major players across the telecommunications industry to rethink their established business models. The imminent launch of a global broadband television service called Joost was recently announced to great

fanfare at a press conference in London; this is the third start-up by Friis and Zennström after Skype and the popular file-sharing service Kazaa, sold to Australian company Sharman Networks in 2001. With the proceeds from both sales, reckoned to be over €150m each for Zennström and Friis, the Swede set up an investment vehicle called Atomico through which he has funded a number of new ventures, including Wi-Fi hotspot pioneer Fon.

Joost has been funded from Zennström and Friis's own pockets, although Zennström doesn't like to talk figures. With Skype, he says, he is "the player out there on the court playing basketball trying to score points, but with Joost it's now my turn to sit on the bench as team coach". Joost is Zennström's idea, but it is headed up by his favourite manager, Fredrik de Wahl, a fellow Swede who's worked with Zennström and Friis in the past.

The Joost project shows that Zennström's love affair with disruptive technology is far from over, although he's sensitive about the term "disruptive" in relation to Joost. He insists it's simply a new delivery mechanism for TV production companies and something they should see as an opportunity rather than a threat. It is intended to be the first free global TV distribution platform, uniting advertisers, content owners and viewers in a piracy-free interactive service. De Wahl has already signed up Warner Music, TV production company Endemol, September Films and the US-based Indy Racing League, while advertisers include T-Mobile and L'Oréal.

From another perspective, however, Joost looks thoroughly disruptive. It will rake in and share ad revenue as a wealth of TV content, new and established, is dished up for free to consumers all over the world; this is likely to leave plenty of TV executives either raging at their expensive, proprietary satellite and cable distribution networks or trembling at the prospect of seeing their precious ad revenue streams reduced to a trickle, with no money left for new content. It's easy

Fredrik de Wahl
will manage
Joost while
Zennström
and Friis stay
at Skype



to envision Joost setting up its own production arm to become the Sky/RTL/BBC/Warner/Paramount of the future – the king of the media castle.

For the moment, the reality is more mundane. Zennström can be expected to target mega-popular back catalogues of, say, a Spanish soap series that can be beamed down to millions of new viewers in South America, thereby generating healthy ad revenue streams without threatening the new content of established players. It's a classic leverage of the internet over existing technology.

Over the longer term, expect all sorts of fascinating realignments and consolidations, with the established players vying for control of Joost. Any sale would likely dwarf the €2bn that eBay paid for Skype two years ago – assuming Joost works.

In the short term, there is plenty of fragility and risk. It may be two years before service providers are able to consistently provide the required extra bandwidth at a low enough cost to allow consumers to use the service. Meanwhile, visitors to the Joost website are asked to sign up, test the new service and report problems ahead of the official launch, which is expected to take place around June this year. Another unknown is de Wahl – he'll have his work cut out for him, because Friis and Zennström are continuing their day jobs at Skype.

Zennström argues that TV has been too slow to embrace the possibilities of the web. "Joost is taking the best things from TV and the best things from the internet and putting them together," he explains. "People really love the television, but there hasn't been that much innovation in the way that the content is distributed and consumed. On the internet, of course, there has been so much innovation.

"The time is now right to deliver TV over the internet," he continues. "People have better connections. Just look at how similar the PC monitor and the TV display have become, and the fact that you can now watch films on your monitor. Younger consumers, the MySpace generation, are spending much more time on the internet, and they have a big demand for TV that is more engaging."

Zennström is keen to make the distinction between video on demand and TV on demand. The hugely popular video-sharing website YouTube has ensured that many PC users at home are well accustomed to watching short clips on their computer. However, there is a difference between a service that allows users to upload home videos or amateur recordings to a central depository – such as YouTube – and a full-blown TV over internet (IPTV) service that could one day allow subscribers to select and legally download their favourite show at any time of the day, with the ability to choose from a vast back catalogue of programmes. YouTube has its limitations; it falls short of delivering the full-screen television experience. Copyright infringement is pervasive, with TV shows and music videos frequently uploaded by users without permission from the content owner. The possibility of offensive or inappropriate material being uploaded by subscribers also means that the site must be monitored around the clock. Of course, none of this has prevented the extremely rapid commercial rise of YouTube – the

company sold for €1.7bn last November, barely two years after it was created, making its founders over €500m.

Joost is further distinguished from other IPTV services because it relies on Zennström's beloved peer to peer (P2P) technology to distribute TV and video. This means that users of Joost will be downloading the content from each other, instead of a central location. In the early days, with user numbers still short of reaching critical mass, Joost will utilise servers in the UK and the Netherlands to seed the grid and originate the streams.

Research house Informa predicts that the global IPTV market could be worth €9.3bn by 2011. Clearly, the rewards are there should Joost establish itself as the delivery platform of choice – but there's a word of warning from Alexander Cameron, managing director of consultancy Digital TX, who points out that Friis and Zennström's past success with P2P is no guarantee that Joost will meet such high expectations. "It will bring the internet service provider war directly to the content-owning community's door," he says, explaining that the significant volume of traffic involved will not work with BT's capacity-based charging approach in the UK, for instance, nor the internet service provider practice of download capping, where users of home broadband are limited in how much bandwidth they are allowed to consume every month.

This means a Hollywood film could cost you half your 1Gb monthly download cap – and that's if the stream comes in reliably in the first place, says Cameron. "The problem is that a battle between the two sides has been brewing over time and has got worse with the advent of bandwidth that allows us to easily download video," he explains.

"Someone has to pay the bill for it, and in a market that is continually driving down prices to compete and suffering higher costs, something eventually has to give."

Zennström seems unfazed by the bandwidth issue, however. He says that he expects Joost to drive broadband usage, but politely points out that networks are constantly being upgraded and modern fibre optic cables are able to carry vastly increased volumes of traffic. "If you look back at the history of the internet, there has always been a steadily intensifying demand for more and more bandwidth, so nothing's changing. I expect Joost to drive broadband penetration to somewhere near

the same levels as those of telephony," he says.

There is a striking contrast between the modesty of Zennström's delivery and the ambition of his words. He is adamant that the long-term benefits of Joost will be felt across the TV and film industry: "This technology innovation is going to make things much better for content viewers and owners because it is a complementary channel to the market," he says.

Zennström's credibility as an entrepreneur is helping Joost to gain momentum ahead of its launch, but he insists that it is convenience that will be the key to Joost's success. "You can watch a show whenever you want, so that hands the power back to the consumer," he says. "On top of that, we're also adding Web 2.0 features and social networking aspects to programming. We are trying to add community services. If people are sitting in front of the football or a film, they don't want to just watch it, they want to be instant messaging each other to discuss the action." Additional features 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.

Zennström's last points are a neat reminder that the most successful new technologies have also been social enablers, and this is something that appeals to his anti-monopolistic Swedish values. Only time will tell if Joost can satisfy those same high standards and transform the stodgy world of TV.

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