



## Islander May Technology Update

### **Microsoft, Skype, Nokia and Christopher Columbus. Do they have anything in common?**

The month of May has been full of corporate news in the technology sector especially the communications business and a few surprises have also surfaced.

#### **Microsoft purchase Skype for \$8.5 billion!**

On 10<sup>th</sup> May, 2011 Microsoft formally announced the deal to purchase Skype for US\$8.5 billion. That's a lot of money! Skype software and services will be used on the Xbox and Kinect, Windows Phone 7 and a variety of Windows devices, while Lync, Outlook and Xbox Live users will be able to chat on Skype.

Whatever the case, it's the most cash that Microsoft has ever paid out for a company. Its last big payout was a US\$6bn deal to snap-up ad firm aQuantive Inc. Microsoft had also considered a staggering US\$48bn buy-out of Yahoo, but pulled out.

Skype has blossomed into a large-scale internet titan since its inception in 2003. The software was built by a trio of Estonian coders (who had previously masterminded file-sharing service Kazaa) and the company was founded by a pair of entrepreneurs from Sweden and Denmark.

It quickly rose to prominence and was bought-out by auction site eBay in 2005 for US\$2.6 billion in cash and stock. The software was intended to hook up sellers and buyers to haggle over the details of potential purchases. It didn't catch on, so eBay pawned Skype off to a group of investors in 2009.

Those venture capital firms and financial advisers have been looking for a potential buyer, and Skype even put off going public so it would have more time for negotiations. A number of technology firms have been eyeing up the company, including Cisco, and earlier this month Reuters reported that both Facebook and Google were considering a joint venture with Skype, or an out-right acquirement of the VoIP service. But Skype doesn't make money!

The actual profitability of Skype is always in question. The firm has never figured out how to turn its 30 million concurrent users into a profitable bunch, and is constantly bleeding money. Skype lost US\$7 million in 2010 and the company is sitting on around \$686 million worth of debt.

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The acquisition will increase the accessibility of real-time video and voice communications, bringing benefits to both consumers and enterprise users and increase the need for more and more bandwidth.

### **Will Microsoft purchase Nokia now?**

I would guess that fuelled by their acquisition of Skype the Internet is once again awash with speculation that Microsoft is planning an audacious move to acquire its smartphone partner Nokia's handset business.

The source of the latest gossip is an article by Russian blogger Eldar Murtazin, a long-term Nokia watcher who has previously correctly predicted several big moves at the handset giant. Microsoft and Nokia struck a high-profile deal in February for the ailing handset giant to use Microsoft's Windows Phone platform as its primary smartphone operating system. If Microsoft is deciding to go a step further and acquire Nokia's handset business outright, commentators believe it will need to spend around US\$30 billion.

Murtazin's track record in accurately predicting Nokia-related stories is impressive. Murtazin correctly anticipated Nokia's dumping of its Symbian operating system; its partnership with Microsoft; and the appointment of ex-Microsoft employee Stephen Elop as its new CEO last September. Nevertheless, many believe Microsoft has little desire to own Nokia now it has the handset agreement in place.

### **Nokia sinks to lowest market share since 1997**

Maybe Microsoft consider Nokia a soft target as the latest data from Gartner shows Nokia losing significant market share.

Mobile device sales hit 427.8 million units in the first quarter of 2011, up 19 percent from a year earlier. The increase was attributed to on-going strong sales of smartphones, which surpassed 100 million units in the period and now account for 23.6 percent of the devices total.

Struggling Nokia held onto its overall market leadership position, but its market share slipped 5.5 percentage points year-on-year to 25.1 percent, its lowest level since 1997. However at 25.1 percent points market share they are still significantly larger than any of the smartphone manufacturers.

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	Q1 2011		Q1 2010	
	Units ('000s)	Share %	Units ('000s)	Share %
<b>Nokia</b>	107,556.1	25.1	110,105.4	30.6
<b>Samsung</b>	68,782.0	16.1	64,897.1	18
<b>LG</b>	23,997.2	5.6	27,190.1	7.6
<b>Apple</b>	16,883.2	3.9	8,270.1	2.3
<b>RIM</b>	13,004.0	3	10,752.5	3
<b>ZTE</b>	9,826.8	2.3	6,104.3	1.7
<b>HTC</b>	9,313.5	2.2	3,378.4	0.9
<b>Motorola</b>	8,789.7	2.1	9,574.5	2.7
<b>S. Ericsson</b>	7,919.4	1.9	9,865.7	2.7
<b>Huawei</b>	7,002.9	1.6	5,236.1	1.5
<b>Others</b>	154,770.9	36.2	104,230.3	29
<b>TOTAL</b>	<b>427,846</b>	<b>100</b>	<b>359,605</b>	<b>100</b>

Worldwide Mobile Terminal Sales to End Users in 1Q11

Source: Gartner (May 2011)

Among the other vendors, Gartner said that Samsung had its “strongest first quarter ever” due to a shift to higher end smartphones, such as the Galaxy line. Meanwhile, Apple more than doubled global sales of its iPhone year-on-year, overtaking RIM (Blackberry) in the process. HTC also had a strong quarter, shifting 9.3 million units and moving into the number seven position ahead of Motorola and Sony Ericsson. Gartner estimates that manufacturers' sales into the channel will drop in the current quarter, while sales through to consumers will be flat.

### Spanish LTE spectrum auction

On the horizon is the anticipated auction of the Spanish LTE frequency spectrum. The Spanish government could raise upwards of EUR 2 billion to help fill some of their empty coffers. However while Spain's mobile operators have generally performed poorly in recent months, due to continued economic weakness in the market, mobile broadband has been identified as a growth driver.

### EU to slash European roaming rates further & further

The European Commission is set to outline new plans in the coming weeks to bring European roaming rates in line with national tariffs, EU sources told Reuters this week. Good news for us all.

Under the new proposals, sources said the cap on the cost of roaming voice calls in the EU would be lowered to EUR 0.24 per minute from July 2014, a reduction of nearly 40 percent from the current cap of EUR 0.39. From July 2016, higher roaming costs

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would effectively be abolished for voice calls altogether, the sources claim. Text messages will reportedly be capped at EUR 0.10 per SMS until July 2016, compared with the current ceiling of EUR 0.11.

### **Finally, did you know Christopher Columbus was Mallorquin?**

News has just come to me that Christopher Columbus, the world's leading explorer was born in Felanitx in Mallorca! He wasn't Italian and he certainly wasn't Portuguese and unlike every US president he wasn't Irish, but he was Mallorquin!

Well he was born in Felanitx and he learnt to sail in nearby Porto Colom. When he discovered his first bit of land across the pond he called it ~~Cabrera~~ San Salvador after the monastery Santuari de Sant Salvador.

Some linguists say that Columbus gave many of his discoveries in the New World Catalan names. One historian believes that many of the places in the Caribbean and Central America named by Columbus can be linked directly to the Balearic Islands. Some versions suggest Columbus was the illegitimate son of Prince Carlos of Viana, a Mallorquin nobleman related to Ferdinand and Isabella. Columbus had a great knowledge of the work of the Mallorca cartographical school.

So how about that? It has to be true as a bloke down the pub told me!

**Latest Capacity Crunch statistic:** New Android phone activations exceed 100 million and the Android app store is predicted to become bigger than Apple's by August this year.

Roger Horner of e3 Systems

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