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**TOP NEWS**

By Steve Rosenbush

## Kazaa, Skype, and now "The Venice Project"

**Serial entrepreneurs Niklas Zennstrom and Janus Friis are at it again, this time with a venture for distributing TV and other video over the Net**

Niklas Zennstrom and Janus Friis, the entrepreneurs who created the pioneering Web applications Kazaa and Skype, are working on a new communications venture, BusinessWeek.com has learned. The pair plans to develop software for distributing TV shows and other forms of video over the Web, according to people familiar with the matter.

Working under the code name "The Venice Project," Zennstrom and Friis have assembled teams of top software developers in about a half-dozen cities around the world, including New York, London, and Venice. The teams are currently in negotiations with TV networks, although it's not clear whether any agreements have been reached. A formal announcement of the new venture could come as early as this fall.

The mortality rate for tech startups is high, but Zennstrom and Friis have defied the odds with a series of highly disruptive new businesses that have roiled the communications and media establishments (see BusinessWeek.com, 9/19/05, ["Skype's 'Aha' Experience"](#)).

**GOOD TRACK RECORD.** They created the Kazaa file-sharing network, which consumers used for the distribution of music and video. The peer-to-peer network's system consisted entirely of its users' PCs. The controversial company, which bypassed the entertainment industry by allowing free distribution of content, was sold to Sharman Networks.

In 2003, Zennstrom and Friis launched a peer-to-peer phone service called Skype. The software allows users to make free, high-quality calls over the Internet, bypassing the traditional phone system. Skype was acquired last year by eBay ([EBAY](#)) for \$2.6 billion in cash and stock and an additional \$1.5 billion in bonuses that could be paid by 2009 (see BusinessWeek.com, 9/12/05, ["Why eBay is Buying Skype"](#)).

An eBay investment in Zennstrom and Friis' new venture is possible, but a decision has not been reached. If the new network emerges as a platform for the legal trading of video, it could be a good business for eBay, which has expertise in commerce among individuals.

**STILL AT SKYPE.** According to Hani Durzy, an eBay spokesperson, Zennstrom and Friis were always expected to look into new ventures because that's what they do well. "We have encouraged those guys to explore different ideas and different concepts that they find interesting," Durzy said.

Zennstrom and Friis will not be leaving Skype or spending less time there than they are now, if only because they would be walking away from their share of up to \$1.5 billion in additional eBay payments over the next three years. The Venice venture will get an investment from Zennstrom, one person familiar with the matter said. But Zennstrom isn't expected to contribute much work, beyond strategizing at a very high level. Friis is expected to spend up to 20% of his time on the venture to help develop the business model. But it appears that he won't be active in an operational sense, and others are being recruited to run the project on a daily basis.

eBay had no immediate comment on the new video distribution project and whether the project had any direct or indirect relationship with eBay and Skype. But eBay CEO Meg Whitman said in a recent interview with *BusinessWeek* that the Skype founders remained committed to Skype. "They are really engaged. They were all fired up," she said, after meeting with them during a recent trip to London.

**COOPERATIVE APPROACH.** Zennstrom and Friis seem intent on avoiding the legal controversy that dogged earlier file-sharing companies such as Kazaa (see BusinessWeek.com, 7/17/06, ["Judge: File-Share Case Favors Hollywood"](#)). Despite its enormous popularity, Kazaa's commercial prospects were crippled by legal battles with the recording and motion picture industries, which filed suit against Sharman in Los Angeles in 2002. That case is pending.

This time around, Zennstrom and Friis are inviting the cooperation of TV producers and networks. While the exact nature of their business model isn't clear, they are talking to every TV network in town, according to one person familiar with the matter. The idea is to become a dominant TV distribution company for the Internet era, just as companies such as Comcast ([CMSCA](#)) have dominated TV distribution in the cable era.

And just as Comcast has stretched into the media-creation business, even attempting to buy Disney ([DIS](#)), Zennstrom and Friis appear to have an interest in creating or packaging content for the Web.

**COMPETITION TO COME.** The Venice Project may find willing partners in the TV business. While music and film executives resisted even the legal distribution of their goods over the Web, TV executives have been much more accepting of the concept. Perhaps they

saw the ultimate futility of resistance. Although the music and film industries won several legal battles, they failed to stop the consumer embrace of digital distribution platforms such as Apple Computer's ([AAPL](#)) iTunes. And maybe several years of technological evolution have simply convinced the TV execs that an economically viable digital-distribution system is at hand.

Regardless of the reason, viewers can now find more than 150 TV shows, from *Survivor* to *24*, on iTunes. CBS's ([CBS](#)) Innertube Web site has eight full episodes of *Big Brother: All Stars* and other shows available for free. And NewsCorp.'s ([NWS](#)) Fox unit makes shows such as *American Idol* and *Prison Break* available for free at Fox.com's Video Central.

There will be plenty of competition, though. Startups—including Brightcove, Bittorrent, You Tube, Veoh, and Video Egg—already allow consumers and professionals to distribute video over the Web. Veoh, which also uses a peer-to-peer model, has attracted major investors such as Time Warner ([TWX](#)) and former Disney ([DIS](#)) Chairman Michael Eisner. Veoh announced a deal this month in which it will help promote Time Warner unit TNT's newest horror show, *Nightmares and Dreamscapes: From the Stories of Stephen King*.

With easy access to capital and loads of experience starting successful new companies, Friis and Zennstrom are bound to make their new venture a contender. And regardless of which companies win the distribution battle, it appears that the Web is evolving quickly as a legitimate distribution channel for TV. "I think that as peer-to-peer can improve the delivery of video to consumers, we're going to see a lot more of it," says analyst Richard Greenfield of Pali Research.

Consumers may balk at the limitations on viewing and copying digital content, but the ability to watch when and where you want is a huge draw. The evolution of TV on the Web isn't likely to look like a rerun of the legal battles over film and music on the Web.

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