

\$2.6BN MARRIAGE OF EBAY AND SKYPE ENDED IN DIVORCE

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**Trabajo presentado como requisito parcial para optar al título de magíster en
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¹ The present paper is an enhanced version that evolved from a research project that also counted with the collaboration of two fellow students at Brandeis International Business School: Isabella Bousek and Francisco Petrirena. Contact details: jzulua33@eafit.edu.co

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1. Resumen

El presente trabajo corresponde a una versión adaptada del trabajo final realizado para la asignatura Aliances, Acquisitions & Divestments en la universidad Brandeis International Business School, debido a que realice el programa de doble titulación.

eBay adquirió Skype por \$2.600 millones de dólares en el año 2005, el cual fue un precio bastante elevado relativo a unos ingresos totales de solo \$7 millones de dólares. La adquisición tenía como propósito impulsar los ingresos de eBay, al ofrecer a los consumidores una manera más conveniente de comunicarse mientras participaban en la plataforma de subastas. Se esperaba también beneficios compartidos relacionados con un incremento en el número de usuarios para Skype y un mejoramiento de las aplicaciones que ofrecía eBay a sus usuarios.

Desafortunadamente para eBay, sus usuarios no encontraron uso en los servicios y tecnología ofrecidos por Skype. Luego de unos años, la adquisición tuvo que ser registrada como una pérdida, y la compañía Skype fue vendida a Microsoft.

Microsoft adquirió la compañía y creó una división aparte que reportaba directamente al CEO de Microsoft. La compañía adoptó una estrategia pasiva de captura de sinergias y le dio independencia a Skype para desarrollar su propia

estrategia, marca y experiencia de usuario. Diferentes analistas categorizan la adquisición de Microsoft como todo un éxito.

Nuestro análisis resalta la estrategia elegida por Microsoft. Empezando por el gobierno corporativo de dicha colaboración y como adapto las fuentes de valor conjunto, las mayores competencias del modelo de negocio de Skype, y su posición competitiva.

2. Palabras Clave

Fusiones, Adquisiciones, Escisiones, Estrategia, Internet

3. Abstract

eBay acquired Skype for \$2.6 billion in 2005, which was a very high price compared to Skypes revenues of only \$7 million. The acquisition was meant to boost eBay's revenues, by making it more convenient for buyers and sellers to communicate on the auction platform. Shared benefits were seen to increase the number of users for Skype and enhance the features available for eBay users within its platform. Unfortunately for eBay, their customers did not find any use for Skype's technology, which was initially intended to connect sellers and buyers quicker and make communication easier. After years of trying, the acquisition led to a write-down of the value of Skype in eBay's books and finally (and luckily for eBay) led to a sale to Microsoft.

Microsoft acquired Skype and created its division within the company that reported directly to Microsoft's CEO. The company has adopted a passive stance to materialize the synergies while being conservative of Skype strategy, brand, and

user experience. Different independent sources categorize this deal as a success. Our analysis highlights the approach Microsoft took for the governance of the collaboration and how it was adapted to the sources of potential joint value and the major capabilities of Skype business model and competitive position.

4. Key Words

Mergers, Acquisitions, Divestments, Strategy, Internet

5. Introduction

This paper analyses two M&A transactions that had as a protagonist the same company but that led to completely different outcomes. The acquisition of Skype by eBay was a complete failure, but, years later, its acquisition by Microsoft showed outstanding results and value creation.

Using the theoretical framework from professor Ben Gomes-Casseres on his book *Remix Strategy*, we will report the different insights that can explain why these transactions resulted as they did.

Our methodology includes a deep review of the storyline and an analytical approach by using the behavior of the company's stock price as a proxy for value creation during these periods.

6. Theoretical Framework

The theoretical framework that was used in this paper is based on the book *Remix Strategy: The three laws of business combinations* by Benjamin Gomes-Casseres. The framework is based on three rules that are a requirement for a successful combination of resources between two or more companies.

1. The value created from a joint venture must exceed the value the businesses could achieve on their own.
2. The relationship must be specifically designed and managed to produce joint value.
3. All partners must receive enough value from the relationship to justify their participation.

Our analysis will take a deep dive on the chain of events and circumstance that took place during this transactions and analyze how they impacted their compliance or not with the fore mentioned rules.

7. Methodology

The present study is an intersection between the qualitative analysis of the events that unfolded during the M&A transactions and a quantitative analysis that uses a careful review of the behavior of the stock price of Skype, Microsoft, and eBay as a proxy for value creation.

The paper will first identify the main players of the transactions, and relate the initial purposes and assumptions about the transactions. Afterwards, a complete review of the results will explain how this assumptions were proven to be untrue and how the three laws of business combinations are able to explain the failure of eBay's acquisition and the success of Microsoft's acquisition.

8. Analysis of Evidence and Results

eBay Inc.

eBay Inc. was founded in 1998 in California and is a commerce company that connects buyers and sellers all around the world, by helping them to organize their products for buyers to find and purchase them. They use a platform which is accessible online through computers, mobile devices, and applications. Offerings can be made in various dimensions, as sellers can choose between fixed price listing and auction-style formats. The company competes with companies like Alibaba, Apple, Facebook, Google, Walt-Mart, Target (Reuters, 2017).

Skype Technologies SA

Skype was founded in 2003 in Luxembourg and is a company that enables individuals as well as businesses to make free video and phone calls through an online software/platform. Users are also able to send instant messages and share files with other users of the software. Furthermore, individuals can make calls to landlines and mobile phones worldwide. For business clients, Skype has developed a solution that enables IP-enabled private branch exchange systems to connect people. Skype also added an online shop to its business, which sells headsets, phones, and webcams (Bloomberg, 2017). Skype can be downloaded in 27 different languages and has over 180 million downloads in 225 countries and territories, making it the fastest growing voice communications service. Revenues are generated through its premium service offerings (eBay, 2005).

Microsoft Corp.

Microsoft was incorporated in 1993 and is a technology company that develops, licenses and supports various software products, offers a wide range of services and produces devices. They operate in segments such as Productivity and Business Processes as well as cloud services and PCs. Their most popular products are operating systems, applications for servers and business solutions, as well as software and desktop tools. Furthermore, they produce PCs, tablets, entertainment consoles, phones and other devices and their related accessories (Reuters, 2017). As of the date of the acquisition, Microsoft was led by Steve Ballmer as its CEO who was appointed in the year 2000 and had been working at Microsoft for the last 31 years.

Industry Key Value Drivers

Microsoft and eBay operate in very different activities within the internet business. However, both got interested in Skype which serves in the Voice over Internet Protocol (VoIP). This specific segment has been experimenting accelerated growth for the last decade, and there is still more space to develop primarily in the business services space.

The success of the companies on this industry is dependent of the level of global connectivity, the efficiency of internet infrastructure, number of mobile internet connections and most importantly the number of connected users within the same platform (IBIS World, 2017).

The main characteristic of this industry is the high network effects, which benefit each user from a broader community of users. This particular condition created a competitive environment that is very likely to be concentrated in few leading companies.

8.1. eBay Inc. completes acquisition of Skype

8.1.1. Key facts and figures of the deal

On the 14th October 2005, online auction site eBay Inc. completed the acquisition of the privately held Skype Technologies SA, an internet telephone company, in a deal worth 2.6 billion US-Dollar. Half the amount was paid in cash, \$1.3 billion, and the other half in stocks, a value of 32.8 million shares of eBay stock (with limitations regarding resale). eBay stock and a single cash payment were chosen by Skypes shareholders, who represent around 42% of the Skype shares, to close the deal, while being offered several options on how to handle the transaction. The other 58% of shareholders decided to receive eBay stock at the closing price plus additionally possible future earn-out payments that are based on several indicators plus a reduced up-front payment in cash. eBay agreed to further increase the payment for Skype up to \$4 billion over the following three years if specific performance targets

were met (BBC News, 2005; eBay 2005). Skypes annual revenues are around \$7 million (Economist, 2009).

8.1.2. Aims of the acquisition

The goal for this acquisition was for eBay to build an unparalleled e-commerce and communication engine. Together with the recent acquisition of PayPal by eBay, eBay wants to create a powerful environment for businesses on the internet. eBay is investing in different companies to increase the services it can offer to consumers in order to keep profits growing. Skype will strengthen eBay's global marketplace, as users can easily communicate using Voice over Internet Protocol (VoIP) services through headsets or microphone and speakers installed on PCs, Tablets or phones (Ward, 2005; BBC News, 2005). Skype will be wholly integrated into the eBay marketplace, which should enhance the user's online experience by helping them to talk to sellers or customers quickly and get the information more personalized. This will help to create stronger bonds towards customers and also between sellers and buyers a special relationship should emerge to tie them to eBay to generate customer loyalty. For Skype, it helps to increase the velocity of trade, especially for sale items such as cars, business/industrial equipment and high-end collectibles, that need longer conversations about product details, fit, use or shipment details. The acquisition of Skype would enable eBay to introduce a new payment system. Instead of the current transaction-based fees, they could charge on a pay-per-call basis, which can be beneficial in the personal and business services area, travel, car, and real estate section. Especially for eBay's other websites like shopping.com,

rent.com, and Kijiji, it would be very beneficial to implement this service as more information might be needed and easier communication between seller and buyer could give eBay a competitive advantage over its rivals. By adding Skype to the equation, it would boost eBay's core operations by adding value through communication between curious buyers and nervous sellers (eBay, 2005; Bylund, 2008).

There would even be the benefit of the combination between PayPal and eBay, which would make it easier for eBay users to pay for Skype with PayPal, which could lead to $1 + 1 + 1 = >3$. The reason is that this would make it easier for Skype and eBay users to pay, and therefore increase the number of PayPal accounts which would increase the payment volume as a consequence (eBay 2005).

Skype has 53 million registered users globally, which is especially attractive for eBay. They can tap into markets and exploit the reach of Skype's audience, especially where eBay is not yet well established. Skype's users are spread around the globe, with more than half of them living in Europe and one quarter in Asia with only one eighth residing in North America, where most of eBay's clients live. eBay will benefit from the presence of Skype especially in Japan and the Scandinavian countries, while Skype will benefit from eBay's presence in North America (BBC News, 2005; eBay 2005; Ward, 2005). The three companies combined should reinforce and increase the growth of each other, which will organically bring higher returns with each new user or transaction (eBay 2005).

Another benefit of this acquisition is to increase revenue from third-parties, as only very few users pay for services like Skype. Therefore, eBay had to offer a large portfolio of services with various platforms interacting, to increase their revenues from advertising companies to provide space on the internet for them to place their ads. Especially a platform like Skype could enhance this revenue-stream, as users who actively communicate through Skype make it as a habit and will go back to the platform, again and again, making it a good target for advertising companies. Other companies in the market like Google with Gmail, went through the same procedure (McKone, 2016).

8.1.3. Post-acquisition results

As this acquisition made from the beginning on more sense for eBay than it did for Skype, as there was no real added value for Skype users (BBC News, 2005). Skype was a real success from the beginning on an being acquired by such a big company as eBay came with challenges along the way. Especially the timing of the acquisition was critical, as similar technologies like MSN Messenger and Google Talk started to emerge. As eBay was purely interested in the VoIP technology that Skype used for the internet calls, many analysts raised the question of why eBay not just simply developed it on their own, which would have been way cheaper, or made a partnership with Skype instead of buying the company.

The synergies eBay predicted would occur and the benefit for their users

unfortunately never happened. As users did not value the option to communicate through Skype via video or calls during online auctions, but they rather use the old-fashioned e-mail procedure. The users did not feel it was necessarily part of their complete customer journey and therefore the cross-selling synergy was not realized (McKone, 2016). After acquiring Skype, eBay did not really do much with the company, as there was no clear goal on how to implement it in eBay's company structure. Even on eBay's e-commerce websites users would not necessarily know about the Skype calling option, except for the option to contact via Skype. This unused potential was on both sides. Skype users did not get any hint that Skype was in any way connected to eBay. Therefore, the cross-selling synergies were completely lost (Bylund, 2008). As users preferred old-fashioned emails over video and calls, it also affected their anonymity of bidding for items on eBay, which was for users a significant upside of the platform and value they did not want to give up. This can also be seen in the number of eBay's auctions, as they were declining during the time eBay owned Skype (Wray, 2009).

Another factor impacting the deal was that eBay did in the last year and a half probably more acquisitions than in the prior eight years. This is probably due to the fact that their organic growth is slowing down. By rushing into many acquisitions, eBay might have overseen the possibility to invest in a few engineers who could have built the same platform for communication for way less money. Some analysts argue that eBay basically was forced to make a move towards acquiring Skype, as Google came up with Talk and Yahoo made many start-up acquisitions in the VoIP

area. eBay wanted to send a signal to the market that they are also up to date and will provide everything they can for the ultimate user experience (Broache, 2005).

Unfortunately, the expected synergies between eBay and Skype never materialized and in 2007 eBay decided to write off \$1.4 billion. Even though Skype could increase its user base to 480 million and increased their revenues by 25% compared to the previous year, they probably could have done way better on their own. Admitting to this big failure fostered the image of eBay's identity crisis. They misunderstood their customer's needs and implemented their solution to a not needed gadget badly. Their users got tired of bidding for deals, as it was time-consuming and went back to do their shopping offline with brands they trusted at a fixed price. This trend was proven to eBay as after year-end, they had to report its first-ever decline in revenue by 7% (Economist, 2009).

To divest Skype, eBay was selling 65 percent to investors. They initially spent \$3.1 billion (\$2.5 billion cash and \$500 million in payouts to Skype's founders) on Skype and sold the 65 percent for \$1.8 billion to investors including Silver Lake Partners and Andreessen Horowitz. The remaining 35 percent is worth \$2.4 billion (taking into account debt and before taxes), as Microsoft agreed to buy Skype for \$8.5 billion. Which means, along the way, eBay got around \$4 billion for acquiring and divesting Skype. Even though eBay will have to pay taxes on the sale, their profit will be still at least \$800 million (Kopytoff, 2011). This deal allows Skype to go back to its roots and they are able to further innovate and conceal investments in projects, as they

no longer have to publicly reveal their next moves, as they had to, while being owned by eBay (Stone, 2009).

8.2. eBay Inc. divests Skype, which goes to Microsoft

8.2.1. Key facts and figures Skype and Microsoft deal

On the 10th of May of 2011, Microsoft announced that it would buy Skype Global for \$8.5 billion in cash, in its largest acquisition ever. The transaction was finally made on October 13th of 2011 for \$8.6 billion or 5.4 times Skype's book value and ten times its revenue. According to their 2012 10-K filing (Microsoft, 2012), they allocated 49% of the assets to the "Entertainment and Devices" division, 40% to the "Microsoft Business" division, and a small 1% was put in the "Online Services" division.

At the time, Skype was a privately held company after being bought by an investor group led by Silver Lake. Members of the group included eBay International AG, CPP Investment Board, Joltid Limited in partnership with Europlay Capital Advisors; and Andreessen Horowitz. (from MSFT official announcement: Irimia, Gottschling, 2016). After the acquisition, the CEO of Skype Tony Bates was appointed President of the Microsoft Skype division.

8.2.2. Aims of the acquisition of Microsoft

Steve Palmer and Tony Bates gave a press conference in San Francisco after the announcement of the acquisition, where they basically highlighted two main value drivers of this strategic decision. On the one hand, Microsoft saw in Skype a revenue growth opportunity which was in the middle of exponentially growing trends as social networks, mobile devices, rich video communication, and video advertising. On the other hand, Microsoft believed that Skype was a natural and strategic fit - in Steve Ballmer's words *"It's core to our mission, it's core to our technology direction."*

The argument behind the integration of both companies was that, with the help of Microsoft, Skype was going to be able to accelerate their opportunities and materialize significant network effects. According to Microsoft's official announcement (Irimia, Gottschling, 2016) *"The acquisition will increase the accessibility of real-time video and voice communications, bringing benefits to both consumers and enterprise users and generating significant new business and revenue opportunities. The combination will extend Skype's world-class brand and the reach of its networked platform, while enhancing Microsoft's existing portfolio of real-time communications products and services."* At the time, Skype had developed certain assets that are scalable and they were targeting the global market of communications, in which the potential customer base is essentially earth's population. Skype's technology was an obvious attraction as it was leading the trend in the VoIP landscape, and the technology was easy to apply to multiple solutions offered in other Microsoft products. However, Microsoft is a tech giant. Why would

they decide to buy rather than build it themselves? There are a number of factors to answer this question.

Regarding technology, the internet communication solutions that Microsoft offered like Lync and Xbox Live were just right for the computer to computer interaction, but Skype had the distinctive feature of allowing the connection between a computer to the traditional mobile phone network in an efficient way. Although this is a valuable component to leverage the communications network, this was only a feature more to the Microsoft's existing technology, and Skype would not offer this service exclusively for Microsoft's products and platforms. This was a valuable asset indeed, but there is an extent of doubt regarding whether Microsoft could have easily achieved through an alliance or even an arm's length transaction, without spending \$8.6 billion.

The second factor which makes things more interesting is related to the strategic landscape. Rumors in the market were that Google, Cisco, and Facebook were also interested in Skype. The reason: a 170 million connected users, with an average of 100 minutes per user, per month. The growth of internet communication was evident, and Skype was a clear leader in this matter, and as a consumer which technology do you use to communicate with others? Well, the one that "everyone uses." This is a clear case of high network effects at stake, and while Google and other competitors could work in developing a similar technology, nothing would beat the speed at which Microsoft would win in market share and consequent network effects through this

acquisition. The move was evidently an intended blow to competitor developing products as Google's Google Voice, and Apple's Facetime.

In 2011 Skype was already a verb. The brand of the company had developed extremely high levels of recognition, and the word Skype was immediately associated with voice and video communication over the internet. As Richard Blackden put it in its article "Skype became the world's most expensive verb" (Blackden, 2017). Microsoft believed that they had the ability to leverage that brand through its different distributions channels, especially mobile, business services, and "living room" entertainment.It

To sum up, the value proposition of this transaction for Microsoft is a mix between an intention to incline their corporate portfolio towards the growing trends in the tech-landscape and a strategic move to gain dominance over the internet communications market by scaling a promising brand and unleashing the power of network effects through Skype treasured user base.

8.2.3. Main risks for Microsoft related to the acquisition

In the same way, in which Microsoft was performing a move regarding product segment and corporate strategy, the threats came from both sides.

From the product standpoint, Microsoft had to be very careful not to hurt Skype brand, the user experience, and the interaction with non-Microsoft platforms. Skype

brand is strong, and its customer base is engaged. The application is downloaded on iOS and Android devices, in every kind of computer, and being present in every device is embedded in their strategy. Also, trying to use Skype brand to cross-sell Microsoft products might lead to a loss of identity and value of the brand. As mentioned before Skype became a verb, and it did so because Skype is a brand that allows users to “get a job done” or what is well-known as a consumerization brand (Blackden, 2011). If Skype users stop identifying the brand with audio and video-calls, there would be a space left for a competitor to take.

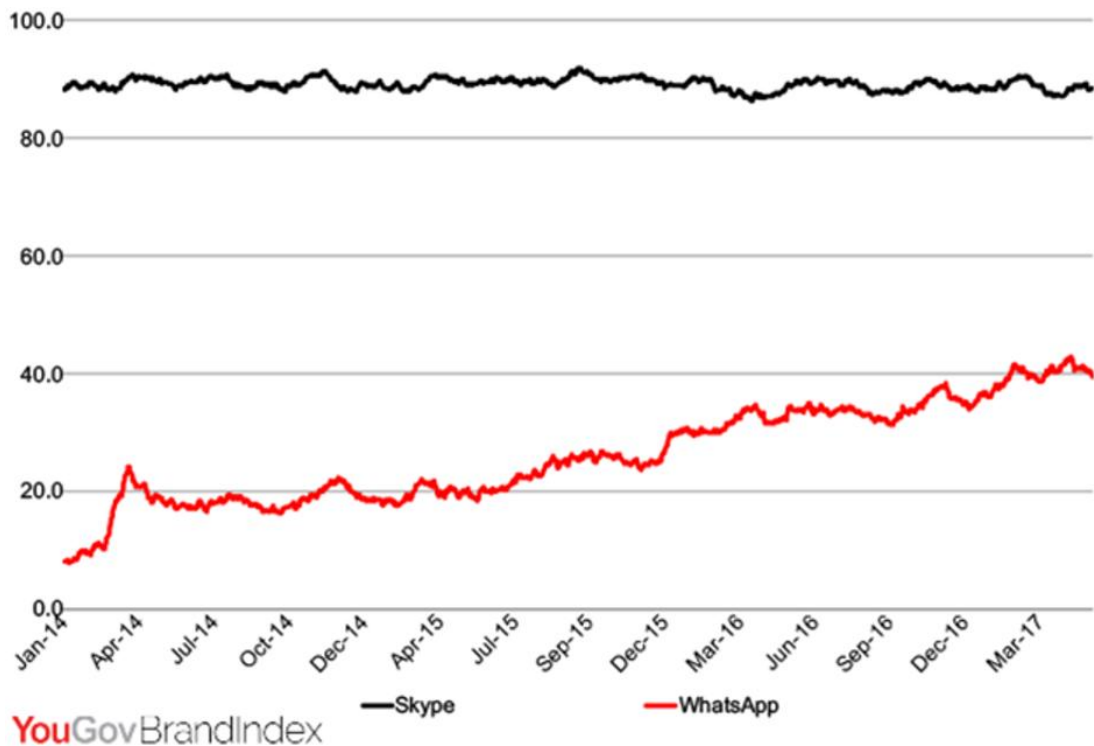
Moving on, we see a corresponding risk from the strategic perspective. In a high growth market like this, Microsoft might have won a battle with this acquisition, but the war is only starting. With competitors like Apple, Google, and Facebook there’s a massive amount of resources available to fund an aggressive strategy and start an arms race towards the dominance of the market, diminishing the margins of the product and eliminating the chances of monetizing potential products that are expected as video advertising.

In brief, Microsoft will have to juggle with a series of decision in order to preserve the valuable brand and cross-platform system while finding ways to bundle Skype assets with Microsoft products and distribution network.

8.2.4. Post-acquisition results

Fast forward six and a half years later, Skype has blended in with other Microsoft products without deteriorating its brand or user experience. Ted Schadler, the principal analyst of Forrester, believes that Microsoft Skype under the leadership of Tony Bates has kept its eye on the price and has found the way to maintain the valuable brand while implementing different improvement in the user experience (Forrester, 2017). Moreover, in a SWOT report about Microsoft and Skype for business online, a group of analysts of Gartner (Gartner, 2017), reveal that Skype right now is all about the opportunity, which is at the same time a good thing and a bad thing. The same reasons why Skype was a good acquisition six years ago remain as the backbone for the expectation of the upcoming years. It is fair to say that Microsoft has taken more time than expected to unleash the potential of Skype. Although Skype central capabilities remain as a competitive advantage, competition has gotten closer. As an example, Google Hangouts (Karcz, 2017) is gaining momentum and is pushing towards the business segment, which Skype has not fully implemented. On the consumer side, Whatsapp has gained both brand awareness (**Exhibit 1**) and number of users, becoming a new competitor to Skype, WhatsApp also implemented video-calls at the end of 2016.

Exhibit 1: YouGov BrandIndex (Skype vs. Whatsapp) - Measures Brand Awareness



Skype performance has improved while being part of Microsoft, and Microsoft has certainly been a support rather than a burden. As the latest 10-K report of Microsoft demonstrates, Skype is present in multiple products of Microsoft, finding the place where it can create any value for each segment. Skype has lived to its expectations and different sources as CNET and NY Times categorize the deal as a huge hit and purchase that has “borne fruit.” However, some of the expected synergies remain today as opportunities rather than as a cash flow to Microsoft shareholders.

8.2.5. Why was Microsoft a better fit?

eBay and Microsoft were able to identify in Skype a great potential for value creation. Both were aggressive in its bids and encountered skepticism from the market

analysts. However, once the deals were signed the integration worked out extremely different for both of the acquirers. Our analysis incorporates the fact that both Microsoft and eBay approached the sources of joint value creation in a particular way and affected the way in which the governance of the collaboration was structured, which finally became the key element that ended up differentiating the outcomes of these ventures.

Oversimplifying, Microsoft identified in Skype a community of 170 million connected users which used the verb Skype to have an audio or video-call, while eBay saw in Skype the possibility to add VoIP features to its auction platform. Microsoft wanted to be dragged by the success and positive outlook of Skype, while eBay wanted to use Skype as a tool to elevate its product. Microsoft and eBay were both trying to solve legitimate business problems, but Skype assets meant a solution only for Microsoft.

eBay did not need the Skype brand, neither a user base that was trying to communicate rather than to shop, although they paid a huge price for that. What eBay wanted was the technology to add a new feature, which they could have implemented without the need for an acquisition.

As discussed previously in this report, Skype had a set of scalable assets and capabilities that gave it a competitive advantage, and an outstanding outlook with the ongoing market trends. Skype success was partially due to the strong brand that

it developed and the instant assimilation of its name with audio and video-calls. Neither eBay or Microsoft was buying an underperforming company or a startup with funding needs. Both companies were buying a successful business with extremely high expectations and proved global market exposure. Microsoft realized this tendency and acted as a support to materialize Skype expectations, while eBay used its control over Skype to develop features that the customer was not asking for.

Microsoft created a new isolated division for Skype called Microsoft Skype division, lead by the one who was the CEO of Skype by the time of the acquisition. They basically welcomed Skype, and have patiently waited to implement the synergies that the market needs without interfering with Skype strategy of being in all kinds of platforms, and to maintain Skype as the top brand in the VoIP competitive landscape.

9. Conclusions and Recommendations

In 2005 eBay acquired Skype for \$2.6 billion, as eBay saw potential synergies in combining Skype with their previous acquisition of PayPal. The three of them together should give the user of eBay's various e-commerce platforms the ultimate customer experience. Skype's advantage for eBay's user was seen in connecting buyers and sellers through calls and video chats, to make communication, especially for auctions, quicker and easier. Furthermore, benefits were seen in the geographic dominance of each platform, as Skype could help eBay to become more popular in Europe and Asia. Unfortunately for eBay, their customers did not find any use for Skype's technology. After years of trying, the acquisition led to a write-down of the

value of Skype in eBay's books, a divestment to a group of private equity investors, which finally led to a sale to Microsoft.

Microsoft acquired the company and created a Microsoft Skype division lead by the CEO of Skype, reporting directly to the CEO of Microsoft. The company continued operating naturally while benefiting from Microsoft distribution network, devices, and business solutions. Although synergies have been taking a long time to implement, Microsoft has been successful in avoiding to erode Skypes brand, and user experience, the high expectations of Skype as a leader in the VoIP landscape remain, and the collaboration with Microsoft complementary services has created important defenses for the increased levels of competition.

Both eBay and Microsoft acquired Skype to solve legitimate business problems, but Skype was the solution to only one of them. The way that each company evaluated the source of the joint value determined the way the collaboration was governed. On the one hand eBay encountered several difficulties to materialize any kind of synergy for a customer that wasn't demanding Skype features in the auction platform. On the other hand, Microsoft opted for a passive stance, giving a high level of autonomy to Skype management, and acting from a supportive rather than a demanding standpoint.

In this acquisition and divestment process of Skype, one can observe, that eBay planned on realizing all these synergies that they thought were beneficial for their users. Unfortunately, the users did not only not want any of those changes, but it also led to a decrease in sales. As a conclusion, we can see that eBay clearly should

have tested their environment and thought about the real needs of their users before making such a big move. eBay could have tested by licensing such technology before implementation and get feedback of customers of what they think about the planned features and if they find any added value in those or not. Furthermore, if eBay still thought that it would have been a good idea to make the acquisition, they should have prepared the implementation process better. Not making use of potential synergies clearly goes against the idea of $1 + 1 = 3$. For eBay we can deduct two main ideas that can be applied at other potential acquisitions. First, test your company environment and your platform or users needs if the added product or service makes sense and adds value; secondly, if yes, think it through how to implement the other company and plan steps on how to make the most out of the synergies and especially, in this case, cross-selling synergies.

From comparing the collaboration of eBay with the one of Microsoft there is also an interesting lesson of how the approach towards the sources of joint value is determinant to structure a governance structure, and a sound strategy to materialize synergies and avoid deteriorating the target company's asset. eBay wanted Skype to integrate a complementary feature into its platform while Microsoft wanted to take Skypes capabilities and start constructing from there. Microsoft has taken a patient stance towards the development of Skype synergies and has let Skype bundle naturally into Microsoft business opportunities. While it has taken more time than expected, the main assets and opportunities of Skype remain intact after six years

of collaboration, and different independent analysts have categorized the transaction as one of the most successful deals for Microsoft.

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