

# Internet TV draws fresh wave of start-ups back into the water

By Eric Sylvers

**MILAN:** In seven and a half years, **Silvio Scaglia** transformed FastWeb from a start-up with a plan to bring fiber-optic cables into houses from Milan to Palermo into a company with €1.3 billion in annual sales and 1.1 million clients.

Now, Scaglia, the **FastWeb** founder, chairman and largest shareholder, is turning his attention to a new venture, an Internet television and video-on-demand service called Babelgum.

Scaglia, 48, has invested €10 million, or \$13.2 million, of his own money in Babelgum and is the company's chairman and sole investor. The service aims to stream videos over the Internet at close-to-television quality using peer-to-peer technology similar to that used by Internet phone calling services. It will be introduced publicly in a testing phase at the end of the month, with a full release expected by the end of the year.

Babelgum already has a potentially strong competitor in Joost, formerly known as the Venice Project, which was started by the Skype founders Niklas Zennstrom and Janus Friis. Though Joost and Babelgum offer a similar service, they have decided on strikingly different strategies.

Joost is going after deals with big-name television companies and producers, while Babelgum is targeting mostly small, independent productions that would otherwise have trouble getting distributed. As it is not yet in the public testing phase, content on Babelgum is scarce and not often updated, though Scaglia promises that will change as the year goes on and deals are signed with content producers.

Joost last month signed a deal with Viacom, which owns the Paramount movie studio, MTV, the Comedy Central channel and other television channels.

The market for streamed videos on the Internet is already crowded by sites like MySpace, YouTube, Veoh and many others, most of which are mainly outlets for user-generated content.

"To define what the competition is, you have to have a clear idea of the market, and we're probably at a stage before that," Scaglia said during a recent interview. "The Venice Project is probably a competitor, but that's good for us because it's nice not to be alone when you are going after a new technology."

Before founding FastWeb in 1999, Scaglia was the chief executive of Omnitel, which has since been renamed Vodafone Italia and is the second-biggest cellphone company in Italy; before that, he worked as a consultant for both McKinsey and Bain. With one successful start-up under his belt and another venture about to make its first public appearance, the father of three might be about as close as Italy gets to a full-fledged multicompany Internet entrepreneur,

though he shies away from that title.

"I don't want to be known as a serial entrepreneur," said Scaglia, who trained as a telecommunications engineer at the polytechnic university in Turin. "I like

doing one thing at a time and making sure that gets my full attention until it's well established. I enjoy the initial years of a company because they are the most dynamic, and that is when I can give the best of myself."

The nine Babelgum channels will feature only professionally produced videos, including movie trailers, short films, news clips from The Associated Press, entertainment news, sports and animation. Like Joost, Babelgum will be free, and early next year when there is more content, advertising clips of as long as 15 seconds will be interspersed between the videos. The content will be in English, a choice Scaglia says is rooted in the fact that Babelgum is aiming to appeal to people from all over the world.

Users will have to download the Babelgum software, which takes a few minutes, and will need a broadband Internet connection of at least 400 kilobits per second. The software mimics the functions of a television, and the image can be made to occupy the entire computer screen or only a portion.

Streaming broadcast-quality television channels, movies and other digital content over the Internet to televisions and computers — called Internet protocol television — is becoming increasingly common. A recent survey conducted by the consulting firm Accenture and the Economist Intelligence Unit found that 60 percent of the telecommunications, broadcasting and media executives surveyed say IPTV will generate significant revenue within three years.



Yet that expected success might be hindered by short-term obstacles like insufficient Internet speed for some users and other technology issues, according to 25 percent of the survey respondents.

Babelgum and Joost differ from the IPTV offerings from phone carriers because the two start-ups stream their content over the open Internet, while IPTV comes into homes on a dedicated line from the phone company. IPTV is generally watched on a television, while services like Babelgum and Joost are watched on a computer.

"There will be room for both types of players to coexist in the market because there are consumers that want to watch TV on a large screen versus those content to watch video on their laptop or PC," Ray Dogra, the global head of IP video and services at Accenture, wrote in an e-mail. He said that the growing popularity of new streaming video services like YouTube has not caused a decline in traditional TV watching. "That's because viewers are hungry for additional sources," not for a replacement.

Babelgum, Joost, YouTube and other services that stream video over the Internet have grown rapidly as technology has improved and broadband connections have become more commonplace.

"Technological transformations," Scaglia said, "give you the chance to set up new and ambitious ventures. That's what I did with **FastWeb** and that is what we are doing with Babelgum. This is much more than TV because we are making the content available all across the world and you have an open platform with freedom of choice."

The only connection between **FastWeb** and Babelgum is Scaglia, who is turning his attention away from his previous start-up, which some analysts maintain faces a cloudy future. Scaglia still owns 19 percent of **FastWeb** and cannot sell his stake before January.

**FastWeb**, which posted a loss of €124 million for 2006, has never made a profit, though Scaglia said the first annual net profit would come this year. The company's net debt more than doubled last year to €1.1 billion, and Scaglia and other executives are under investigation by prosecutors in Rome over some billing procedures. No charges have been filed, and Scaglia and the company have denied any wrongdoing.

"Betting on the success of Babelgum is not so much a bet on Scaglia as on the technology," said Alessandro Frigerio, a consultant for the money manager RMJ in Milan.

"We still don't know how this market will develop and if this will become an important way to get content to consumers. But Scaglia and his past perfor-

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mance at Omnitel and **FastWeb** are an assurance that Babelgum will have a good chance of success."

Frigerio said he did not think the **FastWeb** investigation would have a lasting negative effect on Scaglia or his ability to get his new venture established. A Morgan Stanley report published last month said **FastWeb** had been forthcoming about the investigation, which should help the company regain the confidence of investors.

Babelgum, founded in mid-2005, is a pan-European company, with its headquarters in Dublin, where the company can benefit from a favorable tax system and a pool of skilled English-speaking workers. The company has a software-development facility in Nice, while content-buying occurs in London.

Until now, Erik Lumer, co-founder and chief executive of Babelgum, has been leading a team of about 20 people focusing on developing the technology, but the company will have several hundred employees in about a year, according to Scaglia. He said it was too early to talk about the company breaking even.

"You learn by doing, and I'm certainly better equipped than I was when I started **FastWeb**, but a key mistake would be to think that everything is easy," Scaglia said. "By and large, **FastWeb** is now where I would have expected it to be when I thought about that seven years ago. We had to build our network and get subscribers, and that is what we have done. With Babelgum, it is a global market that is in evolution. I have no clear idea where Babelgum will be seven years from now."

Scaglia said the money he invested in Babelgum was enough to keep the company going for the foreseeable future. He made €222 million selling a 6 percent stake in **FastWeb** in January and €75 million when the company paid out reserves to shareholders last year. Scaglia would get another €56 million this year if **FastWeb** shareholders approved an extraordinary payout of reserves.

As for the name, Lumer had this explanation for its origin: "Babel means the richness of different languages and cultures in the world, and gum is something that holds them together — that is what the Internet is about."



**Silvio Scaglia**, right, has a new company called Babelgum. It plans to stream videos over the Internet at close-to-television quality. Screen shots, above, display content that is available on the new service.