

Yahoo Case

Executive Summary

This case study analysis is on Yahoo! (referred to also as “Yahoo”). Yahoo (Nasdaq: YHOO) is a global internet services company that operates the Yahoo! Internet portal. It provides varied products and content, from email and search to media streaming and downloads. As of February 2010, it is the third-most popular Internet site in the United States in terms of monthly traffic, with visits by more than 120 million unique users every month (Yahoo. *Wikinvest*). The Case Study includes an Introduction, Company Overview, Company Mandate, Internal Analysis and External Analysis.

Critical Findings: The key to revenue growth is via an *increase in the monetization of search*, and additional fees generated from quality, premium services (retail sales, personal ads, ads for selling or renting merchandise, data storage, photo sharing and various e-commerce services). Yahoo must develop new content and services. With more competitive pricing for advertising combined with the formidable market dominance of Google, Yahoo must do a number of things to enhance its revenues, including vastly improving its search engine technology, its search-based advertising, beefing up its Internet video-advertising capabilities, pursuing further global expansion (especially into Asian markets), and improving its cross-channel advertising program.

Introduction

This report is on Yahoo, and considers the Company’s Overview and its Mandate. A thorough External and Internal Analysis is also carried out.

The limitations of this report are a result of the fact that the report relies primarily on the information and facts as presented in “Yahoo” as prepared by Gareth R. Jones in 2007, and to a lesser extent, the fact and information presented in “Internet Search and the Rise of Google”, as prepared by Charles W.L. Hill. External references that were used include the Yahoo 2009 Annual Report, and the Yahoo Company profile from *Wikinvest*.

Company Overview

Yahoo! Inc. (Nasdaq: YHOO) is a global internet services company that operates the Yahoo! Internet portal. It provides varied products and content, from email and search to media streaming and downloads. Yahoo! was developed and first made available in 1994 by its founders, David Filo and Jerry Yang, while they were graduate students at Stanford University. Yahoo was incorporated in 1995 and is a Delaware corporation. The Company is headquartered in Sunnyvale, California, and has offices in more than 25 countries, provinces, or territories in which Yahoo! conducts business by offering products or services to local audiences (Yahoo 2008 Annual Report). As of February 2010, it is the third-most popular Internet site in the United States in terms of monthly traffic, with visits by more than 120 million unique users every month (Yahoo. *Wikinvest*). Yahoo’s “marketing services” segment - which makes up its online advertising business - made up 88% of the company’s revenues in FY2009 (Yahoo. *Wikinvest*). Google and Yahoo! are the recognized leaders in this market, but the balance of power shifted significantly since 2004, when the companies posted similar revenue and operating margins. Google has since eclipsed its main rival - in fiscal 2008, it generated 67% more revenue (\$21.8 billion) than Yahoo! (\$7.2 billion) with a profit margin over three times as high (19.4% vs. 5.89%)

(Yahoo. *Wikinvest*). Yahoo generates revenues by providing marketing services to advertisers across a majority of Yahoo! Properties and Affiliate sites. Additionally, although many of the services the Company provides to its users are free, Yahoo does charge fees for a range of premium services (Yahoo 2008 Annual Report).

Yahoo provides services in more than 30 languages and in more than 30 countries, regions, and territories, including localized versions of Yahoo! in Argentina, Australia, Brazil, Canada, Chile, China, Columbia, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, New Zealand, Peru, Philippines, Russia, Scandinavia (Denmark, Norway, Sweden), Singapore, Spain, Switzerland, Taiwan, Thailand, Turkey, the United Kingdom, the United States, Venezuela, and Vietnam (Yahoo 2008 Annual Report).

<u>Mandate</u>

Yahoo's **Mission/Purpose** is to be the most essential global Internet service for consumers and businesses.

Yahoo's primary **Goal** is to become the starting point for Internet users: to provide must-buy marketing solutions for the world's largest advertisers; and to deliver industry-leading open platforms that attract developers and publishers.

Yahoo's **Core Values** are: **Excellence:** The Company is committed to winning with integrity. Yahoo aspires to flawless execution and does not take shortcuts on quality. They seek the best talent and promote its development. **Teamwork:** The Company fosters collaboration while maintaining individual accountability. Yahoo encourages the best ideas to surface from anywhere within the organization, and the company appreciates the value of multiple perspectives and diverse expertise. **Innovation:** Yahoo thrives on creativity and ingenuity. Yahoo seeks innovations and ideas that can change the world, and anticipates market trends and moves quickly to embrace them. **Community:** Yahoo shares a sense of mission to make an impact on society and empower consumers in ways never before possible. The Company is committed to serving both the Internet community and its own communities. **Customer Fixation:** Yahoo respects its customers above all else and never forgets that they come to Yahoo by choice. The Company shares a personal responsibility to maintain its customers' loyalty and trust. **Our People:** Yahoo knows that its future success is substantially dependent on the performance of its senior management and key technical personnel, as well as its continuing ability to attract, maintain the caliber of, and retain highly qualified technical and managerial personnel.

Yahoo's most important **Stakeholders** are its shareholders, employees, communities of users, advertisers, publishers, and developers. The Shareholders are considered to be the people who back the Company financially and Yahoo rewards their loyalty by consistently pursuing initiatives which succeed in creating Shareholder Value. This is reflected in the dividends per Common Share and the overall profitability of the Company. Yahoo's customers are the ones that ultimately use their products and services, and given the way in which the industry is highly evolving, the Customers are critical for driving Yahoo's product innovation. The Employees and the Company are considered as one unit, interdependent, and the Employees are considered the most highly prized asset of Yahoo. Yahoo also prides itself on providing the most efficient and effective marketing services for advertisers and publishers.

External Analysis

Competitive Forces Analysis

Customer/Buyer Power (Overall, Weak Buyer Power). Yahoo faces weak buyer power because customers are fragmented and have little influence on price. No individual customer represented more than 10 percent of Yahoo's revenues in 2006, 2007, or 2008 (Yahoo 2008 Annual Report). However, Yahoo faces intense pressure to offer attractive advertising packages to its clients, especially given Google's dominant share of the paid search advertising business. The average bid price for keywords is declining, reflecting increased competition.

Threat of New Entrants (Low). The sheer scale of products and services that are offered by Yahoo, combined with its market dominance, makes the threat of comparable new entrants low, especially new entrants who are trying to compete head-on with Yahoo. Furthermore, the sheer magnitude of resources required for a new entrant (financial, technological, etc.), make the threat of new entrants low. However, the threat of new, customized portals is always considerable as new players that focus on niche markets can easily take away online advertising and retail and auction sales revenues away from Yahoo.

Threat of Substitutes (High). There are considerable substitutes for all of Yahoo's product offerings and services. Such substitutes include search engines (primarily Google, as well as MSN and Ask), as well as niche players like Amazon.com, Ebay, Monster.com, MySpace, Facebook, and YouTube.

Degree of Rivalry (High). While Yahoo enjoys exceptional brand name recognition and commands a considerable market share, the truth is that switching costs in the industry are quite low. Significant Competitors include: Google, MSN, and Ask, as well as niche competitors like Monster.com, MySpace, Facebook, and YouTube.

Other salient points:

Yahoo operates in the Internet products, services, and content markets, which are highly competitive and characterized by rapid change, converging technologies, and increasing competition. Yahoo's most significant competition is from Google, Microsoft Corporation, and Time Warner Inc.'s America Online business, which each offer an integrated variety of Internet products, advertising services, technologies, online services and content in a manner similar to Yahoo. Yahoo competes with these and other companies, including social networking sites such as Facebook and MySpace.com, for users, advertisers, publishers, and developers. Yahoo also competes with these companies to obtain agreements with software publishers, Internet access providers, mobile carriers, device manufacturers and others to promote or distribute its services to their users. The Company also competes with advertising networks, such as Google AdSense, America Online's Ad.com, as well as traditional media companies for a share of advertiser's marketing budgets.

The principal competitive factors relating to attracting and retaining users include the usefulness, accessibility, integration, and personalization of the online services that Yahoo offers, the quality and relevance of its search results, and the overall user experience on Yahoo Properties (Yahoo 2008 Annual Report). The principal competitive factors relating to attracting

advertisers and publishers are the reach, effectiveness, and efficiency of Yahoo's marketing services as well as the creativity of the marketing solutions that the Company offers.

In terms of the *Industry Life-Cycle*, Yahoo's North American and Western European operations could be said to be in a Mature Industry, yet in the Developing/Emerging economies, the industry resembles more that of a Growth Industry.

Macro Environment

Macroeconomic Forces: Economic growth affects Yahoo to some extent. Specifically, in mature markets like the USA, a recession impacts Yahoo's sales/earnings growth. Marketing services expenditures tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Since Yahoo derives most of its revenues from marketing services, any deterioration in economic conditions causes decreases in or delays in advertising spending and is likely to reduce the Company's marketing services revenues and negatively impact its short term ability to grow its revenues.

Demographic Forces: In Emerging/Developing Markets, the growing number of new and young consumers with disposable income spells significant opportunities for Yahoo. Many new markets have exceptional growth rates in terms of Internet penetration and proliferation, as well as Broadband growth.

Global Forces: Economic Growth in countries like China, India, Russia and Brazil afford further market share for Yahoo. However, in a number of international markets, especially those in Asia, Europe, and Latin America, Yahoo faces substantial competition from local Internet service providers and other portals that offer search, communications, and other commercial services. Many of these companies have a dominant market share in their territories and are owned by local telecommunications providers, which give them a competitive advantage.

Political/Governmental Forces: Yahoo is subject to U.S. and foreign government regulation of Internet, mobile, and voice over internet protocol, or VOIP, products and services which could subject the Company to claims, judgments, and remedies including monetary liabilities and limitations on its business practices. Changes in regulations or user concerns regarding privacy and protection of user data, or any failure to comply with such laws, could adversely affect Yahoo's business.

Technological Forces: The products and services offered by Yahoo have expanded and changed significantly over time, and are expected to continue to expand and change rapidly in the future to accommodate new technologies and Internet advertising solutions and new means of content delivery, such as rich media, audio, video, and mobile. In addition, the Internet and online services industry is characterized by *rapid technological change*. Widespread adoption of new Internet, networking or telecommunications technologies, or other technological changes, requires substantial expenditures to modify or adapt the Company's services or infrastructure. New technologies could also block Yahoo's advertisements or its search marketing listings, which would harm its operating results.

Internal Analysis

Yahoo's formidable success to date is attributable to a number of ***distinct competitive advantages***:

*The Yahoo! ***brand*** is one of the most widely recognized in the world (after Google, the second best-known interactive web portal).

* Yahoo creates, owns, and maintains a wide array of ***intellectual property assets*** that it believes are amongst the Company's most valuable assets. Yahoo's intellectual property assets include patents and patent applications related to our innovations, products and services; trademarks related to its brands, products and services; copyrights in software and creative content; trade secrets; and other intellectual property rights and licenses of various kinds. Yahoo seeks to protect its intellectual property assets through patent, copyright, trade secret, trademark, and other laws of the U.S. and other countries, and through contractual provisions.

*In terms of ***product development***, Yahoo continually enhances, expands, and launches products and features to meet evolving user, advertiser, and publisher needs for technological innovation and a deeper, more integrated experience. Most of its software products and features are developed internally. However, the Company also purchases technology and licenses intellectual property rights when the opportunity is strategically aligned, operationally compatible, and economically advantageous. Yahoo believes that it is not materially dependent upon licenses and other agreements with third parties relating to product development. The Company also formed Yahoo! Labs, an umbrella organization that includes its industry-leading Yahoo! Research group, a new Applied Sciences group, and its Academic Relations team, which has spearheaded key relationships with some of the world's most influential universities and institutions. Yahoo! Labs is designed to foster the long-term scientific competitiveness of Yahoo! as a world leader on the Internet through cutting-edge, multi-disciplinary research in a variety of fields, including economic theory, computer science, artificial intelligence, and various social sciences (Yahoo 2008 Annual Report).

SWOT Analysis:

STRENGTHS:

- Yahoo has many auxiliary operations
- Yahoo is the leader in providing brand-building graphical video and display ads
- Strong brand recognition, second best-known interactive web portal
- Yahoo is a clear leader in content categories like *Yahoo Finance, Autos, and Real Estate*.
- Access available to anyone with internet access
- Yahoo has far more services to offer its users than Google and many other specialized sites

WEAKNESSES:

- Yahoo business model is dependent upon how fast advertising revenues increase
- Yahoo ranked 5th in visitors among video sites
- YouTube, owned by Google, is 1st among video sites
- Google has the greatest name recognition

- Google has a superior search engine ranking model
- Google search results generate up to twice as much revenue than Yahoo
- Advertising revenues are falling due to competition
- Google commands roughly 50% of all online searches, while Yahoo has roughly a 29% share
- Google maintains first-mover advantage in customized advertising

OPPORTUNITIES:

- Project Panama = Improved search-based advertising
- Internet video advertising expected to increase drastically
- Global expansion, especially into Asian markets
- Cross-channel advertising program offers much potential

THREATS:

- Google command roughly 50% of all online searches, while Yahoo has a 29% share
- Increasing strength of competitors, e.g. Google is continually expanding its content and services and growing its customized advertising
- Social websites are breaking into the advertising market (MySpace, Facebook, etc.).
- Google has surpassed Yahoo in revenues and has far more cashflow for potential Acquisitions and spending on technology

<i>References</i>

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