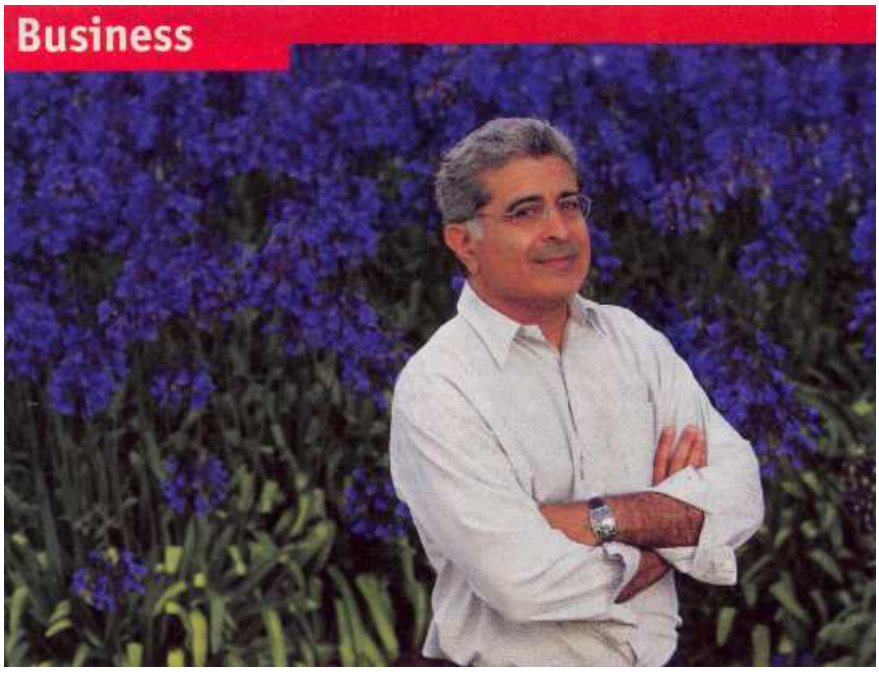

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Yahoo!

Terry Semel's long pause

SAN FRANCISCO

While Google and small internet firms race ahead, Yahoo! seems to be standing still

NOW let's just pause for a second." It is the fourth pause for thought that Terry Semel, chairman and chief executive of Yahoo!, has requested in about ten minutes. He is trying to marshal various arguments to prove that his firm, the world's largest internet company by visitors to its website, has a coherent and winning strategy compared with Google, a phenomenally successful search engine. With only slightly bigger revenues, Google has three and a half times the market value of Yahoo!. Twice in three months Wall Street has dumped the shares of Yahoo! and widened the gap (see chart).

The first sell-off, in July, came after Mr Semel announced that Panama, an ambitious project to improve Yahool's technology so that it can make more money on each of its users' searches, would be delayed until the end of this year. Yes, agrees Mr Semel, it was supposed to be released a quarter earlier, but this sort of market reaction was silly. Unlike Google, which has a habit of releasing sloppy brainstorms in test versions called "beta", he says, Yahoo! wants to launch a fully functional product, and therefore had to be cautious-and since the financial benefits will come next year, why should the stockmarket get into such a tizzy?

The second sell-off happened last week, when Mr Semel warned investors at a conference hosted by Goldman Sachs that growth in online advertising was not quite what he had hoped. Quarterly earnings would be on the low side of his previous estimates. In particular, Mr Semel noted slower growth in demand from carmakers and banks—Yahoo!'s biggest customers-for graphical advertisements, the category in which it outsells all its rivals.- "Let's pause for a second," he says again. "We still expect to outgrow the segment in 2006. This is not about a tragedy or disaster; it's just pointing out something that we had seen."

Part of the problem for Yahoo!, however, is that nobody else appears to be seeing a slowdown. This week the Interactive Advertising Bureau and PricewaterhouseCoopers, a consultancy, jointly released the latest industry numbers, which show that online advertising in America grew by 37% to $7.9 billion, a new record, in the first half of the year. Another firm that tracks online advertising, eMarketer, cut its forecasts, but that was in response to Mr Semel's statement. Jim Lanzone, the boss of Ask.com, the fourth-largest search engine after Google, Yahoo! and Microsoft's MSN, says that his firm is not seeing any similar easing of demand.

The deeper problem, says Henry Blodget, founder of Cherry Hill Research, a consultancy, is that Yahoo! is still suffering from a "colossal error" it made in the late 1990s. At that time, it already wanted to become a portal, or a gateway to content on the web, but thought that search would be at most a feature, not a business in its own right. This allowed Google to dominate the category. "By the time Yahoo! realised its mistake about three years ago it was too late," says Mr Blodget. Google's share of search queries has been growing, and the enormous profits from this product allow Google to invest more than Yahoo! does.

Mr Semel counters that Google's gains in search have not come at the expense of Yahoo!, which has been a steady number two. MSN has been the primary loser. Panama will help. And there are differences between Yahoo! and Google which favour his company. For advertisers, the difference is supposed to be that Yahoo! is more of an all-round online media company, selling the full gamut of advertising, from pay-per-click text snippets on search pages to interactive banners, whereas Google sells almost exclusively pay-per-click advertisements. As such, Yahoo! benefits from its huge leads in web-mail and finance and general news, where Google is a tiny, niche competitor.

For consumers, the difference is supposed to be that Yahoo! is about human beings, whereas Google is about soulless

machines and algorithms. So Yahoo! has bought several young firms such as FlickR, a photo-sharing site, and Del.icio.us, a bookmark-sharing site, which both allow users to "tag" the pictures and web pages they encounter, and pass them on to each other. There is Yahoo! Answers, where users can ask real questions and other users respond. Yahoo! started the service nine months ago, and it now has more than 5om users in 20 countries. Yahoo! has fared less well with its social-networking site, Yahoo! 360, and is now negotiating to buy Facebook, a networking site used by many American college students.

But none of these is a solid answer to YahooPs woes. The "tagging" that FlickR and Del.icio.us offer is still far from the mainstream, and are mostly used by hard-core technology geeks. Yahoo! Answers is growing, but arguably full of rubbish. "What is the sexiest food?" is a typical recent question. Answers range from "bacon, mmmmm" to "a pickle" and "anything with a beautiful woman sitting across from it."

And YahooFs efforts to buy Facebook may illustrate the older firm's shortcomings as much as its market power. Yahoo!" was originally interested in MySpace, the biggest social network, but lost it to News Corporation, a media conglomerate. It also wanted to buy AOL, a web portal owned by Time Warner, another media company, but Google swooped in. Yahoo! again lost to Google when the latter won a deal to supply the advertising on MySpace, and then to Microsoft when it struck a deal to deliver advertising on Facebook. Now Yahoo! looks rather desperate, and will have to pay an enormous price for Facebook, a fast-growing company which many big firms have considered buying.

"Days go by and deals go away," says an outside adviser to Yahoo! who has sat in on executive meetings. The firm has a "relatively constipated process of reviewing anything," he says. It is slow and cumbersome and "not an entrepreneurial culture" because Mr Semel is a "low-risk, non-confrontational guy", says this adviser. He recalls a meeting at which an engineer asked: how long do we take from idea to execution? Several people scrawled on the whiteboard and agreed on an answer of eight months.

None of this means that Yahoo! is in dire trouble. If it turns out to be true that online advertising is growing more slowly as a whole, Google and all other internet firms will feel it sooner or later. Christopher Sherman, executive editor of SearchEngineWatch, an online newsletter, says he doesn't think that Yahoo! has lost its way. But "we're past the days of radical innovation where somebody is really going to blow past a competitor." Yahoo! will have to content itself with a position as the internet's number two, at best. •

Fonte: The Economist, v.380, n.8497, p.69-70, 30 Sept. 2006.