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Yahoo!, eBay and Amazon

The three survivors

SAN FRANCISCO

What the diverging fates of Yahoo!, eBay and Amazon say about the internet

AND so Yahoo! survives. The internet company—which, at the age of 14, is one of the oldest-appears in the end to have rebuffed Microsoft, the software Goliath that wanted to buy it. It has done so, in part, by surrendering to Google, the younger internet company that is its main rival. In a vague deal apparently designed to confuse antitrust regulators, Yahoo! is letting Google, the biggest force in web-search advertising, place text ads next to some of Yahool's own search results. Google thus controls some or all of the ads on all the big search engines except Microsoft's. Yahoo! lives, but on the web's equivalent of life support.

Yahool's descent, first gradual then sudden, during this decade marks a surprising reversal of the fates of the only three big internet firms to have survived since the web's earliest days. Back in 1994 Jerry Yang and David Filo, truant phD students at Stanford, started to publish a list, eventually named Yahoo!, of links to cool destinations on the nascent web. Around the same time, Jeff Bezos was writing his business plan for a website, soon to be called Amazon, for selling books online. The following year, Pierre Omidyar, a French-born Iranian-American, put an auction site on the web that would become eBay.

Even as hundreds of other dotcoms fell by the wayside at the turn of the century, these three made it through the great internet crisis and have since prospered, to varying degrees and at different times. Their fates have reflected the evolution of the web as a whole, and now suggest its future direction. For many years eBay and Yahoo! made more money than Amazon, which, as a capital-intensive retailer, struggled longer with losses and then made profits at lower margins (see chart on next page). And yet, says Pip Coburn of Coburn Ventures, an investment adviser, Yahoo! is now drifting and eBay is a washed-up quasi-monopoly, whereas Amazon finds itself at the internet's cutting edge.

Yahoo! set out to be a new sort of media company. To that end, it hired a Hollywood mogul, Terry Semel, during the internet depression in 2001. He had a backward-looking idea of the media business. Yahool's site became a tawdry strip mall, with big, flashing advertisements next to users' e-mail inboxes. The firm slipped into a mindset of product silos, with the teams for the home-page, e-mail, finance and sports pages competing with each other and for advertisers, and confusing users.

Yahoo!'s bigger mistake was not to see how the web was changing. Google, also founded by two truant Stanford PHD students, became the leader of a new generation with a vision that web search, rather than Yahoo!'s "portal" approach, would guide surfers around the internet. Google valued simplicity, interactivity and the collective intelligence gleaned from the web and its users. Yahoo! belatedly tried to keep up and bought sites such as flickr for photo-sharing and del.icio.us for bookmark-sharing, but it "put them in the curio cabinet" without transforming the company, says Jerry Michalski, a technology consultant. Yahoo! was "so bent on being the future", he says, that it "missed the new". Mr Yang replaced Mr Semel last year, but the crisis was so grave that he has now ended up surrendering to Google.

EBay took a different route, recognising that its business-in effect, online yard sales-had potential network effects: in short, that sellers and buyers would flock to whichever site already did the most trading. The firm became a de facto monopoly, but with that came a culture that left many of its users disenchanted, and growth slowed. Some measures, such as the number of new listings of items for sale, are even in decline. Buyers and sellers increasingly rely on Google's search model, or online social networks, to find things and one another. EBay's new boss, John Donahoe, is not facing a crisis like Yahoo!'s-but neither does he appear to have a big idea for the future.

Amazin'

Amazon, by contrast, has found exactly that. It is the only one of the three that has been led continuously by the same man, its founder Jeff Bezos. A caricaturist's dream, Mr Bezos has an outsized neck, striking pate and an infectious guffaw that spreads enthusiasm. And, unlike his peers at the other two firms, Mr Bezos has stuck to his original vision—while adding two new ideas as they presented themselves.

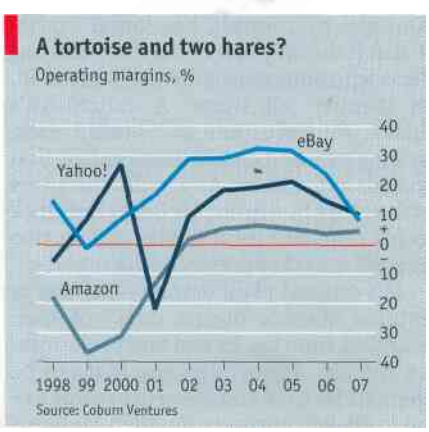
His original plan, in the 1990s, was to become "Earth's biggest river" of merchandise, from books and toys to electronics and almost anything else that can be shipped. He tried and failed to become a rival to eBay in auctions. But then Mr Bezos

realised that the same online store-front and logistics system that worked for Amazon itself could also work for others. So he added an entirely new category of customers: third-party sellers, who account for 30% of all items sold through Amazon's site today. They range from one-man-bands to huge retailers, such as Target.

Then, about four years ago, another, and potentially bigger, idea struck Mr Bezos. "We had built this huge infrastructure internally for us," says Mr Bezos. "We thought, surely others out there could use the same infrastructure services." That infrastructure consists of Amazon's prodigious numbers of server computers and storage discs, rivalled in scale by only a few other firms in the world, including Google. So Mr Bezos again added an entire category of customers: firms that wanted to rent computing capacity-from processing to storage to database functionality—from Amazon over the internet, rather than build their own data centres in a warehouse. It has signed up over 370,000 customers, ranging from web start-ups to the New York Times, which used Amazon's infrastructure to digitise much of its archive.

Almost by accident, Amazon has thus "backed into cloud computing," as Mr Michalski puts it, using the buzzword for today's next big thing: the trend among both consumers and companies to compute and store data on the internet, rather than on a local computer. If there is a leader in the cloud, it is Google. But Amazon is now right up there. Better yet, although Amazon overlaps with Google in the cloud, it does not rival it directly. Google mostly offers entire applications, such as word processing or spreadsheets, to consumers though their web browsers. Amazon offers services to programmers so they can build and run their own applications.

So there they are. Jerry Yang is still boss of Yahoo!, although angry, restive shareholders may oust him at their annual meeting on August ist, and his top lieutenants are leaving in droves. John Donahoe is looking hard for a purpose that will enable eBay to survive another decade. And Mr Bezos is right where he wants to be. •



eBay's legal woes

Handbagged

The online auctioneer braces itself for some court decisions in France

HIGHFASHIONX, a retailer on the American website of eBay, an online auctioneer, is offering 52 handbags, belts, necklaces, rings and pairs of shoes from the house of Chanel. It also displays something even more exclusive: an apology from Chanel's lawyers. The luxury-goods firm had accused HighFashionX of selling fakes, but its wares were in fact all genuine.

The incident is part of a war between luxury-goods firms and eBay over counterfeit goods-a war that is about to intensify. On June 3oth a French court will rule on a lawsuit brought against eBay in 2006 by LVMH, the world's biggest luxury-goods firm, which is demanding damages of €2om ($31m). Further rulings are expected on court cases brought against eBay by Dior Couture, a fashion house, and by L'Oreal, a cosmetics firm. For its part, eBay is launching a campaign in Brussels against firms that, it says, are stifling the development of e-commerce in Europe.

A few years ago sellers on eBay were mostly private individuals flogging second-hand goods. But now eBay is increasingly used by professional retailers selling new items. Many of them sell fakes. LVMH claims that out of 300,000 products labelled Dior and 150,000 Louis Vuitton handbags offered on eBay in the second quarter of 2006, fully 90% were fake.

"We don't make any money from sales on eBay," says Cheryl Solomon, general counsel of the Gucci Group, "but we have to tell people that their bag isn't real, that we can't help them get their money back, and we become the bad guys." A cottage Industry of authenticators has sprung up around eBay and other online auction sites: MyPoupette.com, for instance, charges consumers a fee to examine online photos of handbags and other items before they submit their bids.

EBay takes a small percentage of the value of every sale on its site, as well as a flat fee, and thus earns money from counterfeits sold on its site as well as genuine items. Mindful of its reputation, eBay has stepped up its efforts to fight counterfeiting in recent years. As well as its peer-review system, which allows buyers to rate sellers, it has another scheme, "Verified Rights Owner" (veno), which invites brand-owners to notify it of counterfeit goods. Suspect items are then taken off eBay's websites until their provenance can be proven, usually within hours. But luxury-goods firms say veso is not enough. They want eBay to take more responsibility for rooting out fakes. The Union des Fabricants in Paris, an anti-counterfeiting group, wants eBay to use its database of names and postal addresses of sellers to identify and ban professional counterfeiters.

"We have 2,000 employees worldwide fighting fraud," says Alexander von Schirmeister, head of eBay in France, "and if we have to do much more, you have to wonder to what extent our business model can exist." With the support of Meglena Kuneva, European commissioner for consumer protection, and three members of the European Parliament, eBay will argue in Brussels that the internet has been unfairly portrayed by luxury-goods firms as the root cause of counterfeiting. It wants the European Commission to rewrite the rules on "selective distribution", which allow manufacturers to control how their products are sold online. The rules, written before the internet took off, are now stifling e-commerce in Europe, eBay argues.

But however much support eBay can drum up in Brussels, it is unlikely to distract attention from the forthcoming decision in LVMH'S lawsuit. On June 4th eBay lost against Hermes, another French luxury-goods firm, which had sued it for selling counterfeit handbags. Now other firms are waiting to hear the results of the LVMH, Dior and L'Oreal cases against eBay, says Marc Antoine Jamet, chairman of the Union des Fabricants. If eBay loses, he says, "we will probably see many more brand-owners filing similar suits." •

Biotechnology

Getting personal

A genomics merger highlights the potential for personalised medicine

FANS of genomics have long argued that decoding genomes one person at a time would revolutionise health care by leading to "personalised" medicine, in which doctors match the treatment to the individual. As the cost of gene sequencing has fallen, firms have rushed to offer genetic tests directly to consumers, often raising grand expectations. There now seems to be a backlash. Doctors have groused about being bypassed. Punters have grown wary as they realise that most such tests do not provide conclusive evidence of the risk of disease. This month officials in California even sent warning letters to marketers of such genetic tests, as part of an effort to rein in this unruly new industry.

So will the genomics revolution now grind to a halt? No. But it may well unfold in more conventional ways than enthusi-

asts of "disruptive innovation" had hoped. To see why, consider this month's acquisition by Invitrogen, a biotechnology firm based near San Diego, of Applied Biosciences (AB), a bigger firm also based in California, in a deal valued at over $6 billion. The combination will be a force in the market for gene-sequencing equipment (which AB makes) and the related products and services (Invitrogen's bread and butter) that complement the hardware.

Steven Burrill, an industry expert, thinks the deal is a clever move since it will let Invitrogen adopt the "cheap razor, expensive blades" model pioneered by Gillette. The combined firm can hook customers with affordable hardware, then profit from Invitrogen's high-margin laboratory products. Gregory Lucier, Invitrogen's boss, says he "likes the analogy" and AB'S president, Mark Stevenson, says the aim is to boost sales of reagents and other consumables, which he says make up some 75% of the combined firm's revenues.

Another factor behind the deal is the hint of a shakeout in the industry. Roche, a Swiss pharmaceutical giant, now controls 454 Life Sciences, a gene-sequencing outfit, and recently made a hostile takeover of Ventana, a diagnostics firm. Mr Stevenson says AB'S acquisition is step in the consolidation of a fragmented industry.

The deal also suggests that, for all the hype around direct-to-consumer genomics, personal genomics may make its first profits in the less glamorous area of medical diagnostics. So argues Drew Fromkin, chief executive of Clinical Data, a firm that uses the gene-sequencing products of AB and its rivals. If you want to make money from genomics, it is better to tell doctors and hospitals whether patients will respond to particular drugs than to peddle tests direct to consumers. According to Kalorama, a market-research firm, medical diagnostics was a $42 billion industry in 2007 and is expected to be worth $56 billion by 2012. Siemens, GE and other multinational firms have been buying smaller firms of late (though GE'S $8 billion takeover of Abbott Laboratories, an American diagnostics firm, eventually fell apart).

Even though direct-to-consumer genomics has been over-sold, personalised medicine still holds great promise. Mr Burrill thinks that as Americans are asked to pay for more health care out of their own pockets, they will welcome techniques, like personal genomics, which can help them avoid diseases by, say, a change of diet. The cost of decoding someone's genome is likely to fall from $50,000 now to $100 by 2015 or 2020, making all kinds of things possible-but only if the value of the genetic information is far greater than it is today. "So what, even if prices tumble to $10 per genome?" asks Mr Fromkin. "Quality of information is what matters to those paying the bills." •

Beer

A bid for Bud

Can Anheuser-Busch fend off InBev's uninvited advances?

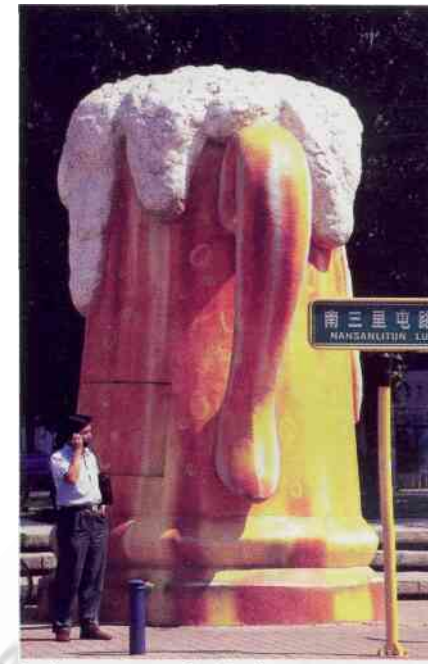
IN AN ideal marriage the two partners complement each other, as well as having some things in common. They can live together harmoniously. And together they are better able to face life's pitfalls and pleasures. InBev, the world's second-biggest brewer by volume, thinks a merger with America's Anheuser-Busch, maker of Budweiser and the global number three, would be just such a perfect union.

Anheuser controls almost half of the American beer market, the world's most profitable; InBev's American operations are tiny-which is one reason why it was prepared to offer $46 billion in an unsolicited bid on June nth. But InBev, based in Belgium and run by Brazilians, is big in Europe and Latin America, where Anheuser-Busch is hardly present. Both have sizeable operations in China. They are already cohabiting happily in America, where Anheuser imports Stella Artois and other InBev brands, and in South Korea and Canada, where Budweiser has become the top-selling brand with InBev's help.

As well as having a neat geographical fit, the two brewing giants would also enjoy better terms when negotiating over the price of hops, barley, glass and aluminium, which have been rising fast. Together they would be better placed to confront flagging sales in the developed world, thanks to a more extensive distribution network. And they would be able to hedge growing but volatile markets in developing countries against the steadier but slow-growing American market.

Carlos Brito, InBev's chief executive, at first tried"to make a friendly offer for Anheuser. But August Busch IV, scion and boss, is determined not to sell the business, started by his great-great grandfather, to a bunch of uninvited foreigners. He has embarked on talks with Grupo Modelo, the Mexican maker of Corona beer, about a combination that would make Anheuser too big for InBev to swallow. But the Busch family owns only about 4% of Anheuser-Busch, less than Warren Buffett's Berkshire Hathaway, which owns 5%. Many directors on Anheuser's board are close to the clan, but they will find it hard to reject the deal without being accused of neglecting their duty to the other shareholders.

Mr Brito is going to great lengths to drum up support for his bid. On June 17th, in an open letter in a local newspaper to the people of St Louis, Anheuser's hometown in Missouri, he promised not to shut



A giant opportunity for brewers

any of its 12 American breweries. He also said that the headquarters for the North American division of the new firm would remain in St Louis, and that its name would evoke the Anheuser-Busch tradition. He even went to Washington, DC, to meet Claire McCaskill, a senator from Missouri, and other politicians. He was not warmly welcomed: Ms McCaskill vowed to do "everything in her power" to stop the deal. But neither she nor the Busch family can do much to block the deal.

Trevor Stirling at Bernstein, an investment-research firm, says the chances of a white knight joining the battle are slim. A bid from SABMiller, the world's largest brewer, would run into antitrust concerns, and Heineken and Carlsberg, two European brewers, have stretched balance sheets after completing a joint takeover of Scottish & Newcastle at the end of April. (That deal, like InBev's bid, was inspired by a desire for greater scale and access to new markets, particularly Russia.)

Perhaps the greatest obstacle to a takeover, says Brian Sudano of Beverage Marketing, a consultancy, is the difference in corporate cultures. Mr Brito, known as a cost-cutter, thinks savings from the deal could be worth $1.4 billion a year by 2011. Anheuser, by contrast, pours $500m a year into advertising for Bud alone.

If it goes ahead, the deal would be the biggest consumer-goods merger since the $57 billion marriage in 2005 of Procter & Gamble and Gillette, and would create the world's fifth-biggest consumer-goods firm. Such giants must strike a balance between exploiting their scale and nurturing distinctive local brands. And, despite the recent wave of consolidation, beer remains a local business. •

Fonte: The Economist, vol 387, n. 8585, p. 75-77, 21 June. 2008.