OVUM COMMENT

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A turbulent week for Yahoo

Improved earnings, but tough times continue for Yahoo

Yahoo has turned in mixed results for the second quarter, with an 8% increase in profits to $141 million from $131 million last year, while revenues declined from $1.8 billion to $1.6 billion over the same period. Revenues where hit by the general industry decline in advertising spend, which is predictable but makes it even tougher than normal to grow revenues and market share, particularly when the main competition in the shape of Google is getting stronger. The modest 8% uplift in profits is commendable but not that surprising given the stringent cost-cutting that Yahoo has been pursuing over the last year, which has seen layoffs and the closure of certain properties, with the net effect that operating expenses have reduced by close to $150 million since the second quarter of 2008. In fact, alarm bells would have sounded loudly had Yahoo not posted improved margins after such efforts. Meanwhile, future earnings look set to come under yet more pressure as the company has indicated that it will increase spending by around $75 million in the third quarter to fund further investments in its technology platform and improved marketing campaigns.

Nice new features, but Yahoo needs more than a facelift

The new-look Yahoo home page goes live in the US this week, followed by the UK, France and India, and is the first major revamp since 2006. The thrust behind the redesign is to make the Yahoo home page more like a personal portal or dashboard, and toward this it has introduced a number of personalisation features, the main one being a ‘My Favourites’ box where users can integrate popular applications such as Facebook and Twitter and, in a nice touch, when they hover over the application a pop-up window appears allowing them see the latest news, make updates to Twitter and so on. Yahoo will also be introducing advertising in the My Favourites windows, no doubt hoping that the contextual nature of this placement will boost revenues. Yahoo might not pull in the advertising revenues like Google, but it is a popular website with consumers. Comscore places it as the second most trafficked property in the US, with its combined sites drawing 154 million US visitors in June. This is not far behind Google, at 157 million. The redesigned Yahoo home page is clearly at attempt to close the popularity gap. We have not reviewed the new Yahoo home page, but it appears to have introduced some pleasing if not unique features and created a potential new advertising hook. This is positive but not enough to turn Yahoo’s fortunes around.

Microsoft comes back into the picture – yet again

In this context it is not a huge surprise that the Yahoo-Microsoft dance has picked up again. The two companies have been in on-off talks about some sort of partnership for some time, which culminated last year in Microsoft putting in an offer of around $47.5 billion to acquire Yahoo, which Yahoo rejected. The latest talks seem to be focused on partnership rather than full merger, which we think makes better sense. A partnership where the line of sight is 100% focused on driving advertising revenues is likely to be more effective than an all-out merger, which if anything would put a drag on resources and focus in the short term as two very big companies grappled with the huge task of combing and streamlining assets.

In this context it is no surprise that the Yahoo-Microsoft dance has picked up again, albeit at a different tempo. The two companies have been in on-off talks for some time, which culminated last February with Microsoft putting in a bid for Yahoo that valued the company at around $45 billion, an offer that Yahoo rejected. The simple line is that a combined Microsoft and Yahoo would prove a force capable of giving Google a run for its money. Google has 65% of the US search advertising market, followed by Yahoo with a 20% share and Microsoft with 8%, according to recent figures from Comscore. However, reports suggest that the latest talks are focused on a partnership rather than a merger, which we think is a better approach. A partnership where the line of sight is 100% focused on driving advertising revenues is likely to be more effective than an all-out merger that would put a drag on resources and dilute focus in the short term, and in general create more problems than it would solve as two very big companies grapple with the huge task of combining and streamlining assets.

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