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*The Searchers***In Hunt for Online Advertising,
Yahoo Makes Big Bet on Media****Branded Content and Services
Set It Apart From Google;
An 'Apprentice' Web Site****A Strategy's Bumpy History**

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Search for "Knicks scores" on Yahoo's Web site and you'll get hit with special features about the basketball team put together by Yahoo: latest results, schedules, tickets for sale and catalogs of gear.

Search on Google, by contrast, and you'll be sent elsewhere: links to news stories, the Knicks' own site, and even a Yahoo sports page.

Ten years after it incorporated as a company, kicking off what became a multibillion-dollar business, **Yahoo Inc.** is pursuing a strategy that puts it at odds with its fiercest rival. These two divergent tacks highlight a debate about how best to capture a growing pool of online advertising.

Under the leadership of Terry Semel, a former movie executive, Yahoo is taking its cue from the entertainment industry. It believes its future largely lies in building the equivalent of online theme parks featuring fantasy sports leagues, music, sites for new TV shows such as "The Apprentice" and other branded content and services. Yahoo wants users to come often and stay a long time so it can put more and more ads on their screens.

**Terry Semel**

Google Inc. devotes its energies primarily to thriving on the Web's vast sprawl rather than trying to occupy one corner of it. Half of Google's advertising revenue, for example, comes from simple text ads that appear on other people's Web sites. The other half comes mainly from ads that accompany Google's own search results.

"Google does search," the company declares on its Web site. "Google does not do horoscopes, financial advice or chat." Yahoo does all three. Indeed, Google produces virtually no content of its own, fearing that would tarnish the impartiality of its search service.

The two companies "have very different approaches to almost everything," says Shelby Bonnie, chairman and CEO of technology Web publisher CNET Networks Inc., which uses Google's ad service and provides some content to Yahoo. "Yahoo

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sees itself as a media company. Google views itself as a technology company."

Mr. Semel's bet on media is ambitious. Many other companies have rung up expensive failures trying to build businesses around online media and entertainment services. The ill-fated merger of America Online with Time Warner was supposed to create an online walled garden fed by the giant company's vast array of entertainment assets. Yahoo itself stumbled in this area a couple of years ago.

Moreover, the breadth of Yahoo's content puts it in conflict with a long and growing list of rivals beyond Google, from software giant **Microsoft** Corp. to cable titan **Comcast** Corp. Many companies want to offer media and entertainment services online as consumers increasingly use the Web through non-PC devices such as TV sets or cellphones.

Yahoo says conditions have changed since those earlier failures. About half of home Internet users in the U.S. are now connected by high-speed links that make it possible to watch video, play games and download music online. Yahoo says about 80% of the connections made to its service take place over high-speed, or broadband, lines. Yahoo also says tying content to specific services -- for example, allowing consumers to play Yahoo videogames over Yahoo's instant-messaging software -- encourages users to spend more time on the site.

"Sometimes the right thing has to find the right moment," says Yahoo Chief Operating Officer Dan Rosensweig.

Head to Head		
Yahoo and Google at a glance		
	YAHOO	GOOGLE
Revenue, in 2004, in billions	\$3.60	\$3.20
Operating income, in 2004, in billions ¹	\$0.72	\$1.12
Net income, in 2004, in millions	\$840	\$399
Average time spent on site in Jan., in minutes	287	35
Unique U.S. users, in Jan., in millions ²	118	75
Staff	7,631	More than 3,000

¹Not including the cost of stock options and a legal settlement between the two companies.

²Number of people who used the site during a specific period of time, not including repeat visits.

Sources: comScore Networks, the companies

At a November investors' conference, held by Morgan Stanley & Co., Chairman and CEO Mr. Semel noted that Yahoo has various ways of making money: search and display ads, fee-based services and online listings, such as help-wanted ads. "We sleep better at night knowing that we have three sources of revenue," he said. Mr. Semel, the former chairman and co-CEO of Time Warner Inc.'s Warner Bros., declined to be interviewed for this article.

One statistic highlights the divergence between the two rivals: Yahoo users spend an average of 4.8 hours a month on its site, eight times the 35 minutes logged by users on Google, according to consumer research firm comScore Networks Inc.

Google executives say they wouldn't mind if users spent even less time on their site as long as they conducted more searches. Each search generates a new set of tailored ads. At Yahoo, users stick around to send instant messages, check stock prices or watch music videos. A Knicks fan may jump to Yahoo's sports site, where Yahoo sells ads, and then pay to join a Yahoo fantasy-sports league, where it costs as much as \$124.95 to run your own league.

Google's strategy, so far, is by some measures more profitable.

Last year, Google's revenue was \$3.2 billion, which came almost entirely from advertising, compared with Yahoo's \$3.6 billion, of which 84% was ad-based. On a comparison of net income as a percentage of revenue, Yahoo comes out ahead. But Google posted about \$1.1 billion in operating income, compared with about \$700 million for Yahoo, after factoring out a legal settlement between the companies and differences in how they account for stock options. Google also boasts a larger market capitalization: about \$51 billion compared with Yahoo's \$44 billion.

The roots of Yahoo's media strategy date to the mid-1990s when it cut deals with the likes of Reuters Group PLC and Walt Disney Co.'s ESPN to supplement its own listings. A few years later, Yahoo plunged into audio and video, most notably with its 1999 acquisition of Broadcast.com Inc., which distributed radio stations over the Internet, for \$5.7 billion in stock. In 2001, Yahoo moved into offices with advanced TV-production facilities, from which it distributed FinanceVision, a Web-based CNBC imitator.

By that time, however, the Internet bubble had burst and Yahoo was losing money. The company's board turned to Mr. Semel, who eliminated money-losing operations. He shut FinanceVision and ShoppingVision, a service that posted videos of celebrity shopping sprees.

Despite pioneering the concept, Yahoo had fallen behind in the Internet-search game as automated techniques honed by Google blew past the human editors Yahoo employed to create Web directories. By 2002, Google had the buzz, and a growing mountain of cash.

To get back in the game, Mr. Semel engineered the acquisitions of Inktomi Corp. and Overture Services Inc., two search companies that helped Yahoo refine its own search capabilities and enter the hot business of selling search-related ads.

One of Mr. Semel's early attempts to sell content was Yahoo Platinum, a fee-based audio and video service, which was launched in 2003. Featuring segments from ABC News, National Geographic and CBS Sports, it failed to attract customers and was mothballed before the year was out.

In February 2004, Yahoo unveiled a new search engine. It still isn't as popular as Google's, but some consumer surveys, including several by technology research firm Keynote Systems Inc., of San Mateo, Calif., suggest it often delivers equivalent results. For some tasks, such as finding a nearby coffee shop or dry cleaner, Yahoo's service sometimes earns higher marks.

With the new search engine in place, Yahoo executives turned to spiffing up their theme park. Last spring, as Google was making headlines with its plans for an initial public offering, Yahoo released new "instant messaging" software for trading rapid-fire messages online. Yahoo had fallen behind America Online and Microsoft's MSN in this area. The new version of Yahoo Messenger allowed users to play games against each other, conduct Web searches together, and listen to the same music.

Yahoo executives attribute half the increase in traffic on its music site to the tie-in with Yahoo Messenger. Yahoo Music, which plays music videos and songs online, says users listened to 42.3 million hours of music in December, almost three times as much as a year earlier.

Google released its own e-mail service last year and will likely expand such offerings to compete with Yahoo. But executives say they're more interested in perfecting individual products rather than services that tie together. Google lets employees spend 20% of their time on their own research projects. It provides support to the Mozilla Foundation, the nonprofit behind the popular alternative Web browser called Firefox. Google spent about one year refining software for searching e-mails and the contents of a user's hard drive. Yahoo skipped that development process and instead licensed software from X1 Technologies Inc., a small closely held Pasadena, Calif., firm.

Meanwhile, Yahoo executives have been plying their Hollywood connections. Mr. Semel spent 24 years at Warner Bros. helping take the movie studio into new areas such as broadcast television. Yahoo Senior Vice President Jim Moloshok headed Warner's online unit under Mr. Semel, including early experiments to bring TV to the Web.

Last summer, Yahoo edged out rivals to host an official Web site for "The Apprentice," a reality-TV

show starring Donald Trump. During a meeting to negotiate the deal, Mr. Semel swapped stories about Hollywood friends with Mark Burnett, the show's creator and executive producer, recalls Conrad Riggs, Mr. Burnett's partner.

Yahoo says it sold all the ad placements available on the "Apprentice" site before it went live in September. Mr. Riggs says Messrs. Semel and Moloshok's Hollywood experience was central to the deal. He calls Yahoo "a bona fide entertainment company."

The site provided directions to where viewers could buy ice-cream flavors developed by the show's contestants. Yahoo, which shares online ad revenue with Mr. Burnett's company, put other "Apprentice" features on its site, including audio clips of Mr. Trump's "You're fired!" catchphrase.

"This is a holistic approach to entertainment," says Yahoo's Mr. Moloshok. "Google just doesn't have the tools."

Google executives say they remain focused on improving their search functions. In order to make the content of printed books searchable, Google last year undertook an ambitious project to digitally scan millions of volumes held by libraries. But while the company stores the texts on its computers, it doesn't make money from selling the books. Instead, it sends interested consumers directly to online stores. Google doesn't view that as a disadvantage because it expects to generate the same advertising revenue.

Without providing specifics, Mr. Semel has said Yahoo wants to develop more of its own content or pay others to do so. Speaking to investors in January at a Smith Barney Citigroup conference, he drew a parallel to cable-TV channels, which moved from running repeats to showing exclusive shows to producing their own. Mr. Semel has been quick to quash any notion that Yahoo is planning a foray into feature-length films.

People familiar with the matter say Yahoo plans to further expand its music efforts in competition with **Apple Computer** Corp.'s iTunes service. It plans to release new music-playing software and a digital-music store, these people say. In January, Yahoo began publishing and distributing stock-trading data, in competition with Reuters, its previous supplier. A revamped Yahoo News site is due in the next few months.

Meanwhile, Yahoo is striking agreements with telecom giants designed to further entrench the Internet company at the center of the media landscape. Yahoo provides customized home pages and other services to high-speed-access customers of **SBC Communications** Inc. and recently expanded that pact to include SBC's planned TV offering.

Some of Yahoo's recent content efforts are paying off. After moving to better link news pages to the rest of Yahoo, Yahoo News attracted more unique visitors than CNN.com during several months last year, according to Nielsen/NetRatings Inc.

In November, Mr. Semel reached out to Hollywood again, hiring Lloyd Braun, former chairman of Disney's ABC, to head Yahoo's media and entertainment businesses. Mr. Braun, an advocate of the hit series "Lost," hasn't yet shown his hand. "One of the great challenges and opportunities for Yahoo right now," Mr. Braun says, "is to take a leadership role in defining what Internet content will be and how it will be presented to the consumer."

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