

A year after Microsoft buyout offer made, Yahoo struggles to define itself

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Soon after he was named chief executive of Yahoo, Jerry Yang turned to Steve Jobs for advice.

On stage before several hundred senior Yahoo executives, Yang asked the Apple CEO how he had pulled Apple out of a death spiral a decade earlier. Jobs replied that he'd made decisions: He got out of the hand-held business, consolidated product lines, decimated Apple's work force, and made a deal with Microsoft.

It was the end of September 2007, and Yahoo was losing ground to Google. What should Yahoo do? Yang asked.

Don't be afraid to make tough decisions, Jobs said. Decide whether Yahoo is a technology company or a media company. And be ruthless about your priorities.

It was tough advice to follow, and Yang didn't.

Sunday, 16 months after that meeting and one year after Microsoft CEO Steve Ballmer made his initial fateful offer to buy Yahoo for \$45 billion last Feb. 1, Yahoo is still struggling to find its way. Its stock price has fallen almost 75 percent from a peak in January 2006, top engineering talent has been streaming out the door, and there are rumors of more layoffs.

Brad Williams, a spokesman for Yahoo, last week defended the

company in an e-mail, noting that Yahoo beat analysts' expectations for the fourth quarter Tuesday, "despite increasingly challenging market conditions and major distractions in 2008."

But investors are demanding to know: How will Yahoo compete with Google and cope with the rising popularity of sites like MySpace and Facebook, as well as new applications like Twitter? And, more importantly, will the company strengthen itself through a deal with either Microsoft or AOL?

Answers to these and other questions no longer will come from Yang. Earlier this month, he handed over leadership to Carol Bartz, a battle-hardened survivor of corporate warfare. "I love managing," Bartz told Wall Street analysts the day her appointment was announced. "I love making decisions."

"With a new CEO in place," Williams wrote, "Yahoo is focused on better leveraging our tremendous global assets with strategic clarity and operational discipline."

Analysts aren't expecting Bartz to make major moves, or deals, any time soon.

"Clearly, her ideas about the future of Yahoo are still being worked out," wrote Benjamin Schachter, an analyst with UBS, following a conference call with Bartz to discuss Yahoo's earnings Tuesday.

"We think any potential deal with Microsoft or AOL will have to wait at least until the new CEO learns the business, which we think could take most of 2009," said analyst Jeffrey Lindsay of Sanford C. Bernstein.

That means Yahoo's investors and employees, many of whom supported a deal with Microsoft last year, will have to hunker down and wait.

"If you have the tenacity and perseverance to stick around 12 to 14 months, it might really work out very well," said one of a dozen former Yahoo executives and employees who left over the past year and who spoke to the San Jose Mercury News about their frustration with the company's lack of leadership.

This executive said Bartz appears to be living up to her no-nonsense billing. He said friends who attended her first companywide meeting praised her moxie and lack of buzzwords.

In conversations with analysts, Bartz has been echoing some of Jobs' advice to Yang. She has promised to sharpen Yahoo's strategic direction and streamline its operations.

But on the question of whether Yahoo should be a media or a technology company, Bartz said: "Media versus tech, I think that's a lot of nonsense."

Allan Weiner, an analyst with Gartner, said he also thinks the debate, which dates back to the days when Yahoo paid Google to use its search technology, is now moot. "It's quite possible that a technology company is a media company in 2009," he said.

The traditional media company produced content that it used to attract an audience, which it then sold to advertisers. Today, Weiner noted, there is "much more money to be made in facilitating media" than in producing content.

David Filo, Yahoo's co-founder, has argued that it would be very difficult to separate Yahoo's search technology from its media assets, since search is used not only to help people find news stories they want to read and videos they want to watch, but also to more closely target advertising to Yahoo's 500 million users.

But executives who attended Jobs' talk said the overall message still rings true.

"His message was pretty clear," said an executive who left but remains in touch with friends in Sunnyvale. "He said, 'Yahoo is a great brand and you can be anything you want to be. Anything you focus on, you can be the best at.' "

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