

Microsoft, Yahoo team up to ding Google with Bing

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This Jan. 12, 2009 file photo provided by Yahoo, shows new Yahoo CEO Carol Bartz at the company's headquarters in Sunnyvale, Calif. Microsoft has reached a deal with Yahoo for an Internet search partnership, ending years of back and forth negotiations.(AP Photo/Yahoo, Martin Sundberg, file) NO SALES

(AP) -- Microsoft Corp. has finally roped Yahoo Inc. into an Internet search partnership, capping a convoluted pursuit that dragged on for years and finally setting the stage for them to make a joint assault against the dominance of Google Inc.

The 10-year deal announced Wednesday gives Microsoft access to the Internet's second-largest [search engine](#) audience, adding a potentially potent weapon to the software maker's Internet arsenal as it tries to better confront [Google](#), which is by far the leader in online search and advertising. Microsoft didn't have to give Yahoo an upfront payment to make it happen, as many Yahoo investors had hoped.

Google tried to stop Yahoo from falling into Microsoft's camp. Last year it formed its own proposed search advertising deal with Yahoo, only to be forced to retreat from that alliance after U.S. antitrust officials threatened to sue.

The extended reach will allow Microsoft to introduce its recently upgraded search engine, called Bing, to more people. The Redmond, Wash.-based software maker believes Bing is just as good, if not better, than Google's search engine. Taking over the search responsibilities on Yahoo's highly trafficked site gives Microsoft a better chance to convert Web surfers who had been using Google by force of habit.

"Microsoft and Yahoo know there's so much more that search could be," said Microsoft Chief Executive Steve Ballmer. "This agreement gives us the scale and resources to create the future of search."

Even with Yahoo's help, Microsoft still has its work cut out. Combined, Microsoft and Yahoo handle 28 percent of the Internet searches in the United States, well behind Google's 65 percent, according to online measurement firm comScore Inc. Google is even more dominant in the rest of the world, with a global share of 67 percent compared to a combined 11 percent for Microsoft and Yahoo.

In return for turning over the keys to its search engine to Bing and promoting it, Yahoo will get to keep 88 percent of the revenue from all ads that run alongside search requests on its site for the first five years of

the deal. Yahoo also will have the right to sell ads on some Microsoft sites.

Yahoo estimated the deal will boost its annual operating profit by \$500 million and save the Sunnyvale, Calif.-based company about \$275 million on capital expenditures a year because it won't have to invest in its own search technology. An unspecified number of Yahoo engineers will lose their jobs as the company scales back, Yahoo Chief Executive [Carol Bartz](#) told analysts in a Wednesday conference call.

But the deal isn't expected to close until early next year, and then it could take another two years before all the pieces of the partnership are in place worldwide. The companies first will give antitrust regulators time to review the proposed partnership's effects on the Internet ad market and then it will take time to stitch together their different technologies.

Shares of Yahoo slid \$1.68, or 9.8 percent, to \$15.54, as investors expressed disappointment over the fact that the company won't be getting an immediate windfall. Microsoft shares advanced 14 cents to \$23.61. Google shares fell \$5.51, 1.3 percent, to \$434.34.

The alliance could give Yahoo a chance to recoup some of the money it squandered in May 2008, when it turned down a chance to sell the entire company to Microsoft for \$47.5 billion. Yahoo's market value currently stands at about \$22 billion.

The two rivals began talking about a possible partnership as far back as 2005 before Microsoft intensified the courtship with last year's attempt to buy Yahoo.

It took Bartz just six months to strike a deal with Microsoft - something that neither of her predecessors, Terry Semel and Yahoo co-founder Jerry Yang, seemed interested in doing.

Shortly after her arrival, Bartz made it clear she was willing to farm out Yahoo's search engine for "boatloads of money" as long as she as thought the company would still receive adequate information about its users' interests. Although Yahoo won't get any immediate cash, Bartz predicted the deal will still be a boon for the company.

"This agreement comes with boatloads of value for Yahoo, our users, and the industry, and I believe it establishes the foundation for a new era of Internet innovation and development," Bartz said Wednesday.

Under the agreement, Yahoo will have limited access to the data on users' searches - which yield insights that can be used to pick out ads more likely to pique a person's interest. The value of that information is why Microsoft wants to process more search requests.

Like Yahoo, Microsoft has invested billions in its search technology during the past decade, yet remained a distant third in market share while its online losses piled up. The company's Internet services division lost \$2.3 billion in the fiscal year ending in June, nearly doubling from the previous year.

Microsoft is counting on Bing, unveiled in early June, to turn things around.

Bing has been getting mostly positive reviews and picking up slightly more traffic with the help of a \$100 million marketing campaign. Analysts believe Bing's successful debut pushed Microsoft to reopen negotiations so it could expose its search engine improvements to a wider audience more quickly.

"The reason the deal happened now is the recent success of Bing. I think it put pressure on Yahoo, as well as Yahoo not being able to turn it around on its own," said Gartner Inc. analyst Neil MacDonald.

Microsoft and Yahoo are bracing for antitrust scrutiny into whether the combination would have an adverse effect on competition in the online ad market.

The U.S. Justice Department spent five months dissecting last year's proposed search advertising partnership between Google and Yahoo before concluding that it would give Google too much control over the market. And under the Obama administration, the Justice Department is promising to pore over deals far more rigorously than it did when the proposed Google-Yahoo partnership came up.

Microsoft used its lobbying muscle to spearhead the campaign against Google teaming up with Yahoo, so it wouldn't be a surprise if Google turned the tables.

"There has traditionally been a lot of competition online, and our experience is that competition brings about great things for users," Google spokesman Adam Kovacevich said. "We're interested to learn more about the deal."

A key lawmaker on antitrust issues said the Yahoo-Microsoft plan "warrants our careful scrutiny." Sen. Herb Kohl, a Wisconsin Democrat, said the Senate antitrust subcommittee he chairs will review the deal "because of the potentially far-reaching consequences for consumers and advertisers and our concern about dampening the innovation we have come to expect from a competitive high-tech industry."

Peter Kaplan, a spokesman for the Federal Trade Commission, declined to comment. A spokeswoman for the Justice Department couldn't immediately be reached for comment.

Ballmer expects that support from online advertisers and Web publishers who would like a stronger rival to Google will eclipse any objections that

Google might raise.

"We think this is one of these cases where the coming together will produce more effective market competition, not less," he told analysts in Wednesday's conference call.

Just getting [Yahoo](#) to succumb to its latest advance represents a coup for Microsoft and the boisterous Ballmer, who was rebuffed for so long.

Microsoft is doubling down on Internet search at the same time Google is attacking Microsoft's bread-and-butter business of making software for personal computers.

Google is working on a free operating system for inexpensive personal computers in a move that could threaten Microsoft's ubiquitous Windows franchise. If it gains traction, Google's alternative, called Chrome OS, could divert some revenue from Microsoft while the software maker is trying to grab more of the money pouring into search advertising.

Chrome OS, though, isn't supposed to hit the market until the second half of next year. That means [Microsoft](#) could get a head start on Google in the duel to steal each other's financial thunder.

Jessica Mintz reported from Seattle. AP Business Writer Christopher S. Rubager contributed to this report from Washington.

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