Analysis: Yahoo needs more than eyeballs to grow

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Yahoo Inc. may have reclaimed the top spot in the Web traffic rankings, but experts say the Web portal has a long way to go before it's demonstrated that the huge changes made by CEO Marissa Mayer are turning the business around.

In short, Yahoo must show that increasing traffic also means more engaged users - which, in turn, could lead to better ad sales for a company whose revenue has continued to slip downward.

Yahoo's image got a boost last week from a report by comScore that said it surpassed Google Inc.'s overall Web traffic in the month of July to claim the No. 1 spot for the first time in two years.

But the Sunnyvale, Calif.-based company will need more than a jump in eyeballs to signal a definitive comeback. That's because - despite Yahoo's big push to make its websites more attractive to users - its efforts haven't yet translated into significantly stronger revenue growth.

This point was underscored in a report from Macquarie Capital this week, which warned that Yahoo's "year-over-year homepage ad quality trends continued to deteriorate" through the first half of the third quarter.

"Yahoo remains on a downward trajectory," analyst Ben Schachter wrote in that note. He rates Yahoo's shares as neutral.

Yahoo under Mayer continues to tout change. This week, the company announced the redesign of seven of its major sites, including Yahoo Sports, Yahoo Weather and the entertainment-focused Yahoo OMG.

That has impressed ad executives like Howie Schwartz, CEO of mobile advertising company Human Demand, who told MarketWatch that Yahoo is doing a good job "gaining back the attention of advertisers who may have ignored them over the past two years."

Which is why the comScore report is a big deal, he added, "as many players on the sidelines have been calling Yahoo "dead in the water.' "

But other Yahoo watchers are less upbeat.

"Who cares about the number?" Marc Poirier, executive vice president at Acquisio, a digital marketing agency, told MarketWatch. "To me, it's not meaningful at all."

He gives Mayer credit for "making all the right moves" and "giving Yahoo a personality again." But higher traffic isn't the most critical element for Yahoo.

"Remember MySpace? They had a huge user base," he added.

Piper Jaffray analyst Gene Munster echoed that point, arguing that, as far as Yahoo is concerned, the comScore report "doesn't signal a turnaround."

A key reason is that "mobile is not captured in that," Munster told MarketWatch.

The comScore report, which shows Yahoo with 196.6 million monthly unique visitors, topping Google's 192.3 million, includes only desktop numbers.

BGC Partners analyst Colin Gillis also raised this point. "This data ignores mobile," he said. "It's a less relevant data point as we continued to activate over a million mobile devices a day."

That's a trend in which rivals Google and Facebook have been scoring solid gains, as shown in an eMarketer report released Wednesday. Google boosted its dominant position in mobile ads to 53.2 percent of total revenue from 52.4 percent, the report said.

The more impressive story is Facebook's meteoric rise. The social network's market share in mobile is expected to jump from 5.4 percent last year to nearly 16 percent this year, the report said. Yahoo's share is so small it's not even in the top five.

And Yahoo's rivals are not sitting still in other fronts. Google's push to monetize YouTube appears to be paying off. Munster of Piper Jaffray wrote in a report this week that a "meaningful increase of ad coverage has seemingly met with little push-back from the consumer, which we view as a positive sign for the continued growth in monetization on the platform."

In addition to mobile, anticipation for more growth from video ads and Instagram has pushed Facebook shares up nearly 80 percent in the past three months.

Yahoo has remained No. 3 in the overall digital ad market, behind Google and Facebook, eMarketer said. But its share of that market has been falling and is projected to slip from roughly 4 percent in 2011 to 3 percent this year.

"Traffic is not necessarily the issue," Gillis of BGC Partners said.

"Monetizing the traffic - that's the key. That's what you really want to judge."

And that's where Yahoo is still struggling. Last month, the company reported an 11 percent revenue drop in its core display ad business. Its search ad business also slipped 5 percent.

Those numbers, particularly in display ads, are more important than traffic, Munster said. "If they can show that it's less bad in display," he said, "that's something."

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