

# Yahoo

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## Strategic Management

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## **EXECUTIVE SUMMARY**

Yahoo! Inc., over its journey of almost 17 years has become the world's largest online network integrated services provider with users exceeding 500 million in numbers worldwide (Yahoo FAQ, 2012). It has a presence in more than twenty markets and regions across the globe and is best known for its search engine and host of other services like finance, e-mail, advertising and social media.

Yahoo! Inc. was started as a personal website directory by two doctorate candidates at Stanford University named David Filo and Jerry Yang. Filo and Yang realized the potential of generating revenue from their web directory by allowing companies to advertise their products on their online directory. Soon, Yahoo was notable enough to gain the attention of Sequoia capital, a venture capital firm. Sequoia provided much needed capital to Yahoo and Tim Koogle, a Motorola executive was hired as Yahoo's Chief Executive Officer. Koogle's excellent management skills and vision took Yahoo to the new heights of success i.e. Yahoo! Inc.'s stock price rose from \$5 a share to almost \$244 a share in 1999 (Jones, 2007)

However, despite the leadership that the company enjoyed in its initial years, the company over the past years seems to be losing market share to its arch rival Google Inc. Google has been outdoing Yahoo for the past many years now, gaining market share and increasing its customer base manifold.

Over the course of past few years, Yahoo! Inc. made a slew of changes in its objectives, business model and to its external, internal environment and strategy to shore up its performance and regain lost ground to its main competitor Google. Herein, we shall take a close look at some of such factors through defining the company's mandate, internal analysis as well as external analysis.

## **INTRODUCTION**

The company under consideration Yahoo! Inc. (referred to hereinafter as “Yahoo”) is one of the world’s largest online network integrated services provider with a combined user base in excess of 500 million. Yahoo provides a whole host of network based services, however over its existence of past 17 years, many such similar service providers have shored up especially after the dot com boom. Some of these new players took the path of specializing in a particular form of service while others brought a whole gamut of new services with the old ones.

World Wide Web has grown exponentially over the past years giving rise to the intense rivalry between companies involved. This intense rivalry especially with the likes of Google is one of the biggest challenges for Yahoo.

In this case study, we try to first understand the backdrop in which the company is operating including its mission and vision for the future, its ultimate goals and philosophy regarding its business, its business model, external analysis based on Porter’s five forces model and finally internal analysis based on distinctive competencies, competitive advantage and profitability.

This document is prepared based on the information provided in the case, “Yahoo” (Jones, 2007) as well as numerous external sources such as Yahoo’s website and its annual reports circa 2011.

## **COMPANY OVERVIEW**

Yahoo was incorporated as an Internet service provider that would serve both the users and the businesses globally. Yahoo was founded by two Stanford PhD candidates in January 1994 named Jerry Yang and David Filo. However, today Yahoo has become one of the world’s largest global online network integrated services provider. Yahoo today has a user base of 500 million per month. It has a presence in more than 30 countries worldwide and provides services in more than twenty different languages. The company presently operates out of Sunnyvale, California in the United States.

Yahoo first went public on the NASDAQ (YHOO) in the April of 1996. The stock had opened for \$ 13.00 per share of the company and by the very day’s end; it had reached a closing of \$ 33.00 per share (Yahoo Overview, 2012). In Dec 1999 the company was also added to the S&P 500 index.

Recently, in early 2012, Yahoo had appointed Scott Thompson as the new CEO who was then replaced by Marissa Mayer in the month of May (Perez, 2012). Also in June 2012, the company also hired the

former director at Google, Michael Barrett, as its Chief Revenue Officer. In April 2012, the company announced a cut of about 14 % of its workforce. This was expected to save the company around \$ 375 million annually and is scheduled to be completed by end of this year (Liedtke, 2012).

## **MANDATE**

The mandate of a company sheds light on why it exists, what it hopes to achieve in reference to the expectations of the stakeholders. Yahoo changed its mission statement from just “focusing on being a search portal” to “want to connect people to their passion, communities and world’s knowledge” (Baker, 2007). Yahoo’s mission Statement refers to the fact that the company envisages to achieve two major objectives; first one is to provide personal digital experience to their customers so that they remain happy doing things they like especially in the web and secondly to provide a unique way to the advertiser to connect to the consumers and help to build their business (Yahoo FAQ, 2012). In simple terms, as Yahoo enables people to connect with their passion in various fields i.e. sports, music etc., it will in turn provide Yahoo with an excellent opportunity to generate advertising revenue from music and sports companies etc.

The core values of the company provide a sense of direction that the company adheres to and the way it is going to do it, and the goals it wishes to achieve via the same. The company on its website has outlined six Core values that drive the company forward. These are namely (Yahoo Values, 2004).

- a. Excellence: The Company mentions of it always seeking quality and knowing that the success should never be taken for granted and hence learn from own mistakes.
- b. Innovation: The Company believes in creativity and is ready to adapt to change in market trends and respond with calculated and responsible steps.
- c. Customer Fixation: The Company is always looking to maintain the trust of the customers and respond to the customers need and try to exceed them.
- d. Teamwork: The Company believes in and tries to encourage the best of the ideas from the entire organization and to foster collaboration and yet maintain individual accountability.
- e. Community: The Company seeks to serve both communities globally and the Internet Community as a whole in general.
- f. Fun: The Company also possesses a sense of humour and believe that the same is essential to the success of the company and also do appreciate and celebrate their achievement.

From the aforementioned Core Values and the present scenario of the company, it seems Yahoo's main challenge is keep up with its two very important core values namely Innovation and Customer Fixation which are integral for it to be the market leader in web portal industry.

The main stakeholders of Yahoo are; its stockholders that invest their capital in the company, customers that use Yahoo's web portal, advertisers that market their products through Yahoo's online services and employees who provide it intellectual capacity leading to the creation of innovative new online products and services. Yahoo's employees want a fair, ethical treatment and a stable job, advertisers expect to connect to their market segment by advertising on Yahoo, customers want enjoyable and innovative products that make their daily life easier and most importantly stock holders have an expectation that Yahoo will pursue strategies that increase company's revenue and profitability maximizing shareholder value.

## **EXTERNAL ANALYSIS**

### **COMPETITIVE FORCES**

Yahoo operates in "the Internet products, services, and content markets, which are highly competitive and characterized by rapid change, emerging and converging technologies, and increasing competition" and that their most significant competition is from "Facebook, Google, Microsoft, and AOL (Yahoo 10K, 2011). Yahoo is a part of web portal industry where revenue generation is dependent on online advertising which in turn requires a large number of user base to generate any significant revenue.

Advertisers prefer to advertise their products through web portals that have a large user base and offer products and tools which help them reach their target audience. In web portal industry, degree of rivalry amongst competitors is quite high, competitors compete aggressively against each other through innovative new product offerings and/or by lowering prices for advertising but Product differentiation is becoming increasingly difficult due to the fact that over the years industry has gone through consolidation and main players such as Google, Yahoo, MSN etc. have gained a significant amount of market share creating an oligopoly. Industry has entered a mature stage in the western hemisphere such as Europe and North America but a lot of potential is available in emerging markets of Asia and South America where it is in growth stage.

Due to the nature of internet, entry in to the web portal industry is relatively easy but based on the amount of capital, innovative skills and technological knowledge required to attract and maintain a large user base in the web portal industry, the threat of new entrants that can compete directly with Yahoo is quite low.

Yahoo does charge some fees for certain premium services but generally its main services such as email and search are free of cost which is common amongst competitors in web portal industry. The range of services offered in web portal at little or no cost means that switching cost for users is quite low. Buyers also include those advertisers who would buy ad space on the website. Even though Yahoo's revenue stream is not concentrated at any individual advertiser or user but low switching costs for users combined with the intense rivalry in the industry to gain advertisers puts bargaining power of the buyers at medium.

Yahoo's search engine essentially is a mechanism that provides users with an ability to search through content present on the internet. This content is freely available on the internet for Yahoo to collect and categorize hence supplier power for Yahoo's search engine is quite low.

Web portal industry in which Yahoo operates does not have a lot of substitutes. Some possible substitutes for Yahoo's products and services are; postal service is substitute of Yahoo's e-mail service, financial newspapers are a substitute for Yahoo's financial section, etc., but most importantly there are no efficient substitutes for search engines on web portal industry in both online or offline world. Because of the lack of efficiency of substitutes to products and services offered by web portal industry, the threat of substitutes is low.

Recently Web portal industry has gained a possible complementor in the form of latest smart phones with high speed mobile internet access which gives user an ability to be online at any place at any given time. Smart phone technology combined with the web portal industry gives both parties involved a better opportunity to satisfy customer demands.

## **MACRO ENVIRONMENT**

Aforementioned analysis was based on Porter's five forces model which is subject to macro-environment. We shall now analyse different forces in the macro-environment.

Economic conditions might affect Yahoo as it derives most of its revenue from businesses and individuals who advertise their products and services on the internet. Any slump in the economic growth may lead to a reduction in advertising budget of businesses which will eventually affect Yahoo.

In the emerging markets such as those in Asia and South America, Yahoo is presented with an excellent opportunity to expand its business. Along with the opportunity, Yahoo may also face stiff competition in emerging markets such as China where local competitors have gained considerable market share i.e.

Baidu, Inc. in China has 63% of the market share and is Yahoo's main competitor in that region (Barboza, 2010). Political and legal forces tend to affect businesses operating in the web portal industry especially in the emerging markets. Regulations on the internet service providers generally vary from country to country i.e. in certain countries local providers enjoy special protection through regulations giving them competitive advantage over Yahoo. Yahoo was successfully sued in France for its failure to keep Nazi memorabilia off its Web pages as it is considered a crime in France (Claburn, 2006) and in 2010 Google pulled out of China after failing to negotiate with Chinese government (Carlson, 2010).

Internet is a rapidly growing industry, and with low barriers to entry and low switching costs, technological forces heavily influence Yahoo. With the advent of new technologies, competition and rivalry between players in web portal industry is likely to be more intense driving down revenues as a result. Development in technology may give rise to newer forms of advertising media which can potentially take away revenue from Yahoo.

Yahoo mainly operates in the online world and number of users with access to internet is growing rapidly and user base in the developed countries is very well spread out across all demographics. More and more people in the developing countries are getting access to the internet which is likely an opportunity for Yahoo.

## **INTERNAL ANALYSIS**

We shall now discuss the internal environment of the company and how can it have any sort of material impact on the performance of the company. The internal Analysis of the company would include the distinctive competencies of the company, the competitive advantage and the profitability of the company.

The first and foremost distinctive competency of the company is the ability to enable people relate to their passion. This is as per Yahoo's mission statement and is also reflective in the product portfolio. The company is probably the leader in the industry in terms of the number of services and products that the company offers. This range of product offering has not been observed to be present with the other competitors i.e. Flickr, a comprehensive imaging database, Yahoo Finance provides accurate financial Data in almost real time, etc. The second distinctive competency of the company is the brand name of the company, which has helped it retain its users despite its consistent problem in bringing new innovative products like its competitors Google and Facebook. The third and most important is the efficiency of Yahoo marketing services and its ability to attract customers and publishers. Since its beginning the business model of Yahoo has been heavily reliant on contextual advertising and offering premium

services. And this segment of business of Yahoo has still kept it in business. And not to forget the next competency of the company is its famous search and portal. Though the search algorithm used by the company has gradually been updated to the changing demographics of the business, but still some work needs to be done on it to make it a sheer strength for the company.

Yahoo still possesses some competitive advantage as compared to its rivals. Firstly, Yahoo's directory is very well-structured and authenticated business library and it can be developed and customized to act as a new and good source of revenue. Second is the ability of Yahoo to provide customized and contextual advertising. Another very important competitive advantage of the company is the hold of Yahoo in the mobile segment with its auxiliary products and even partnerships with third party service providers. And probably last but not the least is the employees of the company, who proved tremendous support, and technical knowhow, that helps Yahoo shore up with customized solutions for its customers and also help in maintain a virtually glitch/hassle free website quality.

As far as profitability is concerned, this is something that has not been going right for the company. Over the past four quarters, the company has not seen any significant growth in its revenue and has in fact witnessed a decline in the operating profitability due to a rise in non-recurring expenses (Yahoo Income Statement, 2012). However since the new CEO took over in the month of July, she has embarked on a new strategy of Brownfield expansion via the M&A route and other critical decisions, that is set "to revive growth and boost profitability" which is a very positive and encouraging news for investors (Womack, 2012). Yahoo's decision to hire executives Michael Barret as a CFO and Marissa Mayer as a CEO seems to show that Yahoo understands the threat that Google poses as both Barret and Mayer were executive at Google prior to joining Yahoo.

From the above analysis, it seems that the company is better poised on its internal environment than external environment. And it needs to improvise on its assets and brand to shore up its market share and performance. Yahoo's recent layoff of 14% of its work force seems to be beginning of new strategy of refocusing the company towards its core competencies, product innovation and growth.

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