MySpace's New Friend: Google

The search firm will pay at least $900 million to provide query results and ads on the website.

By Chris Gaither, Times Staff Writer
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SAN FRANCISCO — Two of the biggest names on the Internet struck a nearly billion-dollar deal Monday to combine the search and advertising technology of Google Inc. with the massive online audience of News Corp.'s MySpace.

The agreement, worth at least $900 million to News Corp. over the next four years, capitalizes on the popularity of so-called social networking sites and may be a key step toward turning the new-media mash of teenage ruminations, artwork and photos into a viable channel for advertisers.

Although MySpace attracts more than 50 million U.S. visitors a month, some big companies fear their ads might appear next to racy content created by the site's members. Google has prospered by bringing a mathematical efficiency to the Web, and its role as MySpace's primary ad broker could provide the financial support social networking needs to avoid becoming a passing fad.

“Google essentially locks up the biggest source of traffic among the younger demographic on the Web,” RBC Capital Markets analyst Jordan Rohan said. “It’s wild, untamed traffic today. Google is essentially trying to build a toll road through the jungle.”

The deal also answers an important question about how Rupert Murdoch's News Corp. plans to recoup the more than $1.2 billion it spent last year to acquire MySpace, the Web's most popular social networking site, and IGN Entertainment, which runs the Rotten Tomatoes and GameSpy websites.

"In one fell swoop, we paid for about two-thirds of all of our Internet investments, and we've already paid for MySpace with a 70% premium," News Corp. President Peter Chernin said. "Whoever said it remains to be seen if we can monetize it, hopefully things are a little bit more clear this week than last week."

The Google deal "is making social networking into a true business," Pal Research analyst Richard Greenfield said. “Rupert Murdoch and News Corp. have been willing to invest to drive shareholder value. That willingness to make visionary investments is what really sets News Corp. apart from its peers."

To be sure, the long-term success of social networking sites as businesses is anything but certain. Users of social networks build their own Web pages filled with anything they like — whether it's model trains or lurid descriptions of last night's fraternity party. That unpredictability makes advertisers skittish.

Under Monday's deal, Mountain View, Calif.-based Google will pay News Corp. at least $900 million in cash through 2010 to provide search results and online ads on MySpace, AmericanIdol.com and other websites run by Beverly Hills-based Fox Interactive Media.

A Google search box is expected to appear on every MySpace page, and the companies will share the revenue generated every time a MySpace visitor clicks on one of the search-related ads that has turned Google into a media powerhouse.
The News Corp. deal was Google's second major media company partnership announced Monday. Earlier in the day, Viacom Inc. said it would make video clips from its TV programs, including "Laguna Beach: The Real Orange County" and "SpongeBob SquarePants," available to large websites that run ads brokered by Google. The clips will feature ads, and Google will share the revenue with Viacom and the website partners.

"Google is an enabler," said Scott Kessler, Internet equity analyst with Standard & Poor's. "Media companies should be increasingly working with companies like Google to essentially bring traffic to their websites as well as monetize it."

Analysts called the Fox deal a blow to Google's competitors, including Yahoo Inc. and Microsoft Corp. Yahoo had provided some search technology for MySpace, but Fox said this year that the account was open for bidding. Analysts had seen MySpace as a big revenue opportunity for search partners, despite concerns about the racy profile pages and the potential cost of such a deal.

"We think this is a great deal for Fox; however, we only participate in partnerships that also meet Yahoo's standards," Yahoo spokeswoman Joanna Stevens said in a statement. "We did not see this opportunity as financially prudent or in the best interest of our advertisers."

A Microsoft spokeswoman declined to comment.

Fox executives say the top reason MySpace users leave the website is to conduct Web searches on Google. They plan to promote the Google search box heavily so that MySpace users stick around and Fox can cash in on the search ads.

"It's going to make MySpace that much more appealing as a site," Kessler said. "Google search functionality will be able to let users find what they're looking for quicker."

For its part, Google may receive more of a strategic boost than a financial one from the MySpace alliance. Executives at Fox and Google declined to disclose the revenue sharing on each ad, but analysts said the search giant almost certainly had to promise Fox a higher share of the revenue than it normally does.

Google's position as the entry point for so many Web surfers gave it an inside look at how fast MySpace was growing, Google Chief Executive Eric Schmidt said.

"When we modeled what was going on on the Web, we did a horizontal chart, and there was this MySpace entry that was so far off the chart that it had obliterated everyone else," he said. "This is a happening thing, and we want to make sure we're part of that…. It makes perfect sense for us to be where the users are."