Google shrugs at possible rival deal

By Joseph Menn, Times Staff Writer
May 5, 2007

If the world needed another sign of Google Inc.'s dominance, it came Friday.

Software behemoth Microsoft Corp. was reported to be trying to buy the Web search engine's closest rival, Yahoo Inc.

Yet Google's stock barely budged — not because Wall Street didn't believe the deal would come off, but because investors didn't think that a union of two such powerful Internet players would pose much of a threat to Google.

Microsoft and Yahoo have held on-again, off-again negotiations for years, and the new dialogue isn't any more intense than in the past, people familiar with the discussions said.

The New York Post reported Friday that Microsoft was urging Yahoo to enter into formal takeover discussions for a deal worth as much as $50 billion, while later reports said Yahoo was interested only in an alliance of online efforts. The companies declined to comment.

With both companies increasingly threatened by Google's power, investors bet that some sort of a deal would transpire this time with an offer that valued Yahoo at a premium. They sent the Sunnyvale, Calif., company's stock up as high as 17% before it closed up 10% at $30.98.

Google's investors, on the other hand, gave a collective shrug, and the company's shares fell by less than half of a percentage point. That's because even a combined Microsoft-Yahoo would lag behind Google in search-market share, advertising technology and consumer appeal.

The two companies together conducted one-third of all U.S. searches in March, compared with 54% for Google, according to research firm Nielsen/NetRatings.

"Instead of getting bigger, these companies need to think about getting smarter," said Scott Kessler, an Internet industry analyst with Standard & Poor's. "I don't think a partnership is necessarily going to achieve that goal."

Microsoft shares fell 1.3% to $30.56.

Many investors and analysts supported a partnership or full acquisition, saying that a united firm stood a better chance against Mountain View, Calif.-based Google in such areas as e-mail and applications for mobile devices.

"I wouldn't say it's going to change too much of the search marketplace," said Redondo Beach money manager Ryan Jacob, whose Jacob Internet Fund has stakes in both Yahoo and Google. "Yet Google's stock barely budged — not because Wall Street didn't believe the deal would come off, but because investors didn't think that a union of two such powerful Internet players would pose much of a threat to Google.

Microsoft and Yahoo have held on-again, off-again negotiations for years, and the new dialogue isn't any more intense than in the past, people familiar with the discussions said.

The New York Post reported Friday that Microsoft was urging Yahoo to enter into formal takeover discussions for a deal worth as much as $50 billion, while later reports said Yahoo was interested only in an alliance of online efforts. The companies declined to comment.

With both companies increasingly threatened by Google's power, investors bet that some sort of a deal would transpire this time with an offer that valued Yahoo at a premium. They sent the Sunnyvale, Calif., company's stock up as high as 17% before it closed up 10% at $30.98.

Google's investors, on the other hand, gave a collective shrug, and the company's shares fell by less than half of a percentage point. That's because even a combined Microsoft-Yahoo would lag behind Google in search-market share, advertising technology and consumer appeal.

The two companies together conducted one-third of all U.S. searches in March, compared with 54% for Google, according to research firm Nielsen/NetRatings.

"Instead of getting bigger, these companies need to think about getting smarter," said Scott Kessler, an Internet industry analyst with Standard & Poor's. "I don't think a partnership is necessarily going to achieve that goal."

Microsoft shares fell 1.3% to $30.56.

Many investors and analysts supported a partnership or full acquisition, saying that a united firm stood a better chance against Mountain View, Calif.-based Google in such areas as e-mail and applications for mobile devices.

"I wouldn't say it's going to change too much of the search marketplace," said Redondo Beach money manager Ryan Jacob, whose Jacob Internet Fund has stakes in both Yahoo and Google. "Yet there are other areas on the periphery that are interesting as well."

Jacob and others said that Yahoo's search technology was better than Microsoft's and not too far behind Google's. Yahoo's Web pages also are viewed more than Microsoft's, making it the Web's biggest recipient of revenue from display ads.

Microsoft, for its part, touches the vast majority of computer owners by supplying the operating system that runs their machines, the browser they use to visit websites as well as the most popular programs for producing documents.
"The positive is, you have a lot of assets to bring to bear" in an alliance, said Ellen Siminoff, who founded Yahoo's business-development unit and now heads Efficient Frontier Inc., which buys ads for its clients in Yahoo and Google's search engines.

"Yahoo and Microsoft between them know about search, plus display, plus what happens on the browser and the desktop," Siminoff said. "It's a very powerful combination."

Both companies have been spending furiously to try to keep up with Google.

Yahoo's new system for placing search ads has had little effect on profit so far, but Yahoo Chief Executive Terry Semel has said it has gotten good reviews from advertisers who have tested it. Yahoo expects the system to improve its earnings this year.

Yahoo had provided paid search ads to Microsoft until the Redmond, Wash., software maker went its own way a year ago. Since then, Microsoft's search effort has been losing money, and several of the unit's executives have left.

Microsoft's system, which relies on an online auction to sell ads, has suffered because it doesn't have the size of either Yahoo or Google. Analysts said that simply combining Yahoo's and Microsoft's ad sales efforts would provide the scale to attract more advertisers, and the resulting competition should drive up the bidding.

It's possible that neither company is particularly enthusiastic about getting together, employees and analysts said. Microsoft has shed away from large, expensive acquisitions, and the companies are based in different states and have such different cultures that significant staff turnover is a certainty.

The most palatable thing for Yahoo, people close to the company said, would be for Microsoft to shift its MSN online network to Yahoo and make a minority investment in Yahoo.

"Given the messiness of a full-out merger — and also the limited benefit it would bring to Yahoo — I believe that a merger won't be in the works anytime soon," Forrester Research analyst Charlene Li said. "More logical would be partnership agreements where the strengths of each company are shared."

But Google's momentum and other factors may have given Microsoft in particular a sense of urgency, UBS Securities analyst Heather Bellini said.

And emerging technology and competitors have driven Microsoft to the conclusion that much of what it now sells as software must be offered as an Internet service — supported partially or completely by advertising.

If Microsoft can't find an effective way to sell ads for its own services, Bellini said, it will be painful to turn the task over to Google or a free-standing Yahoo.

joseph.menn@latimes.com

* Times staff writer Dawn C. Chmielewski contributed to this report.

* (INFOBOX BELOW)

Finders' fee

--

Share of U.S. Internet searches in March

Google: 54%

Yahoo: 22%

MSN: 10%

Others: 14%

--

Projected share of U.S. paid search advertising in 2007
Google shrugs at possible rival deal – Los Angeles Times

--

Google: 75.6%
Yahoo: 16.3%
Others: 8.1%

Source: Nielsen/NetRatings, EMarketer

MORE NEWS
- Tornado levels Kansas town, at least 9 die
- Spielberg wins in bid for 'Lovely Bones'
- Jet with 114 aboard crashes in Cameroon

"Venice" is more than just Muscle Beach! View our readers' photos and share your own at Your Scene.
Submit your photo now >>

Ads by Google

2007 Best Stocks To Buy
10 Low-Priced Stocks You Must Own Free Report on Profitable Stocks
www.cabotwealth.com

Top 9 Stocks for 2007
www.NewsletterAdvisors.com

TD AMERITRADE: Brokerage
Commission free trades for 45 days. No maintenance fees. Sign up now.
TDAMERITRADE.com

World's Top Penny Stock?
Learn How A Small Exploration Co. Will Be the Top Stock of 2007
www.DailyWealth.com/Penny_Report

Investing for Beginners
Easy to use Trading Platform No Minimums, No Hidden Fees
www.firstrade.com