TUCK SCHOOL OF BUSINESS AT DARTMOUTH
GLASSMEYER/MCNAMEE CENTER FOR DIGITAL STRATEGIES

Case #6-0005

Do You Yahoo!? 2001

The Current Situation

Matthew G. Rightmire (T'96), Vice President & General Manager of Media at Yahoo, was in for another late night. The conversation he just had with his boss placed a daunting task squarely upon his shoulders. Matt was contemplating Yahoo's business model and strategy. Although Yahoo had been a top player in the portal space since its inception, some analysts were predicting that the market for online advertising would continue to decline. They made this prediction despite the fact that by February 2001, 56% of US adults were on the web and the international market was burgeoning. Advertising was 90% of Yahoo's revenues, so Yahoo was concerned it might need to find a new way to continue to be profitable.

Two recent changes in the competitive landscape, AOL's merger with Time Warner and Terra's acquisition of Lycos, were pitting Yahoo against 500-pound gorillas for both eyeballs and advertising dollars. Formidable competition was coming from small niche sites as well as large, traditional communications and media companies, including phone and cable companies.

Yahoo was not considering mergers, but did make moves into new product lines ranging from e-commerce, to movies, Internet phone services, and intranet development. Considering Yahoo's expansion into so many new diverse product lines, Matt worried Yahoo was set to become the jack of all trades and the master of none. On the other hand, perhaps Yahoo was simply casting a wide net to become the portal with everything -- the portal of choice. Matt knew that Yahoo's historical strength was as a content aggregator, but he wondered if that model would sustain future success.

A Brief History

When Matt joined Yahoo after receiving his MBA from the Tuck School, Yahoo was less than two years old. Although many positive changes have occurred since Matt's graduation, he

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admits: "I'm a lot more tired than I was five years ago." Yahoo's Internet portal model was an anomaly in the industry -- it looked like Yahoo could actually be profitable. Yahoo, in fact turned profitable in 1998 and has remained profitable even through the dot-com crash in 2000 and 2001.

Launched as a catalog of graduate students' favorite sites, Yahoo has expanded into a vast array of Internet businesses. Although it may not have been the first mover in the infomediary space, Yahoo was certainly the first successful mover. Its initial success came more from marketing than technical expertise. Yahoo's brand is the 38th most recognizable brand in the world (including all brands, not just Internet brands) and its 185 million visitors each month have allowed Yahoo to build an advertiser base of over 5,200 companies. Yahoo has built its brand by bartering advertising. In other words, they would exchange advertising at a sporting event for advertising on the site. Moreover, Yahoo provides free services such as email, search engine, calendar, and web pages, which also build its user base. By allowing users to create personal pages that list news and information relevant to them, Yahoo not only increased its user base, but also increased the site's "stickiness." As users spent more time on the site and became locked into the site because of the information they entered into Yahoo's customizable services, customers became "stuck" to the site.

To build its international presence, Yahoo spent $214.9 million for the year ended December 31, 1999, or 37% of net revenues on sales and marketing[1]. In sum, Yahoo was in 24 countries and a leading portal in many of them, generating 15% of revenues from outside the US in FY '00. (See Appendix 1 for a partial list of countries)

Because the site was user-friendly and was early to the market with customization features, Yahoo gained and retained users, which in turn allowed Yahoo to finance more services, such as free email, calendar, etc. Features such as email and calendars dramatically increase the amount of time a user spends on Yahoo and also brought the daily page views to one billion during February 2001. More free features resulted in more users, more users brought in more advertising dollars, and the cycle continued.

Yahoo went public in 1996 on the NASDAQ. On April 20, 1996 Yahoo opened at $1.08 (adjusted for splits) a share. By the end of 1997, it had topped $70 a share. Financing from Softbank allowed Yahoo to cross both the Atlantic and Pacific oceans to form Yahoo Japan and Yahoo Europe in 1996 and Yahoo Korea in 1997. Also in 1997, Yahoo teamed with Netscape to create an Internet navigation service. After AOL merged with Netscape, the joint venture became impractical and was discontinued.

Continuing its quest for eyeballs, Yahoo acquired Internet directory Four11.com in 1998 and launched a co-branded online directory service, Yahoo Online, with AT&T. It also acquired WebCal, an Internet scheduling product. To augment its advertising revenues, Yahoo acquired Internet direct marketer Yoyodyne in 1998. Seeking to add e-commerce to its portal strategy, Yahoo purchased an e-commerce software company, Viaweb, that same year. By the end of 1998, the company once run from a trailer had $25.6 million in revenues, 803 full time

[1] Yahoo's Annual Report

employees, and Internet users viewed an average of approximately 167 million web pages per day on Yahoo-branded online media properties.

Yahoo continued its rise in 1999 by further diversifying into new businesses to gain page views. To compliment its role as an aggregator of textual content, Yahoo ventured into multi-media with Yahoo Radio, a set of Internet radio stations that you can listen to on your computer. The purchase of broadcast.com solidified Yahoo's position as a competitor in the multimedia space. These services do not create original content. They broadcast live or recorded events. Yahoo's purchase of Broadcast.com generated 5% of Fiscal Year (FY) 2000 revenues. Furthering the consolidation trend, Yahoo acquired Geocities, a site popular with consumers because it allowed for the free creation of personal web pages with user-friendly software. Other consolidations in the online multi-media market have lead to stronger competitors such as RealPlayer and Microsoft Media Player, both of which allow users to listen to, access, and watch multi-media programs.

Yahoo teamed with TIBCO, a leading software and applications developer, to form Corporate My Yahoo, a corporate intranet service that develops, builds, and support corporate intranets. Yahoo snagged large customers including McDonald's, Seagate Technology, and Bayer. It also purchased software maker Encompass and reached out to cell phone users by becoming Sprint's wireless Internet access provider. Finally, in late 1999, Yahoo inked a deal with Kmart to launch free Internet Service Provider (ISP) BlueLight.com.

The Y2K bug did not get a bite out of Yahoo and 2000 started as a good year indeed. In spite of a Denial of Service (DOS) attack by hacker wunderkind MafiaBoy that disabled the site for three hours, Yahoo had soared as high as $140/share in mid-2000. Its strategy, "Yahoo Everywhere," was to become the Jack and Master of all trades on the Internet.

Yahoo finally made an impact in the e-commerce market with the introduction of its B2B Marketplace and Yahoo Auctions. The B2B marketplace is a business-to-business directory focused on small businesses. Yahoo Auctions competes with eBay in the consumer-to-consumer and business-to-consumer space. Yahoo charges businesses a one-time fee to be listed in its directory. Yahoo Auctions charges sellers a listing fee on the auction site. To facilitate the transactions, Yahoo acquired Arthas.com, an Internet bank that provided person-to-person e-commerce payment services, which was incorporated into the Yahoo's PayDirect service.

Yahoo continued to build its community through the acquisition of eGroups, a provider of free group emails and group management services, in a deal valued at $430 million in August 2000. It also took a minority stake in Net2Phone, a company that provides free computer-to-phone line long distance calling. Finally, Yahoo expanded its presence in the wireless market by providing user interface services and some of its aggregated content to users of Palm handheld devices (PDAs).

In 2000, the dot-com market became known as the dot gone market as hundreds of company's burn rates left them insolvent. The majority of dot-com expenses were in advertising. As they began to fail, Yahoo's reliance on advertising revenues, as well as its own sales and marketing budget, were widely criticized in spite of Yahoo having $1.7 billion in cash and marketable securities. Yahoo's stock dropped from a 52 week high of over $205 to $13 9/16 as of March 17, 2001. In response, Yahoo officials promised to buy back $500 million of company stock in an effort to prop up the stock price. Some analysts felt that the over 50% decline in technology stock prices was a natural and needed correction of the market. Others thought investors had thrown out the baby with the bath water.

Recent Changes at Yahoo

By late 2000, Yahoo had 60 million registered users and 180 million visitors per month. It had built alliances with global leaders ranging from ABCNews.com to Sprint. Despite its diversification efforts, advertising revenues still account for 90% of revenues and the advertising model was widely criticized in the media. (See the Income Statement in Appendix 2) Further, most of Yahoo's advertising revenues are realized from banner ads and, although there is some speculation as to the degree of decrease, banner ad rates have fallen and may continue to fall.

Late in 2000, Yahoo switched from using the Inktomi search engine to one developed by Google. Google's search engine gives users access to more sites and better filters than the Inktomi tool. New entrants into the space, including mega-search engines pose a new treat to the viability of Yahoo's search engine. Although innovators tend to migrate to mega-search engines like www.dogpile.com before the average users, analysts predict more and more users will begin to go directly to their desired website, bypassing the search engine entirely.

In early 2001, Yahoo began investing in content creation. Its FinanceVision is a web cast of finance information created by Yahoo and available for viewing 24/7. Hoping to leverage its number one position as the leading finance information aggregator, Yahoo launched the site to less than rave reviews. One critic compared the production quality to that of Saturday Night Live's Wayne's World. A shopping network has been launched in a similar fashion. As relatively few web users have adequate bandwidth to watch streaming media real-time, Yahoo may have time to improve, but the current prognosis is DOA . . .(dead on arrival.) Despite the reviews of FinanceVision, Yahoo Finance was ranked the top online finance site by Jupiter Media Matrix in November 2000 (most recent data.) Yahoo Finance allows user to track stocks, manage their portfolio, and get textual financial news and information via a customized page.

In the multi-media space, Yahoo expanded beyond broadcast.com, adding Net2Phone, a service that allows free long distance calling from computers to traditional phones. Yahoo has invested in Ifilm. This website, combined with Tivo technology, will allow consumers to bypass the cable networks and download movies directly to their televisions. In addition, Yahoo Player was launched as a tool for playing digital music and videos. Yahoo has also developed a messenger service to rival AOL's Instant Messenger and added Companion, a personalized toolbar bar for the browser.

Announcing in January 2001 that it would begin to charge fees for listings ranging from $0.20 to $2.25, Yahoo sought revenues from its auctions site. Unlike eBay, its largest competitor in the space, Yahoo does not charge a percentage of the final price. Nonetheless, eBay remains the leading auction site with almost 19 million visitors in January 2001 and just under 17 million in February 2001. This decrease caused eBay to fall from 10th to 12th in monthly traffic.

By March 2001, *Business Week* reported that Yahoo was a top ten net property in 12 out of 13 international markets tracked by Nielsen/Net-Ratings Inc. Yahoo reached 29 million surfers in Europe alone as of October 30, 2000. Yahoo was also pushing ahead in Japan where it reaches 86% of online users and online ad spending is expected to swell from $212 million of the nation's $53 billion ad market to $943 million by 2002. [2] Yahoo ranked as the seventh most popular Web site in China based on the NetValue survey, and sixth according to Iamasia, giving Yahoo access to millions of eyeballs. However, eyeballs do not necessarily equal revenues, as Japan is considered the only promising Asian country for advertising revenues. Thus, Yahoo must find another source of revenues in all but one of its Asian markets.

Globalization has created its own problems. The French government set "legal and technical precedent" in 2001 that Yahoo France Managing Director Philippe Guillanton described as "dangerous." In response to strong criticism from French users and a November 2000 court order, Yahoo agreed to ban hate material from its auction web sites. Yahoo has agreed to ban the material because it did not want to profit from hate materials. Yet, Yahoo is still challenging the ruling in a US court, as the technical implementation costs of keeping citizens in one country from accessing other country materials are high.[3] Further, current international laws and treaties do not directly address web responsibility. For example, if a hate site in launched by a German citizen who resides in Germany, certainly that citizen can be prosecuted under German laws. The question remains, however, whether an American company can be held liable if that site is placed on its servers. According to Mark Potock of the Southern Poverty Law Center, "the likelihood is that it is not going to be solved in the courts ultimately, but in some kind of convention."[4]

Further south, Yahoo A&NZ, Yahoo's Australia and New Zealand site, completed is first acquisition of a direct competitor by acquiring Sold.com, an online auction site, from John Fairfax Publishing for $15.9 million. Yahoo A&NZ also has holdings down-under in a job source, Seek.com.au, and carsales.com.au.

The *Financial Times of London* (3/9/01) reported that Yahoo’s worldwide international operations resulted in 40% of Yahoo’s page views, but only 16% of Yahoo’s revenues. In addition, it pointed out that the cost of tailoring a website to local conditions can be very high and that revenue per domestic employee is $114,000 versus $52,000 in international markets.

By March 2001, Yahoo positioned itself against being acquired by another company by implementing a poison pill. As reported by e-commercetimes.com, the plan entitles stockholders to buy preferred stock. The company plans to distribute the rights as a dividend granting one right for each share of common stock. The rights will only be exercisable if a

[2] "The Word at Yahoo: Yikes!," Business Week, October 30, 2000. pg 63
[3] www.cnn.com ADD EXACT ARTICLE
[4] www.cnn.com ADD EXACT ARTICLE

person or group acquires ownership of 15 percent or more of Yahoo common stock, or commences a tender offer that enables that entity to own 15 percent or more of Yahoo stock.[5] As of March 2001, Softbank owns 21% of Yahoo and its founders (Filo and Yang) own 16.4%.

One of the reasons for the poison pill was the uniqueness of Yahoo's corporate culture. (See Appendix 3) According to Matt, "we believe in the value that comes out of the culture that we have created." He believes traditional management often does not take culture as seriously as Yahoo. Many Yahoo employees fear Yahoo's "hip" image would be compromised by association with the wrong merger partner and its culture would be damaged during a hostile takeover. Yahoo's management has yet to identify a merger partner that would be a good cultural fit. And Matt says, "McKinsey suits don't mesh well with the culture we've created."

C-E-O How They Run

In late February 2001, Yahoo Asia managing director Savio Chow resigned just one day after the managing director of Yahoo Europe, Fabiola Arrendondo, announced her resignation. The resignations resonate as Yahoo has been particularly vulnerable in Asia, despite its recent $145 million stock-based acquisition of Kimo, Taiwan's leading portal.

In early March, Yahoo's Chairman and CEO, Tim Koogle, resigned amid earnings warnings and a toppling technology market. Mr. Koogle will remain on as Chairman indefinitely and will continue as CEO until a replacement can be found. Yahoo said it now expects first quarter revenues to be between $170 - $180 million, and that net income will be approximately breakeven. Previously, Wall Street analysts had been expecting $232 million in revenue and profits of 5 cents per share.[6]

At about the same time, Mark Rubinstein, the managing director of Yahoo Canada, resigned. Two weeks later, Anil Singh, Yahoo's chief sales and marketing officer and senior vice president of business operations, announced he would be retiring in early May "to spend more time with his family and pursue personal interests."[7]

This caused George Nichols of Morningstar.com to say in e-commercetimes.com: "Considering the deteriorating business at the Internet portal, we are concerned about how long it will take to find talented individuals willing to fill these vacated positions. This further contributes to the ongoing turmoil at the company and we don't see the clouds lifting anytime soon."

Despite the revenue woes and potential cultural conflict, Yahoo has been able to bring in top-level management from the "old economy." On March 21, 2001, Yahoo announced Gregory C. Coleman would join Yahoo as the executive vice president of North American operations. Prior to joining Yahoo, Mr. Coleman was senior vice president of Reader's Digest Association Inc. and president of U.S. magazine publishing. Mr. Coleman's extensive publishing industry experience includes oversight of such magazines as Reader's Digest, Walking, Family

[5] http://www.e-commercetimes.com/perl/story/?id=7886
[6] www.e-commercetimes.com

Handyman and American Woodworker. Although the stock dropped 1% on the day of the announcement, most analysts reported favorably on Mr. Coleman's hire, as the diversification in Yahoo's ranks is seen positively. Furthermore, Mr. Coleman's work in the turn-around at Reader's Digest will benefit Yahoo in any attempts to redefine itself.[8]

Although its many management departures are troubling, many analysts feel that these resignations will open the door for more traditional leadership. Still, many employees are concerned about how traditional management methods and business practices could effect Yahoo's "hip" culture and undermine the strength of Yahoo's "hip" brand.

While Yahoo's earnings warning was distressing, analysts also noted that advertising is a cyclical business subject to turns in the economy. The online advertising business itself was expected to top $27 billion in 2004, far greater than its 2000 estimate of $5 billion. As the other players fall out of the online portal market, Yahoo may have a large piece of a very large pie.

The Industry Trends and Recent Developments

Questions about the viability of a pure portal model have been raised repeatedly. One pundit noted in January 2001 that: "The idea, though, of a pure portal continuing to be viable is questionable." Furthermore, analysts describe a "danger of mass desertion" as users begin to type web addresses directly into their browsers.

The search engine model itself is changing to meet consumers', and especially researchers' changing needs, with the addition of mega-search engines. Some think that it may only be a matter of time until search engines are used primarily for research. Sites like www.dogpile.com provide access to many more documents and a much more detailed search tool. New hard drive search tools, such as www.opencola.com, allow sharing of actual files of information directly between users. This may divert some business research away from traditional search engines.

Consolidation in the industry has become a big factor in both the e-commerce and multi-media spaces. Matt, and many analysts, believe that the portal space will consolidate to two to four large players. The dollar potential is high enough that Yahoo is willing to share it with them. However, this may be difficult. The AOL/Time Warner merger provides Time Warner's advertisers the opportunity to use direct marketing email to reach AOL customers. Plus AOL now has access to a vast library of movies, cartoons, and other media properties. Furthermore, Bertelsmann's purchase of Napster and its alliance with Terra Lycos could give Terra Lycos a preferential position if a viable Napster-like business model evolves. As media companies become more driven by acquiring new content and alternative distribution channels, new mergers could effect Yahoo's viability as a content aggregator. Content producers such as Viacom, Disney, Mircrosoft, Newscorp, Vivendi, Terra Lycos and Bertlesmann are continuing to acquire internet companies in order to position themselves against the portals. (Please click on any of the listed companies to view a description.) Many of these firms have vast media libraries, numerous distribution channels, creative artists, and multi-media production capabilities.

[8] The Wall Street Journal, March 21, 2001

In the e-commerce space, Yahoo faces renewed competition in the auction and transaction space from eBay and its transaction partner BillPoint. BillPoint was recently launched as a subsidiary of eBay to compete against Arthas.com (acquired by Yahoo) and PayPal.com (merged with internet bank X.com). In addition, despite Yahoo's lower fees to sellers, it has not developed the viral effect[9] and resulting users that the eBay community has.

Perhaps the biggest threat to Yahoo Shopping is online 500-pound gorilla, Amazon.com. Amazon has expanded into a broader variety of markets in the B2C space than Yahoo has. Nevertheless, in a report released in late March 2001, eMarketer predicted that total worldwide retail e-commerce is expected to reach $550 billion in 2001, a 92 percent increase from 2000.[10]

As Yahoo enters the multi-media space it is facing new competition from online and offline competitors. Yahoo's Net2Phone competes not only with www.dialpad.com, but also with traditional phone companies and cellular providers. Ifilm.com competes against other online movie sites, such as pop.com. It also competes with production company sites, such as Miramax.com, which plans to make movies available for download. Yahoo's music/radio and broadcasts compete against firms ranging from www.napster.com, to traditional radio stations, to offline cable television companies.

In January 2001 Disney shut down its Go Network. It maintained, however, its content creation sites such as ABCNews.com and ESPN.com. Unable to make a successful foray into the portal market itself, Disney has been rumored to be interested in a stronger alliance or even a merger with Yahoo in response to the AOL/Time Warner Merger. Yahoo, however, has not shown interest, maintaining that its competitive advantage rests in its independence from the media empires.

In mid-March 2001, Disney re-launched the Go Network. Similar to Yahoo's change of search engines, Go dropped the Infoseek search engine in lieu of GoTo.com. Interestingly enough, the Go Network lost a lawsuit over a logo to GoTo.com just two years ago. The logo in question is now prominently displayed on the Go Network. The back-end of GoTo.com is actually powered by Inktomi, the engine formerly used by Yahoo. There is a key difference, however, in that the Go Network's search engine returns results listing advertising and sales pitches first. Thus the search results on Yahoo will be quite different than on the Go Network.

The Rise of Mega-Competitors

AOL/Time Warner

AOL's 2001 merger with Time Warner created a global Internet giant. According to MediaMetrix, about 75 percent of American consumers who went online during January 2001 visited some component of AOL/Time Warner's network. This network includes AOL itself, Netscape, and news sites like Time.com, CNN.com and CNNfn.com. AOL is the world's

[9] Viral effect - viral marketing is any marketing technique that induces Web sites or users to pass on a marketing message to other sites or users, creating a potentially exponential growth in the message's visibility and effect. From www.whatis.com
[10] http://www.e-commercetimes.com/perl/story/8331.html

leading ISP (Internet Service Provider). The merger, however, comes at the cost of AOL's propriety instant messaging service. The US government is requiring AOL to make its instant messaging service interoperable with other instant messenger services. Some analysts feel, however, that this requirement has no teeth and could take so long to implement that it's irrelevant.

AOL also provides an extensive shopping network to its 28 million ISP customers who spend an average of 70 minutes online each day. Like Yahoo, AOL provides email services and other tools. In addition, AOL provides a variety of Internet and portal services including AOL.COM, AOL Instant Messenger, Digital City (a city guide), and communications tool ICQ. AOL also owns Compuserve (another ISP) and Netscape, including its browser and website.

In the multi-media space, AOL broadcasts music through SHOUTcast, Spinner.com and WinAmp. These sites allow users to select their music choices or rate music as they listen. AOL also has a MovieFone.com service to sell tickets and provides movie content.

The AOL/Time Warner merger gave AOL access to Time and CNN news content, directly pitting it against the ABCNews.com and ESPN.com content received by Yahoo. AOL/Time Warner's business units include Home Box Office, Warner Bros. Movie Studio, New Line Cinema, and Warner Bros. Music Group. Although AOL's exclusive access to the content of these business units is good for attracting eyeballs, it may work against AOL's access to the most recent content of Time Warner competitors.

AOL/Time Warner's shopping network competes directly for both customers and merchants with Yahoo. Although it presents stiff competition, many AOL subscribers venture to other sites, including Yahoo, while using AOL's ISP. According to Jupiter Media Metrix, 89 percent of AOL users who went online from home use AOL as a gateway to surf the wider world of the Internet. Only 11 percent restricted their surfing to within AOL's cyber-walls.

Perhaps the most dramatic threat to Yahoo is AOL/Time Warner's ability to bundle both online and offline advertising. Bundling could reduce advertiser's costs or cross-subsidize online advertising prices with offline revenues. Further, traditional advertisers making the move to the online space may feel more comfortable with a suite of advertising channels than the solely online solution provided by Yahoo.

Terra Lycos

A global leader and the leader in the Spanish speaking world, Terra Lycos competes against Yahoo in all of its lines of business. The points of parity, on the surface, outweigh the points of differentiation between Yahoo and Terra Lycos. Terra Lycos, like Yahoo, provides a search engine, email, directories and content channel. Competing with Yahoo's audio ventures is Terra Lycos' joint venture with Bertelsmann, which gives it access to Napster. Lycos also has developed a calendar service and instant messaging service through InstanTerra, a venture with Lotus.

Terra Lycos also competes with Yahoo in the travel, sales, and financial content spaces. Its purchase of RagingBull.com from AltaVista set it in direct competition with Yahoo's financial site. Whereas Yahoo has agreements with both Sprint and AT&T, Spanish telecommunications firm Telefonica own 66% of Terra Lycos -- a truly vested interest. Terra Lycos' partnerships also rival Yahoo's. Like Yahoo, Terra Lycos has partnerships with Disney and Reuters. Other alliances include Banco Zaragozano, Bloomberg, Carta Capital, Knight Ridder and MTV Networks.

Terra Lycos entered the US market with its purchase of the Lycos search engine in 2000. It has 90 million unique visitors and 7 billion page views per month. And it has achieved global successes that rival Yahoo's. If Terra Lycos is able to grab the growing Spanish speaking population in the United States, it may be able to compete with Yahoo even in its home U.S. market.

Terra Lycos generated 47% of 1999 sales as an ISP and only 9% from advertising. It provides Internet access via both traditional dial-up access and ADSL, high-speed access over telephone lines. It is the number three ISP in the world market, providing access to over five million customers worldwide. Its ISP services dominate Spanish-speaking markets as the number one provider in Chile, Guatemala, Peru and Spain and is number two in Mexico. Terra Lycos is also the number two ISP in Brazil and has substantial customers in Argentina, Venezuela and the U.S. It provides wireless access to 20 million wireless web users and has 120 websites in 20 languages in 40 countries. In contrast to Yahoo, which is not an ISP and provides free Internet access through BlueLight.com, Terra Lycos charges for premium Internet access and gives away standard access for free.

MSN & Microsoft

MSN & Microsoft: Although Microsoft is the world's leading software company, its portal performance has been a bit lackluster in spite of being consistently ranked in the top five most visited sites. In MSN's case, visitors have not necessarily resulted in revenues. MSN was originally designed to rely on revenues from subscribers to its ISP. MSN had 3.5 million paying subscribers, compared to AOL who had 24.6 million in October 2000. Rather than going head-to-head with AOL, where it could not win, MSN attempted to employ Judo strategy. It moved into neglected territory by launching a browser targeted specifically to the new Internet user. The browser can be downloaded for free on MSN even if the user is not an MSN ISP subscriber.

Acknowledging the futility of competing in the ISP space, MSN's revenue model moved toward paid premium services. MSN upgraded its search, shopping, and financial services – three key areas that directly compete with Yahoo. MSN began its expansion of MoneyCentral through expanded partnerships with Charles Schwab, American Express, and Citigroup, just to name a few. These partners provide both content and brand to MSN, although the deals are not necessarily exclusive. MoneyCentral has yet to overtake Yahoo Finance in users or page views. MSN's FY'01 strategy, however, may provide stiffer competition for Yahoo, as MSN's image is recreated through a $150 million ad campaign.

In the future, Microsoft's investments in Internet access through the television may prove a formidable competitive challenge to Yahoo. In August 2000, CNET had already begun speculation as to the creation of a Microsoft Operating System that would run on televisions. This may not be far off.

Microsoft's investments in WebTV, an Internet appliance that allows users to access the web via customized hardware and their television, may put Microsoft in the lead for television users accessing the web. The recent launch of Microsoft's Ultimate TV, in partnership with General Motors' Direct TV division, also attempts to meld the computer with the television. Ultimate TV is a direct competitor to Tivo, in which AOL has invested heavily. Ultimate TV offers the same features as Tivo, but adds new features including the ability to record two television programs at once. However, Ultimate TV has a significant drawback -- only Direct TV subscribers can use Ultimate TV.

On March 12, 2001, Microsoft and eBay announced a spirited alliance. First, eBay will support Microsoft®.NET technologies by offering eBay's community-based commerce engine to Web developers using Microsoft products. Second, Microsoft will integrate eBay auction and sales sites into a number of Microsoft's Web properties, including select MSN® Internet service sites worldwide, as well as Micosoft's Carpoint™, bCentral™ and WebTV®. Finally, eBay will deploy Microsoft technology including Windows® 2000 Server and Microsoft Passport. The combination of the market domination of Microsoft with credibility and user-focus of eBay could make the union that is a force to be reckoned with on the Web.

eBay

Launched in 1994, eBay was born as tool for the founder's girlfriend to exchange PEZ dispensers. By 2001, eBay boasted 1700 employees, 16 million registered users, and 4,500 categories of merchandise. According to Hoovers.com, in 2000, revenues are expected to be approximately $430 million. As noted earlier, eBay's visitors declined in February 2001 to 17 million. eBay hopes to combat this decline through expansion and acquisitions into Australia, Austria, the UK, Canada, and Japan. Earlier in 2001, eBay also acquired a traditional auction house, Butterfields.

eBay is an auction site where users list items online, then receive online bids for their items. Originally in the consumer-to-consumer space, eBay now has auctions in business-to-consumer and business-to-business markets. eBay derives revenues from listing fees for auctions as well as a percentage fee for all completed auctions. eBay has also inked sponsorship deals with AOL and derives revenues from banner advertising on its web-pages.

eBay's threat to Yahoo may be just beginning. eBay competes directly against Yahoo Auctions for auction listing revenues. Its BillPoint service competes directly against Yahoo's Pay Direct for transactions fees. That may be, however, just the tip of the iceberg, because of eBay's announced strategic alliance with Microsoft.

On December 31, 1999, eBay had almost $222 million cash on hand. By September of 2000, the cash on hand dropped to just over $130 million. If this trend continues, eBay could be headed for a cash shortage.

Amazon.com

Amazon.com was launched by Jeff Bezos in 1994 to sell books. Although first run from Mr. Bezos' home and founded in part with his in-laws' life savings, Amazon grew to revenues of $1.6 billion by 1999. By 2001, Amazon had over 7600 employees and had expanded to include CD's, DVD's, toys, tools, electronics and more in its offerings. Amazon also added a large collection of small business-to-consumer sites (z-Shops) and an auction tool. Amazon also has significant investments in Drugstore.com, a site that sells drugstore products, Kozmo.com, a site that delivers goods to urban users' homes, and Greenlight.com, a one-stop car buying site recently acquired by CarsDirect.com.

Amazon was not satisfied, however, just to be the Internet super-store. Adopting what some consider a portal strategy, Amazon has added a scheduler, address book, and comparison-shopping tool among its free services. Of the online players, Amazon is the only one with its own distribution network. It has started to become a logistics provider to small businesses on Amazon. In sum, Amazon provides online businesses with shipping capabilities that Yahoo does not.

Although Amazon's strategy of putting market-share above profit margin was once lauded by analysts, Amazon has fallen on tough times. Amazon's stock recovered briefly when it soared 26% in March 2001 amid rumors of an alliance with Wal-Mart. The alliance seemed a match made in heaven. Wal-Mart has had trouble with its website, having launched the site three times. Wal-Mart would benefit greatly from both Amazon's reach and Internet expertise. Amazon has had to invest heavily in both the fixed assets and thought capital of a distribution network. Wal-Mart has both the physical assets and expertise of distribution already in place. It seems a merger would solves both companies' problems. However, Amazon's stock quickly plummeted 15% after the Wal-Mart deal was squelched by an impending investigation by the Securities Exchange Commission. According to the e-commerceTimes, the SEC is investigating whether Jeff Bezos received an advanced copy of a damning Lehman Bros. report prior to filing to sell 800,000 shares of stock worth $12.1 million. Jeff Bezos and his family own about 34% of the $3.661 billion market capitalized firm.

Like many other Internet companies, Amazon has begun to see "burn rate" problems. On September 30, 2000, Amazon had $647 million in cash and marketable securities, and in its quarterly statement, Amazon predicts it will have over $650 million in cash and marketable securities on March 31, 2001. Although these numbers are a dramatic increase from the $117 million in December of 1999, Amazon's net loss and cash flows from operations cause alarm for some analysts. Although Amazon does not seem to be headed for Chapter 11, some particularly bearish analysts have raised the possibility. Even though Amazon's cash flows from operations have been positive for the past two years, the magnitude of its investment in warehouses and other logistics systems is eating a lot of cash. If cash flow problems persist, Amazon may be forced to seek a merger partner. A bankruptcy by Amazon could jolt the market, leaving its assets up for grabs.

Niche and Specialty Competitors

Niche and specialty sites are sometimes more formidable competition for Yahoo than other portals. For example, Espn.com and Cbs.SportsLine.com have raised the bar for Yahoo Sports. Online brokerages have expanded their services, but none to date have matched the offerings of Yahoo Finance does. Nevertheless, these finance sites do draw many users away from Yahoo, as do numerous other specialty and niche sites.

Yahoo’s Revenue Sources as of March 2001

Advertising Revenues

Yahoo generates revenues from four advertising models: Banner Advertising, Direct Marketing, Sponsorship and Percentage of Revenues. 90% of Yahoo's total revenues are from advertising. More than half of Yahoo's advertising revenues are derived from banner advertisements, while only a small fraction comes from "percent of revenues," which are a commission based on the size of a transaction or trade done through Yahoo.

All advertising revenues rely on visitors to Yahoo's site. Some types of ads generate revenues based on the number of visitors that see the ad, others require that users do something or purchase something before revenues are generated. In the web advertising market, Yahoo is the impressions leader. Impressions are the number of ads viewed. In 1999, Yahoo had 7.62 billion impressions, followed by MSN with 6.34 billion, AOL with 2.2 billion, and eBay with 1.58 billion. [11]

In spite of Yahoo's lead in impressions, Charles Buchwalter, vice president of media research at AdRelevance, has reported that MSN's advertising rates are higher than Yahoo's[12]. According to thestandard.com, Yahoo's rate per 1,000 visitors per ad has dropped from $9 in early 2000 to as little as $3. Yahoo has disputed this claim, stating that rates vary too widely to compare. The differences between Yahoo and MSN rates may have resulted because MSN has chosen to show a lower quantity of advertisements for a higher price. Yahoo's many and diverse array of advertising options may also have driven down its average rate while still allowing Yahoo to have higher total advertising revenue.

Former Yahoo CEO Koogle explains: "We strongly believe the Internet will win a larger share of overall advertising dollars and spending will consolidate among those companies that provide scale." Further, AOL's merger with Time Warner may push its vast array of competitors away from advertising on AOL to the media-mogul neutral Yahoo. Of the roughly $8 billion spent on online advertising last year, Yahoo garnered one out of every eight dollars.[13]

In a January 2001 report, Forrester Research predicts that online advertising will rise dramatically over the next few years to a US digital advertising budget of $63 billion, which

[11] http://news.cnet.com/news/0-1005-202-4563504.html
[12] http://news.cnet.com/news/0-1005-202-4563504.html
[13] http://thestandard.com/article/article_print/0,1153,21828,00.html

includes more than the online market. But, others disagree about the size of online advertising. According to Fortune in February 2001, the nations top 100 advertisers spent a total of $25 billion on television, $7 billion on magazines, $6 billion on newspapers, and $481 million on billboards during 1999. But they spent a mere $364 million on the net, less than 10% of the total $4.6 billion spent on web ads that year. Most of the online advertising was coming from other dot-coms. Traditional companies like Nike and Kimberly-Clark are increasingly avoiding banner ads to drive traffic to their websites. Instead, they are building their own net-based programs using their own packaging and television ads. In addition, large advertisers have been demanding deeper discounts on Internet ads.

Yahoo's specific revenue sources are:

Banner Advertising. Banner ads are the advertisements seen on web pages or in pop-up boxes that appear when a user visits a page. Clicking them gives instant access to the advertiser's Web site to obtain additional information or to purchase products and services. Banners can be billed either on a CPM or CTR basis. CPM is "cost per thousand." This is a fee for each 1000 users who see the ad. CPM ads accounted for almost all of Yahoo's banner ad revenues.

Although Yahoo doesn't use the CTR, or click-through rate method, it is increasingly popular with large companies who are demanding performance based billing. In CTR, advertisers only pay if the user actually clicks on the ad. Forrester has predicted that CPM advertising will give way to performance based advertising such as CTR. But click-through rates are declining. In the past six years, the industry average click-through rate has fallen from 40% to the 2001 rate of a mere 0.5%.[14] Thus CTR is not very lucrative given this click-through rate. Yahoo has stuck with CPM because it believes that CTR fails to capture the full value of the advertising's ability to build brand recognition.

[14] "Madison Ave Fights Back," Fortune Magazine, February 5, 20001. Page 154.

Direct Marketing. Yahoo has 56 million registered users. Those registered users have the option of receiving promotional emails from Yahoo advertisers. These emails should be targeted to the users interest and are usually part of a targeted marketing campaign by the advertisers. Because users opt-in, the email are not considered SPAM (unsolicited advertising currently regulated by the FCC.) Hyperlinks are usually embedded in the email to take the reader directly to the advertiser's site or promotional offer. Direct marketing revenues are usually based on the number of emails sent or on the number of readers who click the link on the email.

Sponsorship. Sponsorship revenues are derived when a company "sponsors" a page on Yahoo. In traditional media, it is comparable to "This program is brought to you by …." The advertiser pays a set fee or a combination of a set fee plus a fee per page viewed to sponsor a page, application, event, or service for a period of time.

Higher fees are charged for higher profile promotional sponsorships. These are typically focused on a particular event, such as a sweepstakes or sporting event. Merchant sponsorship buttons that encourage users to complete a transaction are billed at a higher rate than simple ads which do not allow click-through to the sponsor's website.

Percent of Revenue (Commission Revenue). "Percent of Revenue" rates are based on a fee or commission charged only if the user makes a purchase at the advertisers site or on Yahoo properties. While an exact breakdown is not available, commissions make up a very small percentage of Yahoo's advertising revenues. On Yahoo Shopping, for example, Yahoo receives 2% - 20% of all purchases from Yahoo users. The percentage varies based on a variety of factors. According to Rob Solomon, director of Yahoo Shopping, Yahoo enabled $3 billion in transactions during the first three quarters of 2000.[15] Thus Yahoo had between 2% and 20% of the $3 billion. Although the dollars are encouraging, analysts claim Yahoo shopping still lags behind AOL in shopping transactions and may have difficulty playing catch-up.

Non-Advertising Revenues

Yahoo has strived to reduce its reliance on ad revenues by diversifying its revenue streams. According to Matt, "In the past there was too much opportunity and not enough resources to investigate all of them." In light of Yahoo's $1.7 billion in cash equivalents, however, Yahoo has the opportunity to invest in a variety of new fee for service businesses. Nonetheless, as it adds premium services, Yahoo's major challenge in diversification is how to convert free users to paying customers. In Matt's view, the web "created an expectation that everything on the Internet will be for free." Further complicating matters, users don't want to pay for content if Napster-like sites arise. And the premium content providers become cautious about putting their content online.

Yahoo's strategy has been to choose businesses that create an "entertaining experience over the web," rather than to focus on whether new ventures will be profitable in the near future. As

[15] http://thestandard.com/article/article_print/0,1153,21828,00.html

80% of Internet users access the web from work and only 20% access the web from home, Yahoo's entertainment investments, including iFilm and FinanceVision, have been focused on the business user. In addition to the number of business users, business users' access to high speed Internet connection is also a factor. According to Jupiter, it could be as long as another five years before high-speed Internet access becomes standard in the home.

In the consumer e-commerce space, Yahoo has aimed to create a platform that is seen as "complete" by their users. Thus the auction site and shopping site creates a compelling value proposition for both consumers and merchants. Although Yahoo initially focused on the consumers, Yahoo has had an "evolution of thinking" and has grown to make satisfying merchants a priority.

Yahoo has ventured into the business-to-business space to generate new sources of revenue. In developing intranets and extranets for themselves, many businesses have found development to be more difficult, to require more resources, and produce lower returns than their initial projections. Yahoo has built on its experience, software, and user base to fill business' needs in this arena.

The most ambiguous new opportunity is the mobile arena. Matt noted: "No one has figured out the business model that is going to work." With the knowledge that the wireless space is becoming very important, especially in Europe and Asia, Yahoo has set out to create a mobile presence through alliances with wireless telecoms and by creating applications that are tightly integrated with its traditional offerings. Yahoo offers wireless services through its PortalBuilder, putting its customers on the cutting edge of business intranet technology.

While many non-advertising revenue sources have not been tapped by Yahoo to date, it does generate revenues from:

Premium Services. Although most users of the Internet expect everything to be free on the web, Yahoo has been able to successfully begin to charge users for premium services. For example, a mailbox with extra space costs $19.99/year. Businesses pay a one-time fee of $199 to be listed in the Yahoo Directory.

Business Intranets/ Internets. Yahoo has partnered with Novell to provide intranet tools to large businesses. As of 2001, the PortalBuilder software had 18 customers including McDonald's, Seagate Technology and Bayer. According to Business Week, Yahoo is counting on $200 million in revenues from building corporate intranets/portals – websites for a company's employees and for setting up online conferences over the Internet.[16] According to analysts, this will be 17% of Yahoo's anticipated 2001 revenues of $1.2 billion, up from 9% of revenues in 2000. Yahoo ran over 1000 online conferences last quarter. However, this revenue source has its perils. Growth in information technology spending is expected to slow in 2001 and there are already over 50 competitors in the estimated $750 million corporate portal market. AOL tried to enter the corporate services market, peaking at 19% of AOL's revenues in 1997 and declining to just 7% in 2000.

[16] "Will Business Yahoo! Too?", Business Week, Febrary 5, 2001. Page 52.

Yahoo Auctions. Yahoo generated no revenues from auctions in FY '99, as the service was free. Listing fees were added in January 2001. Prior to adding the fees, Yahoo had about 3 million auction listings worldwide in January 2001. After adding fees, however, Yahoo saw a drop in the number of auctions. On February 9, 2001, Yahoo had 242,800 listings. Although the number of listings has fallen substantially, the number of successful transactions has increased dramatically. Yahoo's sell-through percentage, which is the percentage of items listed that are actually sold, has grown 550% since it instituted the fees. "Those things are ultimately the drivers of this business," said Brian Fitzgerald, senior producer of Yahoo auctions.[17]

A Complete Revision of the Company Revenue Model

Yahoo currently charges advertisers for access to consumers. Yahoo could try to adopt a different model entirely using business models from the print, television, or movie industries. For example, Yahoo could start selling the content it creates to other sources including other sites and television channels. Alternatively, Yahoo could charge users subscription fees for superior entertainment content. (See Appendix 4)

Conclusion

Given the current situation, Matt is working to develop the revenue model of the future so he can present his recommendations to the rest of senior management. He must keep in mind that while the company has $1.7 billion in cash, $500 million is already committed to repurchasing Yahoo stock and the equity markets are no longer favorable to Yahoo. Consequently, he has limited resources for any major initiative.

[17][17] http://thestandard.com/article/article_print/0,1153,21828,00.html
http://interactive.wsj.com/archive/retrieve@6.cgi?jmenyc/text/wsjie/data/SB982799651981535 19.djm/&d2hconverter=display-d2h&NVP=&template=atlas-srch-searchrecent-nf.tmpl&form=atlas-srch-searchrecent-nf.html&from-and=AND&to-and=AND&sort=Article-Doc-Date+desc&qand=&bool_query=yahoo&dbname=wsjie%26named%3Ddbname&location=MAIN-HED&period=%3A720&from=03/04/2001&to=03/12/2001&HI=

Case Questions

1. What is Yahoo's current strategy (i.e., mission, objectives, competitive advantage, and product/geographic scope)? Why?

2. In light of the recent changes in the industry, what are Yahoo's strategic alternatives? How do you evaluate them?

3. What does your SWOT analysis reveal about Yahoo and what it should do?

Appendix 1: A Partial Listing of Yahoo's International Presence

1. United States
2. Argentina
3. Australia
4. New Zealand
5. Brazil
6. Canada
7. China
8. Denmark
9. France
10. Germany
11. Hong Kong
12. Italy
13. Japan
14. Korea
15. Mexico
16. Norway
17. Singapore
18. Spain
19. Sweden
20. Taiwan
21. United Kingdom
22. Ireland

Appendix 2: Financial Statements (from the Yahoo 1999 Annual Report)

Consolidated Statements of Operations YAHOO! INC.

(in thousands, except per share amounts)

	Years Ended December 31		
	1999	1998	1997
Net revenues	$ 588,608	$ 245,100	$ 84,108
Cost of revenues	101,799	52,154	19,882
Gross profit	486,809	192,946	64,226
Operating expenses:			
Sales and marketing	214,887	124,734	58,467
Product development	67,511	33,917	16,699
General and administrative	36,321	24,154	12,877
Amortization of intangibles	13,815	2,628	–
Other – nonrecurring costs	87,542	21,234	25,095
Total operating expenses	420,076	206,667	113,138
Income (loss) from operations	66,733	(13,721)	(48,912)
Investment income, net	37,699	18,806	4,809
Minority interests in operations of consolidated subsidiaries	(2,542)	68	727
Income (loss) before income taxes	101,890	5,153	(43,376)
Provision for income taxes	40,757	17,827	–
Net income (loss)	$ 61,133	$ (12,674)	$ (43,376)
Net income (loss) per share – basic	$ 0.12	$ (0.03)	$ (0.11)
Net income (loss) per share – diluted	$ 0.10	$ (0.03)	$ (0.11)
Shares used in per share calculation – basic	515,948	439,990	391,542
Shares used in per share calculation – diluted	596,790	439,990	391,542

Appendix 2: Financial Statements (from the Yahoo 1999 Annual Report) (continued)

Consolidated Balance Sheets YAHOO! INC.

(in thousands, except par value)

	December 31 1999	December 31 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 233,951	$ 230,961
Short-term investments in marketable securities	638,508	341,822
Accounts receivable, net of allowance of $11,322 and $5,947, respectively	54,426	34,089
Prepaid expenses and other current assets	19,038	10,860
Total current assets	945,923	617,732
Long-term investments in marketable securities	339,623	55,931
Property and equipment, net	58,111	31,007
Other assets	126,164	76,349
Total assets	$ 1,469,821	$ 781,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 13,457	$ 9,986
Accrued expenses and other current liabilities	88,154	46,147
Deferred revenue	90,708	39,796
Total current liabilities	192,319	95,929
Other liabilities	12,407	6,830
Minority interests in consolidated subsidiaries	3,790	1,248
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred Stock, $0.001 par value; 10,000 shares authorized; none issued or outstanding	–	–
Common Stock, $0.001 par value; 900,000 shares authorized; 532,798 and 497,998 issued and outstanding, respectively	533	498
Additional paid-in capital	1,143,646	747,517
Accumulated deficit	(11,553)	(71,861)
Accumulated other comprehensive income	128,679	858
Total stockholders' equity	1,261,305	677,012
Total liabilities and stockholders' equity	$ 1,469,821	$ 781,019

Appendix 2: Financial Statements (from the Yahoo 1999 Annual Report) (continued)

Consolidated Statements of Cash Flows YAHOO! INC.

(in thousands)

	Years Ended December 31		
	1999	**1998**	**1997**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 61,133	$ (12,674)	$ (43,376)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	42,330	16,472	4,644
Tax benefits from stock options	37,147	17,827	–
Minority interests in operations of consolidated subsidiaries	2,542	(68)	(727)
Purchased in-process research and development	10,975	17,600	–
Other non-cash charges	2,985	2,429	23,041
Changes in assets and liabilities:			
Accounts receivable, net	(20,272)	(19,596)	(8,524)
Prepaid expenses and other assets	(21,219)	2,308	(7,239)
Accounts payable	1,700	1,141	4,700
Accrued expenses and other liabilities	49,953	22,667	9,347
Deferred revenue	49,062	34,126	3,395
Net cash provided by (used in) operating activities	216,336	82,232	(14,739)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(49,548)	(22,863)	(10,824)
Purchases of marketable securities	(998,309)	(511,526)	(58,753)
Proceeds from sales and maturities of marketable securities	644,057	159,850	86,678
Acquisitions and other investments	(44,817)	(9,008)	(2,294)
Net cash provided by (used in) investing activities	(448,617)	(383,547)	14,807
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of Common Stock and Convertible Preferred Stock, net	237,849	442,209	52,009
Other	(2,336)	(2,328)	1,498
Net cash provided by financing activities	235,513	439,881	53,507
Effect of exchange rate changes on cash and cash equivalents	(242)	288	(380)
Net change in cash and cash equivalents	2,990	138,854	53,195
Cash and cash equivalents at beginning of year	230,961	92,107	38,912
Cash and cash equivalents at end of year	$ 233,951	$ 230,961	$ 92,107

Appendix 3: Yahoo's Unique Culture

Yahoo's unique culture came from its founders. While electrical engineering PhD candidates at Stanford in 1994, David Filo and Jerry Yang began privately cataloging their favorite websites. Yahoo originally was hosted on Yang's student workstation, "akebono," while the search engine was lodged on Filo's computer, "konishiki." (These machines were named after legendary sumo wrestlers.) In 1995, they made their private databases public, moving them to servers at Netscape, and the result was Yahoo. Some claim Yahoo stands for "Yet Another Hierarchical Officious Oracle," but Filo and Yang have maintained that they selected the name because they considered themselves yahoos.

Tim Koogle, formerly President of Intermec, joined Yahoo as President and CEO in 1995, a title he held until becoming Chairman and CEO in 1999. Although he didn't start using the web until a year before he joined Yahoo, Tim Koogle brought management experience, including having held various high-level positions at Motorola, before becoming President of Intermec. Koogle quickly identified advertising as a key revenue driver and Yahoo began selling banner ads in 1995. Unlike Filo and Yang, Koggle had completed a PhD in engineering at Stanford. In Yahoo spirit, however, he lists The Dilbert Future in his business books must-read list.

After Koogle joined the firm, Yang maintained a leadership role as Chief Yahoo (that's really his formal title.) Filo also carries the title Chief Yahoo and focuses on technology and operations at the firm. Rumor has it Filo is still threatening to finish his PhD. Anil Singh came on board as VP of Sales. Singh's experience as the VP of sales at Socket Communications and in executive positions at Acer, Novell, Mountain and Convergent Technologies, combined with an undergraduate degree in Computer Science, gave him both the sales experience and technical knowledge to help make Yahoo the world's most trafficked website. Jeff Mallet joined as COO. Jeff brought extensive corporate experience, having headed up Novell's consumer division as a VP, as well as start-up experience, having co-founded Reference Software, which was acquired by WordPerfect.

This unique collection of characters created a Yahoo culture that was a mixture of high-energy cheerleaders, creative marketing genius, and work-a-holic computer geeks. The culture includes an egalitarianism that puts even senior management in cubicles. One phrase commonly heard around the office is "we take what we do seriously, but don't take ourselves seriously." Their unique playful culture includes the use of a recruiting video based on "The Crocodile Hunter" from the cable television network Animal Planet. The Crocodile Hunter is about an off-the-wall animal tracker and naturalist who enjoys provoking reptiles and risking life and limb for the sake of the viewers' entertainment.

Appendix 4: Other Media Revenue Models

Media	Model
TV Stations	Pays for shows, receives money from advertisers.
Pay Cable Channels	Produces and procures content. Users pay and premium services generate additional revenue.
TV Networks	Procures and distributes content to stations. Receives shar[18]e of advertising revenues.
Movie Theatres	Pays for right to show movie. Receives revenues from consumers.
Movie Production Companies	Sells movies to studios.
Movie Studios	Purchases movies and license to theatres for a fee.
TV Producers	Produces shows and sells them to the network.
Associated Press	Gathers and sells news content to newspapers.
Newspapers	Purchases some content (from the Associated Press and syndicated columnists), creates content, syndicates some of its own content, and receives advertising dollars and subscription fees.