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Google Ends Microsoft's Yahoo Search

By [MIGUEL HELFT](#)

[Microsoft](#) and [Yahoo](#) were pushed to the brink of a multibillion-dollar marriage and then to a sudden breakup this weekend by the same player.

It was [Google](#), in the odd dual role of both unwitting matchmaker and self-interested spoiler.

Google's phenomenal rise, after all, prodded Microsoft, the dominant technology company for more than two decades, to court Yahoo. And Google's success also weakened Yahoo enough to give Microsoft the sense that it could buy the company at a good price.

A combined Microsoft-Yahoo would create a powerful competitor, and Google early on indicated that it would fight the merger on antitrust grounds in Washington and Brussels.

But Google played a part in killing the deal, for now at least, by acting more as friend than foe. It offered to let Yahoo use its more sophisticated search advertising technology, which by some estimates would have meant \$1 billion in additional cash flow a year for Yahoo. The partnership would also bring Google more revenue.

The prospect of such a partnership emboldened Yahoo's board to demand more money for the company and eventually caused Microsoft to rethink its strategy.

[Steven A. Ballmer](#), Microsoft's chief executive, cited the proposed Google partnership as the main reason for not pursuing a hostile bid and instead walking away on Saturday.

"Such an arrangement with the dominant search provider would make an acquisition of Yahoo undesirable to us," he wrote [Jerry Yang](#), Yahoo's chief executive, in a letter, and cited five specific reasons Google would be bad for Yahoo.

Yahoo may well pursue the partnerships with Google, its main rival, to bolster its depressed stock price. Yahoo shares dropped 15 percent, or \$4.30 Monday, to \$24.37. The two companies refused to comment.

Not surprisingly, analysts are saying the Microsoft-Yahoo story has one clear winner: Google. And its stock price reflected that thinking Monday. More than \$4 billion was added to Google's value as the stock price rose 2.34 percent.

Not yet 10 years old, Google has emerged as a powerhouse that is wielding tremendous power in the world of technology and beyond. It was able to influence a government auction of broadcast spectrum. It nudged several cellphone companies into opening up their networks to the phones of rivals.

Its influence is all the more surprising, because its economic power is still derived largely from a single, seemingly prosaic business: the ability to place interesting text advertisements in front of people when they do searches. Advertisers pay for those ads — sometimes \$1 or less — only when users click on them. In a sense, Google has built a highly profitable \$16.6 billion empire a dollar at a time.

“They are the company that is going to have more influence and more control over the structure of the world information industry than any other,” said David B. Yoffie, a professor at the Harvard Business School. “The right way to think about Google is they are the next Microsoft.”

The mission set by Google’s two founders, [Larry Page](#) and [Sergey Brin](#), to organize all the world’s information and make it universally accessible and useful is every bit as ambitious as Microsoft’s goal, in the early 1980s, to put a PC on every desk and in every home, said Tim O’Reilly, chief executive of O’Reilly Media.

“Microsoft succeeded,” said Mr. O’Reilly, producer of the Web 2.0 Summit, a high-profile industry conference. “Now Google has an incredibly audacious goal. Great companies do come from big ideas and people who are willing to go after really big ideas.”

It is the combination of Google’s economic power and its unbounded ambition that strikes fear in industry leaders in the world of technology, and beyond, in advertising, media and telecommunications. In part that is because Google wields power more subtly, and perhaps more effectively, than other big companies ever have.

For instance, this year Google rattled some of the biggest players in the telecommunications industry. The company played an important role in persuading the [Federal Communications Commission](#) to impose “open access” conditions on an auction for a portion of the nation’s airwaves. The conditions require that any network using those airwaves allow any phone and any software to run on it. Such a rule breaks the established business model of the cellphone industry, where carriers have significant control over what phones their customers can use.

Google backed its lobbying for the conditions with the promise to bid at least \$4.6 billion, the minimum price set by regulators for the spectrum. Google then bid that amount, not with the intention of winning, but simply to force the open-access conditions. [Verizon](#) Wireless

ultimately won rights to the spectrum.

“They just wanted to saddle a potential competitor with those obligations,” said Scott Cleland, a telecommunications analyst and frequent Google critic.

Some lawmakers even said Google’s role amounted to “gaming the system.” Google disputes that accusation, saying it risked its own capital in the auction. Both Google and the F.C.C. said the conditions would benefit consumers.

“Google has thought very strategically about having to impact the market without necessarily spending a lot of money,” Mr. Yoffie said. “It pays to be clever.”

He saw the same strategy at work in the Microsoft-Yahoo deal. “They played spoiler by giving the Yahoo board confidence that they had a viable economic solution if they turned down the Microsoft offer,” Mr. Yoffie said.

As Google’s clout grows, the company may encounter the same antitrust scrutiny that hobbled Microsoft. Regulators in the United States and Europe investigated Google’s merger with DoubleClick for nearly a year before approving it. The Justice Department has already begun asking questions about the antitrust implications in the possible partnership between Google and Yahoo. Yet it was little more a year ago that Mr. Ballmer described Google as a one-trick pony in a speech to business school students at Google’s birthplace, Stanford.

That remains largely true today. The search ads, as well as similar text ads that Google places on tens of thousands of partner Web sites, still drive the overwhelming majority of the company’s revenue. But it is a one-trick pony with the speed and surefootedness of Secretariat.

Google’s dominance of the search advertising business is overwhelming. In March, Google accounted for almost 60 percent of all searches in the United States, according to [comScore](#). That was nearly triple Yahoo’s share of 21.3 percent, and more than six times Microsoft’s 9.4 percent share. In some European countries, Google’s dominance is even larger.

The search advertising business has proved so profitable, that it has allowed Google to make large investments in a long string of other businesses. Few of them make much money now, but analysts say that many of them may some day turn into very profitable enterprises.

Google is now the dominant player in online video after its 2006 acquisition of YouTube; it has begun offering, mostly free, a suite of e-mail, word processing, spreadsheet and other programs that compete with two of Microsoft’s cash cows, Office and Exchange; it is building software for mobile phones that later this year may compete with [Apple’s iPhone](#) and others; it has begun selling advertisements on television, radio and newspapers; and with its

acquisition of DoubleClick this year, it is going after the market for online banners and graphical ads, which is Yahoo's bread and butter.

Google's success is not preordained. The company has yet to prove it can make money in any of these markets beyond online text ads. Even in graphical advertisements online — the banners, video ads and social network ads, that marketers use to create brand awareness — Google remains a relatively small player. It is an important market that is expected to some day match the search advertising business in size.

“Search is great, but you can't advertise Coca-Cola in search,” said Peter Sealey, a former chief marketing officer at the Coca-Cola Company. “Google is going to try to compete there, but they don't have the same algorithm that they had in search.”