

Yahoo vs. Google in mobile: Pathway to Yahoo's success

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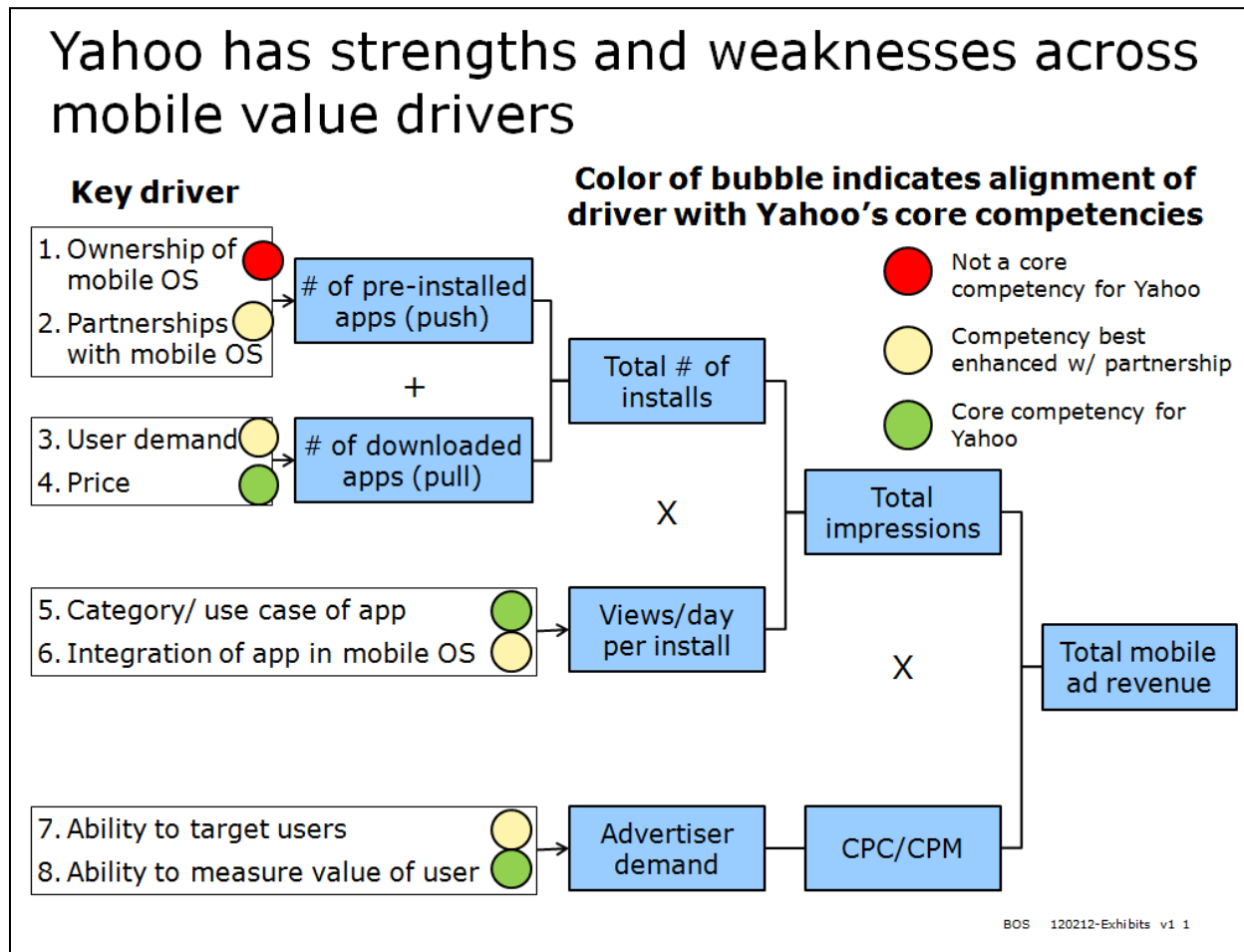
Word count: 1,229

This paper answers the question how should Yahoo compete with Google on mobile? I argue that Yahoo cannot push their apps to consumers, given that they do not currently operate, and it is too late to develop, a mobile OS. Therefore, they need to generate user demand by creating great app products in functions where they are poised to succeed. To further differentiate themselves from Google, Yahoo should look into building strategic partnerships that Google either can't, or won't, enter.

The mobile math

The math to win in the mobile market is simple: have a high number of impressions, and a high CPC/CPM. On the next page, I've outlined the simple input tree that traces the key drivers in mobile, and how these drivers align with Yahoo's core competencies. Below, I briefly discuss why Yahoo is poised, or not poised, to capitalize on each driver.

EXHIBIT 1:



Section 1: Yahoo's Core Competency Analysis

1) Ownership of mobile OS

- I discuss why this is not currently, nor likely ever will be, a core competency in section 2.

2) Partnership with mobile OS

- Partnering with a mobile OS developer is the another way to push apps (e.g., Twitter's integration with iOS 5)
- This is one possible avenue for Yahoo, however, this is unlikely to ever be a way for Yahoo to differentiate from Google.

3) User demand

- Yahoo's properties, in some key verticals, have significant market share and show potential to compete with Google.
 - I discuss why this is a core competency in section 4, and why it is best enhanced with partnerships in section 5
- 4) Price
- Yahoo can keep their apps free because they have significant infrastructure to monetize on mobile effectively, including owning their own mobile ad network¹
- 5) Category/use case of apps
- Yahoo's properties are in topics (news, sports) and uses (mail, photos) most likely to be accessed from a smartphone.
 - I show that Yahoo leads in these categories in section 4
- 6) Integration of app in mobile OS
- Mobile apps that are more tightly integrated with search are likely to be used more often than apps which are not search enabled.
 - I discuss why Yahoo needs partners to capitalize on search in section "Be A Fast Second on Search"
- 7) Ability to target users
- Yahoo currently captures information about their users via email and site views. However, strategic partnerships could provide much greater opportunities for targeting (see Section 5)
- 8) Ability to measure value of user
- Yahoo's has comparable measurement technology compared to other display advertisers, though it does not differentiate them from Google.

Given this set of core competencies, I advocate Yahoo:

- **Abandon any efforts to develop a mobile OS**
- **Avoid horizon 3** investment opportunities in mobile search, and instead, **focus on collecting user data** that will exploit future search technology

¹ More information on Yahoo's mobile ad products:
<http://advertising.yahoo.com/products/#product=Mobile>

- **Double down on differentiated core properties** that enable Yahoo to dominate mobile experiences
- **Seek to develop partnerships** that could provide a differentiated level of app demand and user data versus Google

Section 2: The Mobile OS Ship Has Sailed

Yahoo is entering the mobile market after key competitors, including Google, have already gained widespread mobile OS adoption. Specifically, with Android having ~72% market share², it makes it unlikely that any player could enter the mobile OS market now without a proprietary hardware advantage. This seems to be strategy Microsoft has taken with the Surface tablet, which even with considerable funding has seen a slow start. Although owning a mobile OS would be beneficial for Yahoo as it would allow them to push their apps, it seems unlikely that this market can be entered with much success. For now, Yahoo will need to focus on creating pull for their product in the marketplace.

Section 3: Be a Fast Second on Mobile Search

The final opportunity Yahoo has to push their apps is to develop a differentiated search product. Unlike mobile OS, mobile search has not established a dominant design. Currently, Google and Apple dominate the mobile search space with similar designs to what you see on desktop. However, it is hypothesized that the nature of mobile search will change significantly as advancements in voice recognition technology (e.g., Siri) become more developed.

² Gartner Report, Nov 2012: <http://www.gartner.com/it/page.jsp?id=2237315>

EXHIBIT 2:

Reports continue to conclude that mobile search has not reached a dominant design

*"the **emergence of a new technology** is helping users easily find information without having to fiddle with tiny keyboards or scroll through multiple applications and menus. Welcome to **voice search**."*
--Mashable, June 2011

"The **future of search will be context based and not query based**, says the Google search team. 'If we are going to build the search of the future, we will have to solve difficult technology issues like speech recognition and natural language.'"
--The Next Web, August 2012

"While 'mobile search' conjures images of consumers tapping on their smartphones, many are talking to them instead. **If the technology improves, that may become the norm.** At the moment, Karsten Weide believes Siri is not ready for prime time. 'Right now, Siri is a gimmick because it doesn't work that well,' he says. 'Over time, it might have an impact.'"
--Mashable, Oct 2012

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If the dominant design of mobile search *does* change significantly this could provide Yahoo with an opportunity to enter this market. However, changes in mobile search technology would represent a horizon 3 opportunity for Yahoo: a new technology or solution to address an existing market. For this reason, Yahoo should not invest resources in growing mobile search technology in-house, and instead, invest in developing the assets to exploit this technology once it is established.

Search technology is best exploited by companies that can offer the most relevant, personalized search results for users, which requires extensive user data. Therefore, Yahoo should make sure their near-term growth strategies take into account the potential to capture user data by:

1. Making sure app growth continues to capture a holistic, data-rich, view of their users
2. Make sure integrations with strategic partners provide significant user data upside (outlined in section 5.)

Section 4: Double-down on Core Properties

As discussed above, Yahoo can best compete in search and downloads by creating user experiences that are superior and more integrated than Google. Essentially, Yahoo will need to beat Google at the consumer web game.

On the face of it, this seems like a tall order. However, as Marisa Mayer pointed out in the earnings call, Yahoo excels in areas most often accessed on a mobile device:

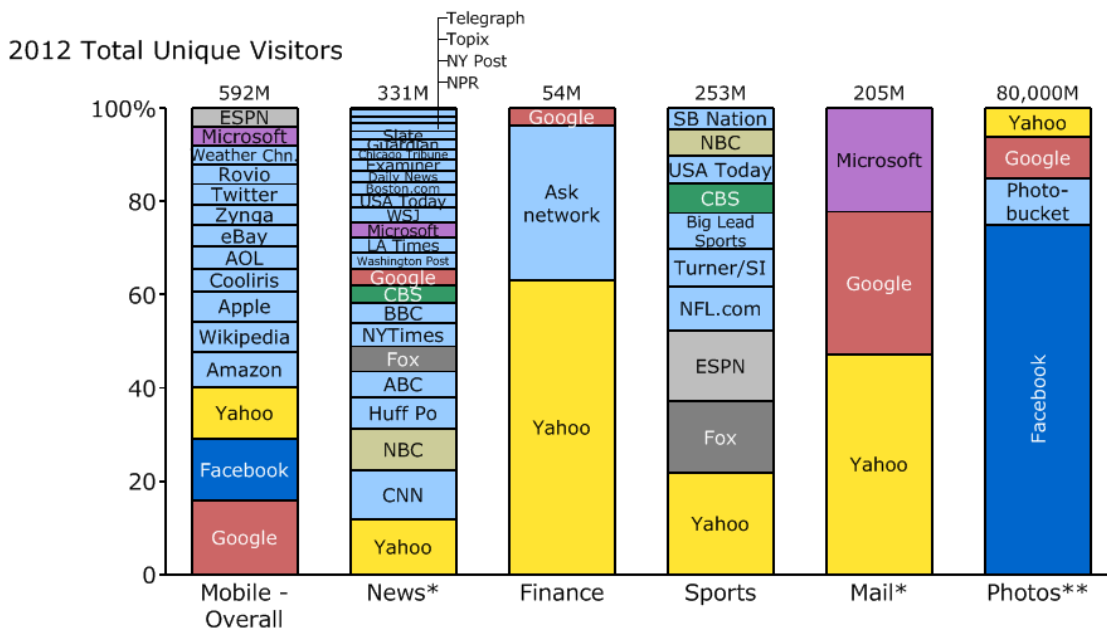
When you look at the most frequent uses of smartphones, they include checking the weather, checking sports scores, checking stock quotes and other financial information, watching videos, sharing photos, getting the latest news and playing games. Does that sound like any particular company that you know? Yahoo!, with its content and leadership in these key verticals, is already very well positioned here.³

Specifically, Yahoo shows a significant advantage vs. Google in the following areas:

³ Yahoo Q3 earnings call transcript: <http://seekingalpha.com/article/940001-yahoo-management-discusses-q3-2012-results-earnings-call-transcript>

EXHIBIT 3:

Yahoo beats Google in News, Finance, Sports & Mail; needs to grow in Photos



*Data as of 2011

**Data shown is photo uploads as of Feb 2011

Source: ComScore (Overall); Nielsen (News); ComScore (Finance); ComScore (sports); ComScore (Mail); The Next Web (Photos);



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If Yahoo can build on their lead in these target verticals, they could offer a compelling alternative to Google's search portal. But how can Yahoo ensure that they are able to offer more compelling news/information than Google? I advocate that Yahoo seek out strategic partnerships that Google would be reluctant to cede value to.

Section 5: Strategic Partnerships

The exhibit below outlines the potential benefits of partnerships with both Amazon and Facebook. These two companies are the most attractive opportunities for the following reasons: they offer Yahoo a differentiated level of consumer data from Google and Google is unlikely to partner with them.

EXHIBIT 4:

Potential Partnerships:			
Value to Yahoo	How would partnership increase impressions ?	<ul style="list-style-type: none"> • Would improve current Yahoo shopping & digital media purchasing experience 	<ul style="list-style-type: none"> • Allows universal sign-in across Yahoo properties, and enables more socially integrated search
	How would partnership improve user data ?	<ul style="list-style-type: none"> • Would add user data on purchases & interests 	<ul style="list-style-type: none"> • Provides social network data • Increases likelihood users will share advertiser related content
Value to partner	How would partnership benefit users ?	<ul style="list-style-type: none"> • Can access Amazon goods across sites (e.g., download kindle books directly from link in article) 	<ul style="list-style-type: none"> • Could sync flickr and Facebook photos for easier photo sharing
	How would partnership benefit business ?	<ul style="list-style-type: none"> • Opportunity for more sales 	<ul style="list-style-type: none"> • More data on interests and activities of users • Integrated social sharing of news, sports, etc.
Risks		<ul style="list-style-type: none"> • Yahoo recently launched deal with Spotify as digital media streaming partner 	<ul style="list-style-type: none"> • Current relations are rocky due to recent patent lawsuits
Why Google won't partner		<ul style="list-style-type: none"> • Amazon is main competitor for high CPM shopping related search 	<ul style="list-style-type: none"> • Competes with Google+ product

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Based on this analysis, I believe Amazon and Facebook could offer Yahoo opportunities to truly compete with Google.

Conclusion

Ultimately, the future of Yahoo depends on their ability to develop a great user experience, which will enable them to exploit search technology when a dominant design emerges.

Moreover, partnering with companies who allow them to differentiate their offerings versus Google should be a top priority. If Yahoo tries to either enter the mobile OS market, or develop horizon 3 opportunities, it is unlikely they will ever be able to challenge Google in the mobile landscape.