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State of the Unification – Google, Yahoo, MSN and AOL all Moving Towards Convergence

By Jim Hedger, StepForth News Editor, [StepForth Placement Inc.](#)

February has come in like a lion with a multitude of major announcements from several major players in the past 48-hours.

Three extraordinary things happened earlier this week. First, Google released a Forth Quarter Report that significantly exceeded investor expectations. The \$1billion in revenues reported by Google over the last three months has reignited Wall St. speculation built on an already strong confidence in the search-sector. Second, MSN officially released its own search engine. Microsoft is so large and influential, the introduction of their search tool and the advertising campaign that is currently rolling across the web will push the sector forward. Lastly and perhaps most importantly, AOL and the rest of the Time Warner empire are finally finding substantial ways to work together, five years after the merger of the two giants. At the same time, Yahoo has been quickly solidifying relationships in the NY-Hollywood entertainment sector and is in the process of producing a mainstream entertainment division.

Convergence is a buzzword to describe a digital unification of various media types. An easy example is news-gathering organizations that produce daily content which can be delivered across multiple platforms (e.g.: print, TV, radio, film, and the web) and will partner with an Internet Service Provider or a search-engine. One produces content, the others distribute it. Every firm involved finds a way to profit from sharing the products of their skills while focusing on their specialization. The idea motivated the stock craze that created the dot.com bubble and was the driving force behind mega-mergers such as AOL-Time Warner, CanWest-Global and Microsoft-NBC. It was also the reason companies such as Nortel and WorldCom grew so big building the infrastructure and fell so fast when there wasn't enough money in circulation to pay for it. The steam was taken out of the sector and anticipated benefits from convergence were going to have to wait a few years to be realized. Flash ahead a few years to today, or more appropriately, the past 48-hours.

What's good for Google...

Google's fourth quarter report is massive. Showing 26% revenue growth in the 3-months following their successful IPO, (a 101% increase over the last quarter of 2003), Google's business model makes them the biggest distributor of online advertising. The results announced in yesterday's investor conference bolstered generally strong confidence in the contextual ad-delivery model which can only bode well for rivals like Overture, Kanoodle, Ask, Findwhat, and Lycos. There is obviously a fortune to be made in ad-delivery efficiencies and there is obviously a lot of money about to be invested in the paid-search sector. Paid-ads delivered to directly but unobtrusively to those who express interest in the ad's topic is the goose that continues to lay golden eggs for those who can deliver those ads. Google's Achilles heal is the amount it is dependent on paid advertising with an estimated 95% of revenues generated through the AdWords/AdSense programs.

The sustainability of Google's business depends on either finding or creating more spaces to display paid-ads. With the world's most used organic search tool already providing tens of millions of ad-impressions per day, Google spent the last twelve months developing new neighborhoods in cyberspace or redeveloping old ones. In the past year they introduced Gmail, Google-Groups, Google-Library, Google-Local and Google-Desktop, all of which come with contextually driven commercial advertising. Google also helped popularize the emergence of Blogs with their purchase and free-distribution of Blogger in September of 2003.

The other way Google finds spaces to display contextually generated advertising is by allowing private webmasters to display AdWords on their sites. They have had no problem finding interested webmasters willing to make a few bucks by displaying the generally unobtrusive ads.

Google also depends on continuing to find advertisers willing to pay slightly higher rates every time their ads are clicked. This may become a significant issue later this year if others find ways to effectively compete. The specter of click-fraud is also a real fear among smaller advertisers in competitive industries. Google is working to manage these potential problems.

In yesterday's investor phone conference, Larry Page outlined internal changes designed to assist corporate advertisers. There is a focus on Fortune 1000 companies with training and support offered for the development of in-house SEM teams. Google's sales staff is becoming increasingly familiar with specific business sectors as the department reorganizes itself to create a vertical sales team structure with sales reps specializing in unique business sectors. He also mentioned the Google Advertising Professional program, a free online course designed to teach SEMs the ins and outs of the AdWords system.

He failed to mention the two other initiatives Google recently introduced. A new Application Process Interface (API) gives SEMs much greater control over their AdWords accounts. This can provide more concrete ways to tailor a campaign for maximum ROI and also provides basic tools to spot and dealing with incidents of click fraud. The second initiative ironically steals a page from the affiliate marketer's handbook. Today Google announced a \$20 finder's fee for successful referrals to AdWords. I desperately wish we could get a referral tracking code for this link: [Google Referral Program](#)

Google's growth in the last sector is certain to spur growth for almost everyone involved in the search industry as it pushes everyone to innovate just a little bit harder. Big to medium players will be joined by hundreds of smaller PPC engines (many of which will be based on specific business sectors).

Is Tempting for Bill Gates but...

Ummm, where exactly did you want to go today anyway?

Yesterday MSN officially launched its long-awaited proprietary search engine with much less fan-fare and hoopla than they expected. That is likely to change over the next few weeks as a massive advertising campaign is now underway with the intention of placing MSN SEARCH on top of just about everything imaginable. MSN is expected to be such a heavy sponsor of Super Bowl Sunday that the Patriot defense will be using it to find Terrell Owens while Tom Brady uses it to find open receivers. For those who don't watch football this weekend, MSN ads and search boxes will appear all over the web, complimenting the TV commercials, billboards, print-ads and radio spots that are also starting to blanket America.

The full introduction of MSN to the search scene is likely to spur competition in unexpected ways. First of all it is important to note that all the major players are taking long-term views on competition and being the oldest kid and largest kid on the block, Microsoft already has a long-term history. It is not trying to change a world it naturally dominates; it just wants to continue to control it.

While Google is focused on search as a means of ad-delivery, Microsoft is focused on search as an extension of function. Gates has had one consistent focus over the years and that is the integration of computers and the Internet into daily life. Successive versions of Windows have moved towards this integration. His previous attempt to control the mechanisms of convergence was the half-hearted .Net strategy that failed to gain mass acceptance.

While Microsoft could have taken a fuller media convergence route years ago with the moderately successful MSNBC, Gates correctly predicted the market wasn't ready to exploit until computers were integrated into home and appliance design. Convergence for Microsoft is more about the invisible web of personal information and life services than provision of infotainment. Grocery deliveries, personal health care information storage, and the provision of tools to digitally network living / working spaces is the direction Microsoft is thinking. To make money from search, they need

consumers to use them to find goods, services and information. To prevent others from taking the market Gates wants, they have to come up with proprietary tools that consumers want to use, hence the introduction of their new search engine.

Microsoft has a strategy based on providing the backbone of the total-information society. Everything you might need at home and away can be stored, anticipated, bought, shipped, cooled, washed or otherwise provided, at the touch of a button. Think online banking only way bigger. Aside from the obvious personal privacy issues this seems a natural step, as the Internet becomes a greater part of our lives. The MSN search tool plays a pivotal role in the development of this strategy and the hype generated by Microsoft around it will hype the entire industry.

Content Needs the Freedom to Flow.

Lastly, two huge search firms, AOL and Yahoo both announced different multi-media ventures that could fundamentally change the nature of the Internet as we use it.

On the east coast, AOL and Time Warner have agreed to offer Time Warner's RoadRunner broadband service to AOL subscribers. This deal provides a crucial infrastructure bridge between the content generated within the Time Warner empire and subscribers of America's largest ISP. In months and years to come, this agreement will have an effect on multiple sectors such as the music industry, movie theaters, book publishing, sports, etc. It will also affect online advertising as huge blocks of broadband are opened to marketers from various wings of the mega-corporation.

Meanwhile, over on the west coast, the new head of the Yahoo Media Group, Lloyd Braun is getting used to working in new-media having been hired away from network TV last summer. Yahoo has opened new offices in Santa Monica, just up the road from Hollywood. Braun has been tasked with the creation of a successful entertainment delivery model for Yahoo. As one of the driving creators of shows such as The Sopranos and Desperate Housewives, Braun has a successful reputation to draw on. In an [interview](#) with the Hollywood Reporter last week, Braun hinted that Yahoo will be in a position to seriously speak with content creators in two or three months but that the Yahoo Media Group is looking at a five to ten year evolution of their medium. Yahoo is already providing subscribers with special extra episodes of The Apprentice. The addition of video clips to the Yahoo-Video search tool indicates Yahoo is preparing its systems to deliver video content as well as search content.

The announcements made over the past few days provide a foundation for the next steps in the evolution of search and the Internet. In the past twelve months, search has become the most important application for web users. With a solid financial model in paid contextual advertising, the incredible hype Microsoft is about to provide, and the moves to integrate video content into search by both AOL and Yahoo, the world of search is about to enter a new and highly improved phase. Search will expand to encompass anything digital and the search engine-marketing sector will adapt and rapidly expand. Small business will not be left out of the picture as start-ups like [Sister.TV](#) work to provide tools to create ads in the emerging mega-media environment.