

Semel Shuttters Windows Deal while Ballmer Waxes on the Future

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

Yahoo is not going to sell its self in part or whole to Microsoft. Over the past two weeks, there have been rumblings of a potential merger or outright acquisition involving the two tech giants. In an interview with the Financial Times, "[Yahoo rebuffs Microsoft offer](#)", Yahoo CEO Terry Semel confirmed rumours regarding discussions between the two firms but stated unequivocally that Yahoo is not for sale.

"The search business has been formed", said Semel. "My impartial advice to Microsoft is that you have no chance."

Semel was speaking to a group of media executives at a conference organized by Syracuse University's Newhouse School of Journalism on Wednesday. In his session, he shed some light on the topic of talks between Yahoo and Microsoft. He also spoke about his views on the future of search noting social search as the next evolutionary step.

Microsoft and Yahoo had been in discussions for some time as part of a general exploration of plans to cope with Google's dominance of the search business. From the tone of Semel's comments, those talks did not lead to any deepening of relationships between Yahoo and Microsoft.

In fact, relationships between the two firms appear to be strained. Semel spoke specifically about Yahoo's wish to continue serving paid advertising results via Yahoo Search Marketing (YSM) to MSN search. Microsoft decided to allow that deal to expire in order to replace YSM with paid ads generated through its new internal paid advertising program AdCenter.

Microsoft was interested in buying a stake in Yahoo search however Semel says he was not willing to sell a portion of the company. Semel admitted Yahoo and Microsoft had discussed, "... Microsoft co-owning some of our search", but stated, "I will not sell a piece of search - it is like selling your right arm while keeping your left. It does not make any sense."

Semel also mentioned some of his ideas on the future of the search medium. The business of search and provision of search results is changing rapidly though Semel expects those changes to be manageable for larger firms like Yahoo.

"I do not expect search to decline but it may not be the way you do it two or three years later," he said. Semel said he sees a great deal of growth in social networking and online video, noting the growing availability of broadband access in the US and around the world is ushering in an era in which video becomes standard content on the web.

In 2004, Yahoo announced its intention to create video content for its users however Semel said many of those plans have been shelved because they were too similar to content already available on commercial television.

"Television does a very good job," [Semel said](#). "This medium better look like something new. This medium better take advantage of its assets, take advantage of what it does well. ... If what we do looks like television, then we're making a huge mistake."

Yahoo continues to make content provision a high priority however much of that content will likely be syndicated from other sources.

Semel mentioned social networking as a likely future model for search saying, "Knowledge search, as they call it in Korea, or social search, as we call it, has blown through the roof. There may be changing dynamics."

Meanwhile, over in Microsoft's camp, CEO Steve Ballmer appears to be in fighting trim playing point guard against Google's towering offensive while lobbying set-up passes regarding Microsoft's plans toward the press. In a wide-ranging article published in [Cnet News.com](#), Ballmer responds to a number of comments directed at Microsoft in the past weeks.

Ballmer doesn't appear to be concerned about Yahoo but he is obviously burning over some of the comments Google co-founder Sergey Brin levelled at Microsoft during a press conference on Wednesday's Google Press Day.

Referring to the default settings of Microsoft's upgraded browser IE 7 and the pending release of the Microsoft Vista operating system, [Brin was quoted](#) saying, "We just see the history of that company behaving anti-competitively and not playing fair. So I think we want to...look at the areas where that power can be abused."

Suggesting Google expects special treatment from Microsoft, Ballmer couldn't resist the temptation to take a few pot shot at Google while comparing Microsoft products to Google's offerings.

"Can you imagine writing a letter to someone," he said, "'Hey, Mom, I am upset with the gun policy.' Then an ad pops up and says, 'Hey, do you want to buy a gun?'"

Ballmer stated that most Microsoft products will remain separate from advertising noting that, "...Even though Microsoft will have ad-supported applications, a lot of people will want a standard desktop Office."

Microsoft is a distant third behind Google AdWords and Yahoo Search Marketing in terms of market share and revenues. It hopes to change that through the introduction and marketing of AdCenter, as well as by expanding into ad distribution in video games.

Earlier this month, Microsoft purchased [Massive](#), a company that inserts advertisements into online video games. Imagine, if you will, a first-person strategy game that takes place in a city. Billboards, posters and other pieces of scenery can be instantly updated throughout MSNs gaming network.

"We want to make sure there is good, healthy competition in the advertising space," Ballmer said. "Everybody deserves good competition. People have been telling me that for years."

Based on notes taken by CNet news writer Michael Kanelloa, Ballmer is also interested in social networking, with a particular emphasis on FaceBook. He quotes Ballmer saying, "I've spent a lot of time studying FaceBook. I think there is a lot we can learn from the FaceBook concept." Remaining bearish on

technologies that do not have clear revenue models such as YouTube and BitTorrent Ballmer suggested that Microsoft would continue to look at acquiring start-up companies.

Yahoo CEO Terry Semel and Microsoft CEO Steve Ballmer are both concerned about Google. They appear interested in perusing similar technologies and both perceive virtually limitless futures.

Yahoo's strongest assets are in its network of branded information directories, its emerging Yahoo Publisher Network, and in its search marketing business YSM. Having one of the most well recognized global brand names, combined with the enormous amount of content it generates, Yahoo is capable of retaining its second place position in search advertising.

Putting aside its control of the basic operating system on most personal and corporate computers, Ballmer sees patience as Microsoft's greatest asset. "We have tenacity and a persistence and patience to stay after it and stay after it and stay after it. Patience is what distinguishes us from many technology companies that are important...."

Patience has proven to be a key ingredient in the development of the Vista operating system. That makes sense given patience is a necessary virtue practiced by all Windows users.

Historically each of the major players, Google, Yahoo and MSN has competed by staking their own turfs and making minor, and in many cases major incursions into each other's turf. It often resembles a game of "follow the leader" in which 3 firms, based on their own merits are in a position to act as the leader. How it all works out will be part of our collective history but while it plays through, it is one of the most interesting games going.