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Yahoo, Google primed for search war

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Yahoo on Wednesday said it will drop search partner Google during the

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first quarter of 2004 in favor of its own technology, opening a new phase in the battle for Web search dominance.

The announcement from Yahoo CEO Terry Semel marks the first time the company has publicly disclosed a specific timeline for replacing Google, a move that has been widely expected since Yahoo announced plans to acquire search provider Inktomi for \$235 million in December 2002. Inktomi has developed so-called algorithmic search technology similar to Google's that indexes Web pages and ranks them based on search terms.

"We've been hard at work with the assets that we've acquired to develop our (own) algorithmic search engine," Yahoo Chief Financial Officer Susan Decker said in a phone interview. "We'll be swapping that out in Q1."

Although expected, the announcement highlights the changing market for Web-based search, which has been transformed in the past two years thanks to fast-growing and profitable advertising programs.

Riding that crest, Google is preparing for a public offering that could raise as much as \$4 billion, according to reports, giving the company a market capitalization of about \$15 billion.

Google currently processes approximately 80 percent of all search requests on the Web through distribution deals with Yahoo, Time Warner's America Online and Ask Jeeves, according to market share data compiled by research firm Comscore Media Metrix. When Yahoo ends its deal with Google, that share is expected to drop to about 54 percent. Yahoo's reach, meanwhile, could jump to 42 percent, based on its own search traffic and a deal that provides Inktomi results to Microsoft's MSN Web portal.

Analysts said the shift means that, overnight, Web search will change from a near monopoly situation to a two-horse race.

"Competition-wise, this sets Yahoo up to take Google on," said Search Engine Watch Editor Danny Sullivan. "The minute Yahoo bought Inktomi, the idea they were partners and friends fell by the wayside. But Yahoo has not given consumers a strong reason to think of Yahoo as different from Google. They need Inktomi out there to get their own voice and differentiate themselves."

The change will likely have only a small impact on Google's and Yahoo's businesses, at least in the short term, Sullivan said. Google earned just \$7.1 million in fees from Yahoo in 2001 for providing its algorithmic search results, he said.

The real money in search comes from advertising revenues. Keyword searches made up 31 percent of the \$1.66 billion in U.S. online ad sales for the second quarter of 2003, according to the Interactive Advertising Bureau (IAB), an industry trade group.

Since November 2001, Yahoo has run advertising [search links on its site from Overture Services \[http://www.cnet.com/Yahoo-plays-Overtures-paid-search-listings/2100-1023_3-275821.html\]](http://www.cnet.com/Yahoo-plays-Overtures-paid-search-listings/2100-1023_3-275821.html) --which it [acquired last year for \\$1.6 billion \[http://www.cnet.com/Yahoo-to-buy-Overture-for-1.63-billion/2100-1030_3-1025394.html\]](http://www.cnet.com/Yahoo-to-buy-Overture-for-1.63-billion/2100-1030_3-1025394.html) --meaning Google won't see any loss in its advertising reach when the deal unravels.

"This will mean virtually nothing to Google" from a business perspective, Sullivan said. "I don't know how much money they were making, but I'd be surprised if it was in the tens of millions. The real money in search is in ads, but Yahoo never carried Google's ads...What you really want to understand is the reach of their ad networks. That's not changing."

Sullivan said things will get even more interesting when Microsoft gets its Web search act together, something he said he expects by the end of the year.

Semel on Wednesday said that Yahoo has expanded its deal to offer Overture's paid search results to MSN's sites throughout Europe and Asia, adding to an [existing deal \[http://www.cnet.com/MSN-sticks-with-Overture/2100-1024_3-5092953.html\]](http://www.cnet.com/MSN-sticks-with-Overture/2100-1024_3-5092953.html) throughout the United States and the United Kingdom.

But the boost from the MSN deal could be short-lived, Sullivan said.

"By the end of 2004, MSN will get their act together," he said. "Then the worry for Yahoo is that MSN will prove to be a temporary boost for them."



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