



Search Engines Morph as Microsoft Looms

By Greenhouse Associates

The pace of change among search engine companies has been blistering, with huge consequences likely for the consumer, business, and professional information and media arenas. It is becoming clear that search engines are rapidly replacing conventional aggregation by making it possible for users to find a wide range of content from disparate sources across the Internet. While search engine companies have just begun to address the question of how to access premium content that is “behind the wall,” there is little doubt that their momentum will inevitably engulf that type of content.

During the last 60 days alone, search engine have made a number of dramatic moves. Yahoo recently announced the \$575 million acquisition of European comparison shopping service Kelkoo, an important move for bolstering Yahoo’s international presence – as did its acquisition of Chinese search company 3721 Network Software in November 2003. Yahoo has made four major acquisitions in the past year and a half. At the same time, Google seems to be transforming its stripped-down main search page into a more Yahoo-like portal offering expanded services. For example, it has moved Froogle, its comparison-shopping service, into a prominent place on the search page. Until now, Froogle has been on its own web site. (This move should help boost Froogle’s traffic, which was less than 500 unique visitors in February, as compared to 19 million for Yahoo’s shopping service and 17 million for Shopping.com, according to comScore Media Metrix.)

Google announced its own email service to compete with Yahoo and Microsoft’s Hotmail. Google would like to extend the reach of its lucrative keyword-based advertising by linking such ads to email, although it has backed off in recent days in the face of growing customer concerns over its potential power to analyze the content of emails. At the same time, Google is placing more emphasis on personalization. It recently debuted Google Personalized Web Search and Google Web Alerts, both designed to let users receive customized results based on their interests.

Search engines are going local at the same time that they are going global. Last month, a beta release of Google Local was unveiled, enabling users to find maps, local web sites, and local business listings. Meanwhile, Yahoo has introduced SmartView, which provides local maps and listings from Yahoo’s yellow pages listings.

Google and Yahoo are not alone, despite their current dominance. InfoSpace has acquired Switchboard, a yellow pages listings provider, for \$180 million, which should extend its reach significantly. The addition of Switchboard to InfoSpace and distribution partners’ web sites will account for nearly a quarter of all online yellow pages searches, InfoSpace claims, based on data from comScore. Amazon has also gotten into the act



with the recent release of A9, a search engine that the company says is specially designed to improve ecommerce applications. The search engine integrates Google search results with Amazon's own product listings, and is intended to be used by Amazon as well as licensed to other sites.

Meanwhile upstart search firm Kanoodle has launched a new contextual advertising service with an approach that could lure some business from Google, the leader in contextual search advertising across a broad spectrum of sites. Google's AdSense system automates the placement of sponsored links on other web sites, but Kanoodle contends that its ContextTarget ads can achieve higher contextual relevancy because its editors confirm the appropriateness of links before ads go live. (This human filtering process usually takes about a day.) The company allows advertisers to choose content topics they consider relevant during the bidding process. In contrast, Google ads are approved and enabled after going through an automated filtering process. Since ContextTarget's launch in January, its service has allowed advertisers to target ad listings based on fewer than 10 content topics, all within the finance category. But Kanoodle recently opened its expanded list of 215 topics, ranging from sports to health to shopping. Kanoodle has established a deal to be the sole provider of sponsored links across MSNBC.com.

All of this activity is happening under the shadow of Microsoft's official announcement of what everyone expected – that it will launch its own search engine by the end of the year. It currently gets its web search results from Inktomi, while its gets paid search advertising via Overture Services – both now owned by rival Yahoo. Microsoft's shadow only seems to make the incumbents run faster to solidify their franchises.

Meanwhile, stock prices have moved up sharply for many search companies, including the lesser players such as AskJeeves, FindWhat, LookSmart, and Mamma.com. While some observers are calling this recent movement a bubble reminiscent of the late 1990s, the evidence suggests otherwise: search engines, especially those with paid listings, generate real revenues. Yahoo just completed its most successful quarter, nearly doubling its revenues to \$540 million and achieving a \$100 million profit. Nearly 80% of its revenues came from a 120% increase in "marketing services," a category that includes online advertising, especially keyword sales. More data will become available on just how lucrative these businesses are when Google releases the SEC filings for its upcoming IPO.

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