



## **Microsoft and Yahoo! strike a long-awaited deal The Economist (Jul 29th 2009)**

USERS will probably not notice all that much. But the deal may be seen one day as a significant event in the internet industry. Microsoft and Yahoo!, the world's biggest software firm and its leading online portal respectively, have reached a deal for a ten-year web search and advertising partnership after years of speculation about a tie-up. The combination, which was announced on Wednesday July 29th, is not as far-reaching as originally envisaged. But it is likely to create a serious rival to Google, the online giant that dominates both of these markets.

The agreement is supposed to help both parties overcome their most pressing problems. Microsoft will increase significantly the use of its search service, called Bing, and its platform to serve online advertisements. Yahoo! will use both of them on its websites. The web portal, for its part, will be able to cut costs and increase revenues. Yahoo! will no longer have to invest millions in its search and advertising technology. It will also get more money for the ads placed next to its search results. Carol Bartz, Yahoo!'s boss, said that the tie-up "comes with boatloads of value" for her firm.

The deal is the result of a long mating dance which started in earnest early in 2008. In February last year Microsoft made a \$44.6 billion takeover bid for Yahoo!, later raising its offer to \$47.5 billion. But Yahoo!'s management then rebuffed Microsoft, regarding the offer as undervaluing the company. Instead Yahoo! entered into an advertising dalliance with Google, but this fell apart after antitrust authorities signalled that they would not approve such an agreement. Talks between Microsoft and Yahoo! were rekindled after Ms Bartz took the helm at Yahoo! in January.

She is less emotionally attached to maintaining its independence than her predecessor, Jerry Yang, one of the company's founders.

Yet even for Ms Bartz the results of the negotiations must be somewhat disappointing. Yahoo! is said to have pushed for a whopping upfront payment of billions of dollars for agreeing to a deal with Microsoft—but it has not succeeded. What is more, the deal apparently only covers the text ads displayed alongside search results and not other forms of online ads. And although Yahoo! will use Microsoft's advertising platform, the firm will continue to sell the ads itself. This will allow it to maintain relationships with advertisers, making it easier to sell them other kinds of ads.

The big question is whether this combination will be able to threaten Google's dominance in web search. The deal will mean that Microsoft handles nearly 30% of searches in America—compared with Google's 65% of the market. Microsoft's share may well rise. It will be able to offer better search results because it will have more search data to improve its technology. Bing, which the firm launched in June, has already got off to a good start, gaining a couple of percentage points of the search market since then.

At any rate, the battle lines between Google and Microsoft are now clearly drawn. Earlier this month, Google announced that it is developing a free operating system for personal computers called Chrome OS, thus mounting a direct attack on Microsoft and its dominant Windows operating system. With the Yahoo! deal, Microsoft is now pushing into Google's heartland. So the grand alliance between Microsoft and Yahoo! is part of an even bigger battle between the technology titans that is likely to drag on for years.