Some Free Advice for Yahoo CEO Jerry Yang

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Yahoo co-founder Jerry Yang is about to find out that being a CEO is a lot different than being the ceremonious Chief Yahoo, as he was called until last month. Yang, who became Yahoo's new CEO on June 18, faces a daunting to-do list that includes reinvigorating the company, closing a performance gap with Google, thwarting challenges from social media sites such as Facebook, delivering financial results that make Wall Street cheer and charting a course for the future.

His first deadline comes in about 100 days.

Meanwhile, Yang's development as CEO will be closely watched, including how he motivates employees and recruits talent. Yang took over for Yahoo CEO Terry Semel, who resigned after six years at the helm, during which Yahoo lost search market share and ad revenue to Google, failed to innovate in the display advertising business and fell behind on the delivery of a new advertising system called Panama.

One advantage Yang has is that he's an insider. He founded Yahoo along with David Filo in 1994 and has been involved with the company ever since. But he has never held the CEO position, and it's unclear whether he will be able to lead a company that has grown and changed so rapidly since its days as a startup. Yang, for his part, sounds confident. "Although I've only been in the CEO role for about a month, I co-founded this company and I've been thinking about our place in this industry for over 15 years," said Yang on the company's second quarter earnings conference call on July 17. "I may not have all the answers as of today, but I have a pretty strong idea of where I want to go. There will be no sacred cows and we need to move very quickly."

The company reported net income of $161 million, or 11 cents a share, on revenues of $1.24 billion, a sum that excludes traffic acquisition costs. Yahoo's earnings were flat compared to a year ago, but revenue was up 11%. The company also lowered its expectations for the second half of 2007. Meanwhile, Yahoo rival Google reported second quarter net income of $925 million, or $2.93 a share, on revenues of $2.72 billion. Google's revenue figure also excludes traffic acquisition costs.

"I intend to spend the next 100 days or so focused on mapping out a strategic plan for long-term success, working with our teams to put the right organization and the right people in place, and making any necessary changes," said Yang during the conference call.

Some Wall Street analysts have portrayed Yang as a caretaker for another CEO or as an interim solution ahead of a buyout -- a claim Yang vehemently denies. Others say Yang's credibility within Yahoo and his passion can reinvigorate company morale. Why the divided opinion? Yang doesn't necessarily fit the mold of founders returning to the top position. Apple founder Steve Jobs left the company and returned as CEO to create two big hits, the iPod and the iPhone. Michael Dell was CEO of his namesake company and recently returned amid the PC maker's missteps in product design and customer service. The common thread between Dell and Jobs: Both were CEOs before. Yang has no such track record.

"Yang doesn't fit the CEO mold and lacks management experience. I had expected the company to bring in an outsider," says David Hsu, management professor at Wharton.
Like Jobs and Dell, Yang is a founder, but he never led a company the size of Yahoo, which had 11,800 employees as of April 1. Yang has said his goals are to simplify Yahoo, move faster, be a vital partner for advertisers and publishers, and recruit talent.

"Being an insider is comforting to the organization as current employees see one of their own in charge," says Wharton management professor Peter Cappelli. "Insiders also know a lot, especially about the culture of the organization and what is important to preserve. Founders, in particular, have an advantage in that they remind employees of what were, in Yahoo's case, more glorious days."

As Yang embarks on this management journey, Knowledge@Wharton polled experts for some free advice.

**Focus Internally First**

Experts at Wharton say that Yang's biggest priorities should be boosting employee morale and finding key insiders to promote into leadership roles. Yang has said that recruiting talent -- internally or externally-- is one of his biggest goals. Since December, Yahoo has lost chief operating officer Daniel Rosensweig, chief technology officer Farzad Nazem and chief sales officer Wenda Harris Millard, among others.

Hsu says that Yang should play to his strengths, including his knowledge of Yahoo's inner workings. Since Yang already knows the internal landscape, he's in the best position to identify future leaders from within. Wharton management professor Keith Weigelt agrees. "I would look for talent internally first rather than recruiting it," he says. "If you look externally first, people inside wonder, 'What's wrong with our people?' He has to mine Yahoo and then find the most talented employees."

According to Kartik Hosanagar, Wharton professor of operations and information management, Yang should have little difficulty boosting morale. "Employees and techies will see Yang as a founder, a techie, the one with the original vision for Yahoo. All these are positive influences. So, Yang is better for employee morale than an outsider."

Hosanagar argues that Yang has to do four things to get employees excited. He needs to develop processes to identify internal employees with the most potential, create an incubator so employee ideas can become reality, and hire a few outsiders, preferably well-respected leaders in programming and research to compete with Google's technology prowess. Finally, Yahoo needs to address its compensation structure, given that stock options at the company aren't much of an incentive relative to competitors such as Google.

It's likely that Yahoo has these strategies in place but needs to execute them better, says Hosanagar.

**Put Wall Street on the Back Burner**

Experts at Wharton were unanimous in their opinion that Yang shouldn't lose sleep over what Wall Street thinks. "It may be hard for Yang to be taken seriously by Wall Street as a professional CEO," says Hosanagar. "The perception of being a caretaker rather than a leader is another issue. However, he can't worry about it. These [issues] are easily addressed by earnings figures. A couple of successful earnings reports will change perception." In the short term, Weigelt adds, "Yang won't satisfy Wall Street. He should avoid the short term right now and focus on the long term. He has to worry about the inside people first" -- the culture and operations -- and then the investment community.

Yang appears to be already sticking to this script. On Yahoo's earnings conference call, he noted that the company is in "investment mode" as it looks for new opportunities. These investments are likely to increase expenses and cut earnings. Weigelt also suggests that Yang should follow Google's lead and stop projecting future earnings. "He has too much on his plate. Why worry about that [Wall Street guidance] now?" Yahoo, however, still provides analysts with a future outlook. The company projected third quarter revenues of $1.17 billion to $1.2 billion, and revenues for the year of $4.89 billion to $5.19 billion.

According to Cappelli, a preoccupation with Wall Street may be why Yang indicated that his strategy
will be unveiled in 100 days. The 100 day reference is often mentioned in political campaigns, but has been increasingly used by executives."The 100 day action plan has become popular, especially when there is pressure from the financial markets to show that there is some change in direction," says Cappelli.

Indeed, Yang's strategic plan will be closely scrutinized. In a research note, Colin Gillis, an analyst at Canaccord Adams, a Vancouver-based investment bank, said his rating on Yahoo shares largely depends on Yang's vision."A compelling and forward vision for Yahoo could rate a buy if execution appears reasonable. A rehash of existing web 2.0 technologies may cause us to move to sell, particularly if we start to sense that it's going to take a different CEO to turn Yahoo in the correct direction."

**Find Yahoo's Greatest Hits**

No one knows for sure what will be in Yahoo's new strategy, but Hsu says there are time-worn paths to follow when creating a new mission."Yang has to really concentrate on surrounding himself with experienced people and be more willing to listen to new ideas. During the 100 days, he should conduct a brainstorming session and be freewheeling with different models."

More importantly, Yang has to weed out businesses that don't work and double down on the ones that do well, adds Hsu. Fortunately for Yahoo, it has a bevvy of valuable assets, including some that fall into the social media category, such as Flickr, a photo sharing site, and Del.icio.us, a social book marking site. Yahoo is also the dominant player in Japan and has started new services -- such as Yahoo Answers -- that have been well received. While Yahoo doesn't break out revenue contributions for most of those properties, they contribute to buzz about the company. Flickr, which Yahoo acquired in March 2005, will replace Yahoo's previous Yahoo Photos site. Yahoo's efforts, however, haven't been able to land new audiences in the same way as Facebook and MySpace, which are drawing traffic away from traditional portals like Yahoo.

Hosanagar says Yahoo is likely to address two needs: pulling even with Google on search, and targeting social media."I would try to match Google on basic search -- which it sort of manages to do today -- but focus more on emerging media like audio, video, mobile and local. [A lot of] growth will be there. Yahoo's biggest problem in search today is perception on the part of consumers and advertisers. On the consumer side, search quality is comparable, but Google enjoys significant brand advantages. On the advertiser side, the problem is far more than just perception. Clicks from the Google network convert to purchases at a higher rate than at Yahoo," says Hosanagar.

To build its social media standing, Yahoo is likely to pursue acquisitions."If it focuses on social media, the good news is that it already has Flickr, Del.icio.us and Yahoo Answers. However, it should also explore options to partner or acquire [companies like] Facebook or MySpace. I'd also focus on building social media/apps for mobile and video on demand," adds Hosanagar.

Hsu suggests, however, that focusing on social media and search is not going to take Yahoo far into the future. Regarding search, the best Yahoo can hope for is parity with Google's algorithms. And social media may not be a big strategic advantage in the future. Instead, Yahoo must create a strategic plan that will enable it to leapfrog Google. And that means predicting the future, says Hsu.

**Place a Few Big Bets**

Yahoo's strategic plan may be fine for diagnosing ills and fixing them, but vision will be critical. Yahoo has to find "the next big source of revenue, whether it's advertising led revenue or something else. It will take some assessment and broader thinking," says Weigelt, adding that it's likely Yahoo has the kernel for these new opportunities inside its headquarters. He argues that Yahoo isn't a broken company, just a fallen giant that needs better execution.

Kendall Whitehouse, senior director of information technology at Wharton, says Yahoo's last big bet -- to become more like a media company while downplaying technology -- wasn't very successful. The current web 2.0 trends have made technology key to providing a platform where consumers can generate their own content and "mash up" existing text, audio and video in their own blogs and web sites. "For Yahoo, getting a little geekier may be better in the short run," says Whitehouse.

He contends, however, that Yahoo shouldn't completely run away from the media roots it established...
during the Semel years. "There are three big variables: content, platform, and the user experience. The sweet spot is all three of them." One bet Yahoo could pursue is technology that increases how long a customer stays on a Yahoo site, Whitehouse adds. On July 10, Nielsen/Netratings, a web traffic tracking firm, said it will begin measuring how long customers stay on a site instead of just counting the number of page views. The new measurements are designed to account for sites hosting rich media like video and audio and next-generation applications that don't require a new web page to load on every click.

Whitehouse notes that this form of measurement could tip the scales in Yahoo's favor. Under the new measurement of time spent, Time Warner's AOL network usurps Yahoo as the top web property. AOL users logged 25 billion minutes in May compared to Yahoo's 19.6 billion minutes. The good news for Yahoo is Microsoft's MSN is a distant third in minutes spent, with 10.6 billion. And Google users spent only 7.4 billion minutes on the search giant's sites.

Whitehouse's point: Yahoo should focus on where the web will be -- not where it is today.

Along those lines, Hsu suggests that Yang should be spending his time with the research and development team to find the next frontier. But he also has to focus on improving existing services. The result, Hsu adds, will be two types of bets -- incremental innovation applied to existing products, and brand new efforts. Improving existing products is a low risk with lower returns. The big bets on the future could deliver big returns, but carry more risks. "The goal is to do a little of both. No one knows what the future holds, but if you have done some investment in far out areas, you can capitalize."

One thing is certain: Whatever Yang cooks up will be closely scrutinized. "Yahoo still has a lot going for it, but the perception right now is all gloom and doom," says Weigelt. "To overcome that perception, the company has to take some risks to change culture and strategy. Yahoo has to place a bet here. It's at an inflection point."