

Yahoo's Offer for HotJobs Shows the Advantage of Cash

Whit Andrews

Yahoo's offer to buy HotJobs is more likely to succeed since it includes cash in addition to stock. Cash-oriented deals will likely increase in the near future, and cash-rich firms will have a competitive advantage.

NEWS ANALYSIS

Event

On 12 December 2001, Yahoo announced that it has made an unsolicited offer to acquire HotJobs for cash and stock valued at \$436 million (half cash, half stock) at the time of the announcement.

Analysis

This deal would help Yahoo expand its sources of revenue beyond Internet advertising. Yahoo built its online empire in the 1990s from skyrocketing sales of Internet ads, but a slowing economy and increasing skepticism about the effectiveness of Internet ads led Yahoo into financial trouble. Yahoo decided to develop value-added services with a focus on task completion rather than advertising or entertainment. (The disproportionate layoffs at Yahoo's broadcast unit showed a wise and encouraging commitment to this plan.) Web users tend to involve themselves online to accomplish something, and finding a new job or finding a new employee offers an excellent example.

Although HotJobs did not negotiate the terms of the offer ahead of Yahoo's making it, the deal will go through (0.6 probability). Yahoo finds itself in a stronger position than many new economy firms because its reliable, if slowing, ad revenue gives it what most investors are starved for — cash. Cash-and-stock offers such as Yahoo's were rare when stocks "always" went up. Blue Mountain Arts stood out for forcing such an arrangement when it was originally acquired by Excite@Home (which subsequently spun the online greeting card company back out). Blue Mountain's family ownership has doubtless counted its blessings many times as Excite@Home's stock value cratered.

The proportion of cash-and-stock or cash-only deals will likely increase in the near term. Through at least 2002, cash-rich Internet companies will discover that hard currency gives them a competitive advantage over firms that can mainly offer equity to acquisition targets. Thus, even if it doesn't close the HotJobs deal, Yahoo's cash reserves give it a good chance to execute on its strategy of developing value-added services.

Analytical Source: Whit Andrews, Internet Strategies

Need to Know: Reference Material and Recommended Reading

- "Yahoo Feels a New Sense of Urgency" (FT-13-2793) The central issue is whether Yahoo can use its pre-eminence among Internet users to capitalize on fresh business opportunities. **By Whit Andrews**
- "IT Professional Services Exchanges: Reinventing IT Services Procurement" (ITES-WW-FR-0106) A Gartner study shows that out of 163 enterprises surveyed, only 10 had a formal method for strategically procuring IT professional services. **By Edward Kempf**

(You may need to sign in or be a Gartner client to access all of this content.)

REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Level 7, 40 Miller Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Latin America Headquarters
Av. das Nações Unidas 12.551
9 andar—WTC
04578-903 São Paulo SP
BRAZIL
+55 11 3443 1509