

AltaVista Will Lose Its Long-Term Viability as Enterprise Vendor

Whit Andrews, Denise Garcia

Purchasing Internet search firms AltaVista and Fast Search will allow Overture to offer complete search engine capabilities. However, firms should plan to transition from AltaVista's enterprise search offering by the end of 2004.

NEWS ANALYSIS

Event

On 25 February 2003, Overture Services, which sells advertising that accompanies and resembles Internet search results, announced a definitive agreement to acquire the Web search business of Fast Search & Transfer for \$70 million in cash plus up to \$30 million in performance-based compensation over three years. On 18 February 2003, Overture announced a definitive agreement to acquire the Internet search engine AltaVista for \$140 million in cash and stock. Overture expects to close both deals in April 2003.

Analysis

For Overture, these deals will increase opportunities as well as challenges. Overture, formerly known as Goto, is an upstart search service provider whose success stems from paid placement search rather than advanced search algorithms. The company allows advertisers to purchase placement in search results and informs users of how much the advertiser has paid for their attention. Overture relies mostly on revenue from placement on portal sites, including AltaVista. Overture acquired AltaVista to offer complete search engine capabilities. Overture can sell complete search deals, such as paid inclusion, instead of pay-for-placement only. The deal allows Overture to remain competitive with Google, which also offers complete capabilities. Since becoming a direct competitor to Overture in April 2002, Google has taken the AOL, Earthlink and AskJeeves accounts from Overture.

However, the deal changes Overture's position in the market. Up to now, Overture's competitive advantage lay in not competing with its business partners for search traffic. Now, with the acquisition of AltaVista — the 10th most popular search/navigation site, according to comScore Media Metrix — conflict of interest between Overture and its business partners will increase.

Overture's near-simultaneous acquisition of Fast's AllTheWeb.com property allows Fast to focus on the enterprise search business, which has grown substantially through 2002. Fast's maturing enterprise product line has expanded from a few high-profile customers to broader appeal, and Fast faced the decision of whether to travel the more diversified path of Google and AskJeeves or the targeted path of most of its search competitors, such as Verity. The more focused approach bodes well for its enterprise customers, which otherwise would have felt justified concern about the distraction of AllTheWeb.

The deal likely increases the risk of the long-term viability of AltaVista's enterprise offerings. Today, AltaVista does not aggressively sell the enterprise search product — although it maintains a sales staff, it had backed off its sales efforts in the recent past — and Gartner believes Overture will either discard it or seek to sell or spin it off. (Overture has indicated it will unequivocally maintain support for its customers, but plans for the product in the long run remain under discussion.) Enterprises that use AltaVista for enterprise search and find it satisfactory should prepare a plan for transition by year-end 2004. Those whose needs are not being met by AltaVista should immediately evaluate alternatives.

Analytical Sources: Whit Andrews and Denise Garcia, Gartner Research

Recommended Reading and Related Research

- "The FTC Puts the Ad Practices of Search Engines on Its Watch List " (<http://www.gartner2.com/qa/qa-1202-0136.asp>) — Third-party search services companies like Overture, which place advertisers' links across all search engines, may

have the toughest time with the Federal Trade Commission's request if consumers stop clicking on paid links once they are identified. **By Denise Garcia**

- "Yahoo's Purchase of Inktomi Could Challenge Google" — The acquisition of search engine provider Inktomi will strengthen Yahoo's enterprise search services against competitors such as Google. **By Whit Andrews**

(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

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters

Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9º andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509