

Yahoo's Report of Online Ad Weakness No Cause for Panic

Andrew Frank

Despite Yahoo's observation of recent slowdown in automotive and financial services online media spending, the market is poised for continued growth.

NEWS ANALYSIS

Event

On 19 September 2006, Yahoo rattled investors with a statement conceding weakness in automotive and financial services spending on online ad media.

Analysis

The weakness cited by Yahoo is on the demand side of the advertising business only. On the supply side of audience metrics, Yahoo Sites continue to lead all Web properties in terms of reach, page views and usage statistics, according to comScore Media Metrix.

Historically, advertising as a whole has been sensitive to economic conditions. But the growth in the online subsector is far from exhausted. The rise in consumer usage of online media has far outpaced shifts in ad spending.

The long-term trend toward rising online advertising spending is fueled by a combination of factors:

- A continuing rise in broadband penetration and usage, globally
- Online channel marketing efficiency, which lowers per-lead and per-sale costs dramatically compared with other media
- Growth of online advertising market capacity through online media auctions and performance networks

Yahoo is currently more focused on high-end, high-impact brand campaigns than are most of its competitors. That makes it more sensitive to shifts in high-spending industry brand categories than search-engine-oriented competitors such as Google, whose revenue comes primarily from high-volume, low-cost text ads.

In the next few weeks, however, Yahoo plans to enhance its search marketing capabilities with a new ad platform code-named "Project Panama," aimed at leveraging Yahoo's user data for targeting, which could provide significant new benefits to advertisers.

The most important trend to watch is the rise of social media, which positions Yahoo at the leading edge of usage with sites like Flickr (photo sharing), del.icio.us (social bookmarking) and Yahoo Answers. As the trend continues, Yahoo can be expected to make strategic acquisitions to add to its portfolio of services.

The principle long-term challenge that Yahoo faces is not the risk of a turn-around in online advertising. Rather, it's in developing meaningful linkages and opt-in privacy protection platforms that tie these services together and form the basis of trusted long-term relationships with consumers and advertisers.

RECOMMENDATIONS

- **Media companies and investors:** Do not mistake Yahoo's setback for a fundamental reversal in advertising trends.
- **Agencies and advertisers:** Look for ways to leverage high-end online ad inventory that may become more available and affordable.

RECOMMENDED READING

- "Key Issues for the Media Industry, 2H06" — We examine the critical issues on the minds of business and technology leaders at top media companies, service providers and related companies. **By Van Baker, Adam Daum and Allen Weiner**
- "Web 2.0 Reaches for Advertising" — We assess more than 80 of the most popular Web 2.0 sites for their overall challenges and potential. **By Andrew Frank**

(You may need to sign in or be a Gartner client to access the documents referenced in this First Take.)

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