

FT: Yahoo's headaches LEX

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Yahoo's headaches LEX; [ASIA EDITION]
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in doubt, palm it off as a "legacy" business. Yahoo is doing just that with the shrinking advertising stream it gets from affiliate internet sites, which helped lower second quarter revenue growth, announced on Tuesday, to a lacklustre 7 per cent.

That issue should start to evaporate next year as out-of-favour affiliates fall below 10 per cent of overall revenues. And there was some positive news from Yahoo's underperforming search advertising business. With the US roll-out of its new system "Panama", the company said revenue per search in its home market had risen by 15- 20 per cent. While not necessarily narrowing the gap with a rampant Google, it should at least improve Yahoo's search growth rate if it can hang on to its market share of queries.

The trouble is, just as Yahoo starts to deal with search, another headache is kicking in. The once rock-solid display advertising business, where Yahoo has long been the clear market leader, is showing signs of wear and tear. Revenues are not disclosed separately, but Yahoo admitted that its display advertising is under pressure as a wave of new inventory from sites such as MySpace and Facebook hits the market. That has reduced Yahoo's market share and depressed prices for online adverts.

That challenge could take time to fix. Yahoo had got fat and happy with its leadership position. It failed to innovate in order to stay ahead of rivals, not least Google, which is trying to beef up its presence in display advertising.

Jerry Yang, co-founder of Yahoo and now chief executive, still has an enviable global audience and range of services from which to squeeze more value. But he is now fighting serious battles on two different fronts - neither of which can be consigned to the "legacy" bin.