Yahoo!: Moving From Free to Paid Services

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Introduction:

On March 7, 2001, Yahoo issued a profit warning. For the first time in the company's brief history revenues were expected to decline. Yahoo estimated that revenues for the first quarter of 2001 would range between $170 and $180 million, a 50% decline from the previous quarter. Furthermore, the company now expected to break even, rather than to make a profit for the quarter.

The stock market reaction was swift: the next day, Yahoo's stock fell about 20%. By March 15, 2001, Yahoo's market capitalization had dropped to $9 billion, a far cry from the $140 billion peak it had reached at the beginning of 2000. At that time, in the wake of the AOL-Time Warner merger, Yahoo executives were constantly being quizzed about mergers and especially about their interest in purchasing a content-rich company, such as Disney. Yahoo did conduct merger talks with eBay but the deal fell through. Reportedly, Yahoo's management could not work out a power sharing agreement with eBay's CEO, Meg Whitman.

Now with the collapse in Yahoo's stock price, the balance of power had shifted. Yahoo itself was considered a takeover target, with Vivendi Universal, Viacom, and Disney among the likely suitors. To guard against a hostile takeover, Yahoo's board approved a poison pill in March 2001. However, despite the precipitous drop in Yahoo's share price, both Michael Eisner of Disney and Rupert Murdoch of News Corporation publicly dismissed Yahoo as overvalued. Observers wondered:

> Yahoo might have missed its big opportunity to reach new heights back when its stock was doing just that last year. Now, it has precious little time to create new paid services to replace its popular free ones and must counter the perception that the game is up even for the industry leader.[1]

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