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Yahoo Profit Drops; Layoffs Announced

Firm Faces 'Headwinds,' CEO Warns

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Umesh Ramakrishnan
Vice Chairman, CTPartners

Yahoo has been losing ground to its rival Google, while newcomers like Facebook take up more of Web surfers' online time -- major factors that continued to take a toll on the company's financial results.

Yahoo said yesterday that profit declined again, and Jerry Yang, the company's co-founder and chief executive, acknowledged that the company needed a big shift in strategy. He also warned that the company will continue to face "headwinds" this year.

Yahoo also said it would lay off 1,000 of its 14,300 employees starting in February. By restructuring, it hopes to return to growth in 2009, Yang said in a conference call.

"This is a pivotal time for Yahoo's business and we have a unique window of opportunity right now to make the necessary, game-changing investments," he said in a statement.

Yahoo, whose profit has been declining over several quarters, said its fourth-quarter profit fell to $206 million from $269 million in the comparable period a year earlier. Revenue increased to $1.83 billion from $1.7 billion.

Profit for the year was $660 million, down from $751 million in 2006. Revenue for the year was $6.97 billion, up from $6.43 billion in 2006.

Shares of Yahoo closed up 3 cents yesterday, at $20.81 a share. The company announced its results after the market closed.

"Yahoo has got some fairly serious issues," said Jeffrey Lindsay, analyst at Sanford C. Bernstein. He said he sees potential problems with all of Yahoo's major revenue streams. Most notably, he said, Yahoo's advertising business is vulnerable to an economic downturn, when many advertisers either cancel or decline to renew their contracts.

Although Yahoo is trying to keep its users, it is suffering because it is losing share of the online search market -- one of the key drivers of online advertising and an area Google dominates. Search market share for Yahoo fell to 17 percent from 21 percent over the year, according to research firm ComScore.

Yahoo, which sells high-speed Internet service through partnerships with telecom companies such as AT&T, could lose those lucrative deals, some analysts have said.

Yahoo President Sue Decker responded yesterday by saying that the company has restructured its broadband contracts, but she did not address the speculation that AT&T may drop Yahoo entirely. Terms of the revised deal were not disclosed.

As the company works to transform itself, Yahoo has seen a level of turnover among its top executives. Two top executives left the company at the end of last year, its chief operating officer and the head of its media and entertainment group.

Umesh Ramakrishnan, vice chairman of an executive search firm called CT Partners, said that under former chairman and chief executive Terry Semel's leadership, Yahoo lost ground in its core businesses and became slow-moving. Semel, a former executive at Hollywood studio Warner Bros. before joining Yahoo, left last summer.

"When you bring in people from large corporations to lead growing Web companies," Ramakrishnan said, "the danger is that you get people who are steeped in tradition and can't handle the fluid nature of an Internet company."

Separately, Yahoo announced it hired new chief technology officer yesterday, Aristotle Balogh, former chief technology officer at VeriSign.

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