

**E-services and Business
Models for the Web:
Case Study Internet Search-
Engine Market**

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Conceptual Framework for Introducing E-services

- *Where do you come from?*
 - *Individual story, Company Story, System*

- *Who are you?*
 - *Your Initial Position*

- *Your Surroundings*
 - *Known Territory*
 - *Unknown territory*

- *Where do you want to go?*
 - *Plan*
 - *Why?*
 - *Validate/Explore/Obstacle/Challenges/Feedback/Revise*
 - *Your new Position*

Conceptual Framework for Introducing E-services

Why?

- Part of Core Business
 - Expand Core Business
 - Support Core Business
 - Test
-
- Reaction to “Surroundings”
 - Competitors
 - Partners
 - Influencers
 - Others

Conceptual Framework for Introducing E-services

Why?

Change Your Position
Consolidate Your Position
Defend Your Position
Take Over other Positions
Explore

Change Your Profile
Reinforce Your Profile
Confirm Your Profile

Mutate...



Conceptual Framework for Introducing E-services

With Whom?

Alone

With Allies

Merger

Takeover

The Internet search-engine market as of August 2006

Internet search-engine market share in America June 2006:

Google: 50.3%

Yahoo!: 28.5%

MSN-Microsoft: 12.8%

Ask : 5.1%

Other: 3.3 %

Rest: 5.6% of which Time Warner/AOL

Source: comScore Networks



The Internet search-engine market as of August 2006

"We see little to stop Google from reaching 70 percent market share eventually; the question, really, comes down to, 'How long could it take?'"

RBC Capital Markets analyst Jordan Rohan.

The Major Players

Google: Web-search engine

vs.

Yahoo! : Web gateways (Portal)

eBay: online auction and trading web site

Microsoft: MSN portal



Alliances

News as of August 7, 2006

- *Google and VIACOM* (“old” media company)
Google will syndicate video clips from
VIACOM brands (MTV, Nickelodeon...) to
other web sites & integrate advertisements
into them.

syndicate (sɪn'di-kɪt)

An agency that sells articles, features, or photographs for
publication in a number of newspapers or periodicals
simultaneously.

Google and Viacom

Google will in effect be syndicating Viacom's programming to the broader Web, allowing the content to reach a much bigger audience than Viacom's own Web sites draw.

The clips will be embedded with video advertising and the resulting ad revenue will be shared among Viacom, Google and Web sites that run the clips.

Viacom will sell shows through Google Video.

The syndicated content will start out as clips of four minutes or less but could become full-length programming at some point.

Potential benefits:

It marries content (and related ads) with any/all targeting that Google now offers or develops in the future (local, demographic, dayparting, etc.).

And it helps Viacom deal with the problem of reach online.



Google and Viacom

Offline, TV and other traditional media have enormous reach. But online MTV.com, for example, is just another website and has nothing like the reach of a YouTube or MySpace Video.

Viacom could get reach across the Internet via the "head" (Google Video) and throughout the "tail" (the Google distribution network) and offer a pretty strong proposition to advertisers accordingly.

Online video sites such as MySpace, Yahoo! Video, YouTube, AOL Video and others are effectively nascent, on-demand TV networks.

Google and Viacom

New Google E-Service: Click-to-play video ads for AdWords

In an experiment on selected (not all) premium video content, [Google Video](#) is offering users the ability to watch that content, which would otherwise cost from \$1.99 to \$14.99 without having to pay. An advertiser banner appears at the top of the screen for the duration of the stream/show.

See example:

http://video.google.com/videoplay?docid=-77871916474398072&q=type%3Asv_askthebuilder

This development marries **Google Video's recent trial** with ad-supported premium content with Google's **Click to Play advertising**.

The Viacom content will motivate the click that will show the ad. How this gets tied into AdSense/AdWords isn't yet clear but its probably the same [rules/terms](#) for Click to Play ads.



Alliances

News (August 7, 2006)

Google and News Corporation (Media Giant)

Google will provide all the search and text-advertising technology on News Corporation's web sites (including MySpace)

MySpace: social-networking site.

- 17 million of visitors in the month of June 2006
- then bought by Rupert Murdoch for \$580m
- now with 54 million visitor a month, most visited web site in America
- new marketing channel (“members of MySpace customers` network of “friends” 18-24 years average)

Major concerns: Ethical issues!

Alliances

Established Companies doing business with MySpace:

Unilever

Procter&Gamble

State Farm Insurance

US Marine Corps.

and more...


The challenge:

“When you deliver 18-to-24 year-old guys content (on MySpace) they want to engage with, they don't mind if it comes from a brand”

Kevin George- Unilever.



Google and News Corp.

- Google Inc. reached a deal with the owner of MySpace.com to pay at least \$900 million in shared advertising revenue and become the exclusive search provider for the popular online hangout.
 - Under the multiyear deal, News Corp.'s Fox Interactive Media unit will add Google search boxes to MySpace and other sites, likely by the end of the year, and Google will provide search results and keyword ads targeted to people's search terms. Google will also get first rights to sell any display ads not sold by Fox directly.
 - Because the primary reason people leave MySpace now is to conduct searches on Google, according to Fox executives, letting MySpace users enter such queries directly on the site allows it to retain visitors longer and thus boost its advertising potential.
 - But just as importantly for Google, the deal lets the search company benefit from queries at MySpace instead of seeing those ad dollars go to rivals Yahoo Inc. or Microsoft Corp.'s MSN.
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Google and News Corp.

- Google's payments, which are contingent upon Fox achieving certain traffic and other milestones that Google expects Fox to exceed, are expected to start in early 2007 and run through the second quarter of 2010.
- Driven largely by word of mouth, MySpace has rapidly risen to become the second-busiest site in the United States, behind Yahoo, according to comScore Media Metrix. It has about 100 million registered users, about 90 percent in the United States.
- MySpace offers a mix of features _ message boards, games, Web journals _ designed to keep its youth-oriented visitors clicking on its advertising-supported pages. Users stay connected by adding others as "friends" and expand their networks by meeting friends of their friends.
- Fox Sports is not included because News Corp. already has a deal with MSN.

Google and News Corp.

- Google and MySpace have been developing similar services, including Web journals, video and instant messaging. MySpace is planning to develop a browser toolbar that will integrate Google searches.
- MySpace currently uses search results from Yahoo Inc. under a smaller deal reached before News Corp. bought MySpace and Yahoo acquired search-ad company Overture Services.
- Danny Sullivan, editor of the industry newsletter Search Engine Watch, said Google made the most sense as a partner because both Yahoo and MSN have competing social-networking services.
- Tim Armstrong, Google's vice president of advertising sales, said Fox sales representatives will likely target large companies, while Google focuses on small and medium-sized businesses. He said advertisers will have a choice of targeting MySpace specifically or reach Google's broader ad network.

Google and News Corp

- Shares of Google increased \$4.10, or 1.1 percent, to \$377.95 on the Nasdaq Stock Market, while shares of News Corp. rose 2 cents to close at \$19.76 on the New York Stock Exchange. In late-session trade, Google added 1 percent, while News Corp. gained 1.2 percent.

Market Analysis

Yahoo! and MSN-Microsoft lost market share in the last Years to Google.

They fallen behind advertising technologies & networks

Yahoo! and MSN make less money than Google does
From the same number of searches.

It is estimated that for every advertising dollar that Google makes on a search query. Yahoo! Makes only 60-70 cents.



Market Analysis

When Yahoo! announced in July 2006 that it will delay the introduction of a new advertising algorithm designed to improve their profitability, the share price fell by **22%**.

Biggest-ever one-day-drop.

Both Yahoo! and MSN had interest in an alliance with News Corporation

Market Analysis

MSN is further behind Google than Yahoo! in search.

Google is a threat to Microsoft:

- many of Google's new ventures beyond search (E-services, mostly tested in the US site of Google: www.google.com) enable users to do things *free of charge* through their Web browsers vs. Microsoft paid software on the PC.

Assignment:

---> Evaluate Google's E-services taking into account this perspective.

Google new E-services

More Google products

Search

[Alerts](#)

Get email updates on the topics of your choice

[Blog Search](#)

Find blogs on your favorite topics

[Book Search](#)

Search the full text of books

[Catalogs](#)

Search and browse mail-order catalogs

[Checkout](#)

Complete online purchases more quickly and securely

[Desktop](#)

Search and personalize your computer

[Directory](#)

Browse the web by topic

[Earth](#)

Explore the world from your PC

[Finance](#)

Business info, news, and interactive charts

[Froogle](#)

Shop for items to buy online and at local stores

[Images](#)

Search for images on the web

[Local](#)

Find local businesses and get directions

[Maps](#)

View maps and get

Google new E-services

[News](#) Search thousands of news stories

[Scholar](#) Search scholarly papers

[Specialized Searches](#) Search within specific topics

[Toolbar](#) Add a search box to your browser

[Video](#) Search TV programs and videos

[Web Search](#) Search over billions of web pages

[Web Search Features](#) Find movies, music, stocks, books,
and more

Explore and innovate

[Code](#) Download APIs and open source code

[Co-op](#) Contribute your expertise to help improve Google search

[Labs](#) Explore Google's technology playground Communicate, show & share

[Blogger](#) Share your life online with a blog

Google New E-services

Non search related E-services:

[Calendar](#)

Organize your schedule and share events with friends

[Gmail](#)

Fast, searchable email with less spam

[Groups](#)

Create mailing lists and discussion groups

[Picasa](#)

Find, edit and share your photos

[SketchUp](#)

Create 3D models for Google Earth

[Talk](#)

IM and call your friends through your computer

[Translate](#)

View web pages in other languages

Go mobile

[Maps for mobile](#)

View maps and get directions on your phone

[Mobile](#)

Use Google on your mobile phone

[SMS](#)

Use text messaging for quick info
Make your computer work better

[Pack](#)

A free collection of essential software

[Web Accelerator](#)

Speed up the web




Google New E-services

Assignment:

Which new E-services of Google:
support the core business?
extend the core business?
undercut competitors` core business?
undercut allies` core business?

Compare the E-services offered by www.google.com
with those offered by other Google web sites:
e.g. www.google.de, www.google.it, www.google.co.uk

What's the difference?
Reasons?



Market Analysis

eBay.

eBay and Google are apparently good allies.

- Google's search results send a lot of traffic to eBay
- eBay is one of the biggest advertiser on Google's network

Market Analysis

Google/eBay relationship is imbalanced.

Julien Decot, Steve Lee (Berkeley Haas School of Business) estimate that:

- around 12% of eBay's revenue come *indirectly* from Google. (= *dependency* from Google)
- around 3% of Google's revenue comes from eBay

In addition:

Google is starting to undercut eBay's core business.

Market Analysis

Google is starting to undercut eBay's core business:

- Sellers set up their own web sites and buy text advertisements from Google
- Buyers use Google's search rather than eBay to connect with sellers directly.

“eBay would be wise to strike a deep partnership with Yahoo! or Microsoft in order to regain a balance of power in the Industry” , Julien Decot, Steve Lee.

Market Analysis

"eBay and Google: A Coopetition Perspective"
Julien Decot and Steve Lee, MBAs.
Haas School of Business, May 29, 2006

You can download the report as .pdf at:

<http://battellemedia.com/archives/002634.php>

Link in the course Web site.



Strategy

Reactions to Google market position:

Alliances

Yahoo! and Microsoft:

- plan to connect their *instant-messaging* systems (much more popular than Google's alternatives)
- plan to cooperate to “*voice chat*”

Yahoo! and eBay:

plan to cooperate by using Yahoo!' technology in eBay to place advertisements

Yahoo! Plans to use PayPal (eBay's online payment system).

Strategy

Alone

Microsoft

Published: January 31, 2005, 8:10 PM PST

Microsoft on Monday replaced Yahoo's search technology with its own homespun software and will kick off a huge Advertising campaign to supplant Google in consumers' hearts.

MSN, a unit of the software giant, has taken its [Web search technology](#) out of the laboratory, and placed it on MSN's newly redesigned home page in 25 countries

Strategy

Alone

Google recently launched a rival payment system.

Possible Strategies:

Merger

Takeover

Candidate: AOL (troubled internet-access company) owned by Time Warner (media conglomerate)

Google: pre-empted: bought a defensive stake in AOL last Winter,

Strategy

AOL uses Google's search and advertising technology.

Possible strategy:

Google may make its instant-messaging service *interoperable* with *AOL*, the most popular in the world.

E-service interoperability (among different vendors, open)

Technology Watch for E-services:

Web Services, Service Oriented Architecture
(E-services on the Web--available regardless of location)

Strategy

Internet today: **Web 2.0**

“This is the age of mash-ups not mergers, open over closed” Paul Saffo (Silicon Valley analyst).

Is merging a good strategy in Web 2.0?

Pros: Combined power

Cons: Full-blown mergers do not “spot” new insurgencies

e.g.

YouTube- online video site

MySpace.

Strategy

Google's *business model* is based on selling *advertisements* on the web.

Google Profit Shows It's Internet Leader, AP, July 2006

While rivals eBay Inc. and Yahoo Inc. merely matched analysts' earnings expectations, Google on Thursday soared well beyond Wall Street's financial hurdle -- just like the online search engine leader has done in all but one quarter since it went public nearly two years ago


The Mountain View, Calif.-based company earned \$721.1 million, or \$2.33 per share, during the three months ended in June, more than doubling its net income of \$342.8 million, or \$1.19 per share, at the same time last year. Excluding expenses for employee stock compensation and several other one-time items, Google said it earned \$2.49 per share -- well above the average estimate of \$2.22 per share among 32 analysts surveyed by Thomson Financial.

Strategy

It looks like our model continues to work very well," Google Chief Executive Eric Schmidt said during a Thursday conference call with analysts. "It's another good day and another good quarter for Google."

In an interview Thursday, Schmidt said Google's engineers made 14 different changes to the search engine's formula during the second quarter in an effort to display more relevant ads and spur more revenue-generating clicks by Web surfers. "It is powering at full blast," Schmidt said of the search engine's advertising formula.

In the second quarter, Google's U.S. audience averaged 95.2 million per month, a 25 percent increase from last year, according to Nielsen/NetRatings Inc. Although they still ranked ahead of Google with average monthly audiences of more than 100 million, Yahoo, Microsoft and Time Warner only registered annual growth rates ranging from 4 percent to 9 percent.



Strategy

Drawing more people to its site is important to Google because the company makes more money when ads are clicked upon there. Google generated \$1.43 billion of its second-quarter revenue from activity on its own site, a 94 percent increase from last year.

You can read the full AP news on the course web site:
Google Profit Shows It's Internet Leader, AP, July 2006

The challenges ahead:

Will it last? Or just another Netscape?

Is Google business model sound?

What will it happen to the advertisement market on the Net?

Where is headed Google?



Assignments

Please go to the Course Web Site:

<http://www.dbis.informatik.uni-frankfurt.de/teaching/bmw>

1 Readings: Case Studies/articles

- Searching For Revenue On The Internet: Yahoo! Acquires Overture. Paper, Stanford Graduate School of Business, 2004, Link(.pdf)
- AOL: The Emergence of an Internet Media Company. Paper, Stanford Graduate School of Business, 2003, Link(.pdf)
- Pricing and Branding on the Internet. Paper, Stanford Graduate School of Business, 2000, Link (.pdf)

Assignments

2. Evaluating Case Studies

Google:

source: MICHAEL RAPPA

<http://digitalenterprise.org/cases/google.html>

Things to read:

- [All About Google](#)
 - [Google 2004 Annual Report](#)
 - [Ten things Google has found to be true](#)
 - [Google at a Glance](#)
 - [Google Code of Conduct](#)
 - [Google History](#)
 - [Google Today](#)
 - [Google Technology](#)
 - [Google Services and Tools](#)
 - [About Froogle](#) (Google's Shopping Engine)
 - [About Google Catalogs](#)
 - [About Content-Targeted Advertising](#)
 - [Google Tour](#)
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Assignments

2. Evaluating Case Studies

Google:

What is Google AdSense

by Sara Milstein, Rael DornfestArticle, 2005, Link

What Are Google AdWorks

by Sara Milstein, Rael DornfestArticle, 2005, Link

Search Engine Advertising

by Hal Varian, Lecture Notes

