

By February 11, 2008 Technology News Editor

[Microsoft Focused on Eroding Yahoo's No into Yes by the End of 2008](#)

From Yahoo!'s Board to management, shareholders, and employees

Microsoft is fully focused on eroding Yahoo's negative answer into the acceptance of the \$44.6 billion acquisition proposal by the end of 2008. In an internal email subsequently made public, Kevin Johnson, President, Platforms & Services Division, revealed that, following regulatory approval, Microsoft expects to wrap up the Yahoo transaction in the second half of this year. The Redmond company is keen on providing a competitor to Google on the search engine and online advertising markets, with an eye on a healthy slice of the \$80 billion ad industry of 2010. However, despite the fact that Yahoo indicated being open to accepting an increased bid, something in the range of \$35 to \$40 per share, compared to the initial offer of \$31 per share, Microsoft has failed to up the stakes and instead readies a proxy fight that would cost it approximately \$30 million. Johnson made it clear that the no answer received from the Yahoo Board of Directors on February 11 is not a show stopper and that it would turn to the Sunnyvale-based Internet giant's management, shareholders, and employees in order to catalyze a successful transaction. "First, the industry needs a more compelling alternative in search and online advertising. I have personally met with top executives of the major media companies, and I know there is a desire for more competition in search and online advertising. Without this, there's less innovation, less competition, and less value being generated for consumers, advertisers, and publishers. Together, Microsoft and Yahoo! would have an opportunity to change and evolve the experiences and value we deliver to all of these groups. For consumers and developers, our expanded R&D capacity would allow us to drive innovation in emerging user experiences in areas such as search, video, mobile, commerce, and social media. For advertisers and publishers, scale economics would allow us to deliver more value to this customer base. By combining search and non-search advertising inventory on a single ad platform, yield is also improved," Johnson stated. One thing Microsoft does not want in an aggressive takeover process is Yahoo's top talent migrating away to alternative enterprises, and specifically not to Google. This is why Johnson stressed the fact that Yahoo's people are the most relevant aspect of the two companies' combination, a point of view also shared by CEO Steve Ballmer and Chairman Bill Gates. Johnson promised that the entire mass of 14,000 Yahoo employees would be swallowed by Microsoft. "There's no question we will dedicate significant rewards and compensation to Yahoo! and Microsoft employees. While some overlap is expected in any combination of this size, we should remember that Microsoft is a growth company that has hired over 20,000 people since 2005, and we would look to place talented employees throughout the company as a whole. We have no shortage of business and technical opportunities, and we need great people to focus on them," he stated. But at the same time, there are still many questions that Microsoft needs to clear up in respect to the acquisition of Yahoo. In the email, Johnson did address some of the most prominent issues related to the integration of Yahoo, from the two companies' different corporate cultures, to the survival of overlapping brands, technologies, products and services, to Yahoo's open source based server infrastructure and to the Sunnyvale giant's headquarters in Silicon Valley. And although Johnson aimed to give out the impression that Microsoft had it all figured out, this is not the case. Sure the overall picture may be favorable, but Microsoft swallowing Yahoo is, in the end, about the small details, namely everything that is still up in the air. "Both Microsoft and Yahoo! have great brands and technologies. Yahoo! has a very strong consumer brand and we are committed to build on the Yahoo! brand as a major part of the combined products and services we deliver to customers. The Yahoo! brand is one of the reasons the combination of the two companies would create so much value. It is premature to say which aspects of the brands and technologies we would use in our combined offerings. As part of the integration planning effort, it is important that we enable a joint team of leaders from Microsoft and Yahoo! to make thoughtful decisions about brands and technologies. How we integrate Microsoft and Yahoo!'s brands, products, and services are the types of decisions that would be made during this integration planning process-by leaders from both companies-and implemented over time after the transaction closes," Johnson added.