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Horton hears a Microhoo

By Mason Wiley

If the acquisition goes through, it will alter the primal core of online advertising and elevate the value of CPA. Here's one VP's predictions.

It's the biggest business story in months: the Birth of Microhoo (or Newshoo). Online advertisers and those who serve them have been spellbound by every one of the 63,387 (and counting) Google News entries about Microsoft's (so far unsuccessful) attempts to get a little Yahoo in its system. Why? Simple. Microhoo will alter the primal core of online advertising. In fact, it has already.

Let's say it together. Online advertising is about results. Before we all merged onto the Information Superhighway we tried to grab as much SOV/SOM as possible and hoped the message would motivate audiences to do something. Now, with the net's instant metrics, advertisers track the success and failure of campaigns as they happen. This gives us enormous quantities of user data, and with it, advertisers deliver relevant ads that convert to sales. Which leads us to the importance of Microsoft's attempt to buy Yahoo.

Yahoo knows (almost) everything about each one of us, and so Microsoft's play is to grab that information and use Yahoo's platform to cripple Google's stranglehold on online advertising. Without Yahoo, Microsoft doesn't have all the pieces to chip away at Google; Yahoo's platform technology and user data feeds Microsoft's business goals.

Microsoft used to be the one big fish in a pretty small pond. Unfortunately for it, gigamouth (Jasconius pelaganax) Google jumped in and Gates' behemoth no longer rules the seas. Yahoo, on the other hand, was surely the first internet darling, but is now coping with a dam (bubble) bursting and big G's search and online advertising dominance. This is the meat and potatoes of the proposed merger, as Microsoft needs to acquire a Yahoo (or, gasp, AOL) to out-swim Google.

The strangest of all is Google's offer to help Yahoo. As AdWeek succinctly states, it's "putting Yahoo in the unenviable position of having to embrace the help of one contentious rival in order to fend off the advances of another."

With AOL on its way out, consolidation is sensible for Yahoo -- especially with Microsoft's ever-deep pockets and drive to remain relevant. We've seen a ton of big pairings in the past 18 to 24 months (Google/DoubleClick, AOL/Tacoda, Yahoo/BlueLithium) and with these happening, those companies providing distinct ad models are trying to demonstrate that *theirs* is the future.

So which online advertising will Microhoo use? It's a particularly fascinating question in the context of its mammoth share and reach. According to comScore, a Yahoo and Microsoft combo would have 32 percent of the U.S. search market, while Google holds 59 percent.

Yahoo has about 75 percent reach (pretty astounding); however, when it comes to user engagement, the company's numbers hover around 15 percent. Microsoft can take Yahoo's reach and employ a guaranteed means for advertisers to convert leads into customers: cost-per-acquisition (CPA).

CPA is not new, but all these consolidations mean CPA will be the darling of online advertising. Microhoo and Google's advertising customers will demand guaranteed results and they will be compelled to provide them because there will only be two fish swimming around -- and the choices of the smaller ad models will diminish. Since CPA advertisers only pay when based on predefined customer actions, Microhoo -- using CPA -- immediately has a leg up on Google's soon-to-be-archaic model, which is susceptible to click fraud and suffers from lack of transparency.

Speaking of click fraud, this shotgun marriage will affect pay-per-click (PPC) rates as well. Advertisers who use PPC are charged every time a user clicks on an ad; Microhoo will try to leverage that business. If these rates rise, advertisers are going to move swiftly to a model -- like CPA -- that has lower rates and higher returns.

CPA will in fact deliver high conversion rates for Microhoo's advertisers, and CPA's scalability across a large network means Microhoo can focus on integrating different ad exchanges and search ad systems into a more robust and powerful network. Remember that Microsoft is still integrating aQuantive -- which brought Atlas ad-serving technology, Avenue A/Razorfish agency and DrivePM ad network -- into its system. Incorporating a large CPA network will dominate rather than buttress ad models like behavioral targeting, contextual and search that are falling by the wayside.

When all else fails, simply follow the money. Microsoft employing Yahoo's platform with a CPA model will bring in the major bucks for shareholders, for the behemoth, for advertisers. Google has tried to deploy CPA, but because it makes money in search, CPA has not gained traction with Google's clients. So the question is: Will Microhoo's eventual use of CPA mark the beginning of the end for Google? And who will end up in the deep end?

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