Yahoo Memo: The 'Peanut Butter Manifesto'

November 18, 2006, Wall Street Journal

An internal document by Brad Garlinghouse, a Yahoo senior vice president, says Yahoo is spreading its resources too thinly, like peanut butter on a slice of bread. Full text of the document is below.

Three and half years ago, I enthusiastically joined Yahoo! The magnitude of the opportunity was only matched by the magnitude of the assets. And an amazing team has been responsible for rebuilding Yahoo!

It has been a profound experience. I am fortunate to have been a part of dramatic change for the Company. And our successes speak for themselves. More users than ever, more engaging than ever and more profitable than ever!

I proudly bleed purple and yellow everyday! And like so many people here, I love this company

But all is not well. Last Thursday's NY Times article was a blessing in the disguise of a painful public flogging. While it lacked accurate details, its conclusions rang true, and thus was a much needed wake up call. But also a call to action. A clear statement with which I, and far too many Yahoo's, agreed. And thankfully a reminder. A reminder that the measure of any person is not in how many times he or she falls down - but rather the spirit and resolve used to get back up. The same is now true of our Company.

It's time for us to get back up.

I believe we must embrace our problems and challenges and that we must take decisive action. We have the opportunity - in fact the invitation - to send a strong, clear and powerful message to our shareholders and Wall Street, to our advertisers and our partners, to our employees (both current and future), and to our users. They are all begging for a signal that we recognize and understand our problems, and that we are charting a course for fundamental change. Our current course and speed simply will not get us there. Short-term band-aids will not get us there.

It's time for us to get back up and seize this invitation.

I imagine there's much discussion amongst the Company's senior most leadership around the challenges we face. At the risk of being redundant, I wanted to share my take on our current situation and offer a recommended path forward, an attempt to be part of the solution rather than part of the problem.

Recognizing Our Problems

We lack a focused, cohesive vision for our company. We want to do everything and be everything -- to everyone. We've known this for years, talk about it incessantly, but do nothing to fundamentally address it. We are scared to be left out. We are reactive instead of charting an unwavering course. We are separated into silos that far too frequently don't talk to each other. And when we do talk, it isn't to collaborate on a clearly focused strategy, but rather to argue and fight about ownership, strategies and tactics.

Our inclination and proclivity to repeatedly hire leaders from outside the company results in disparate visions of what winning looks like -- rather than a leadership team rallying around a single cohesive strategy.

I've heard our strategy described as spreading peanut butter across the myriad opportunities that continue to evolve in the online world. The result: a thin layer of investment spread across everything we do and thus we focus on nothing in particular.

I hate peanut butter. We all should.

We lack clarity of ownership and accountability. The most painful manifestation of this is the massive redundancy that exists throughout the organization. We now operate in an organizational structure -- admittedly created with the best of intentions -- that has become overly bureaucratic. For far too many employees, there is another person with dramatically similar and overlapping responsibilities. This slows us down and burdens the company with unnecessary costs.

Equally problematic, at what point in the organization does someone really OWN the success of their product or service or feature? Product, marketing, engineering, corporate strategy, financial operations... there are so many people in charge (or believe that they are in charge) that it's not clear if anyone is in charge. This forces decisions to be pushed up - rather than down. It forces decisions by committee or consensus and discourages the innovators from breaking the mold... thinking outside the box.

There's a reason why a centerfielder and a left fielder have clear areas of ownership. Pursuing the same ball repeatedly results in either collisions or dropped balls. Knowing that someone else is pursuing the ball and hoping to avoid that collision - we have become timid in our pursuit. Again, the ball drops.

We lack decisiveness. Combine a lack of focus with unclear ownership, and the result is that decisions are either not made or are made when it is already too late.

Without a clear and focused vision, and without complete clarity of ownership, we lack a macro perspective to guide our decisions and visibility into who should make those decisions. We are repeatedly stymied by challenging and hairy decisions. We are held hostage by our analysis paralysis.

We end up with competing (or redundant) initiatives and synergistic opportunities living in the different silos of our company.

- YME vs. Musicmatch
- Flickr vs. Photos
- YMG video vs. Search video
- Deli.cio.us vs. myweb
- Messenger and plug-ins vs. Sidebar and widgets
- Social media vs. 360 and Groups
- Front page vs. YMG
- Global strategy from BU'vs. Global strategy from Int'l

We have lost our passion to win. Far too many employees are "phoning" it in, lacking the passion and commitment to be a part of the solution. We sit idly by while -- at all levels -- employees are enabled to "hang around". Where is the accountability? Moreover, our compensation systems don't align to our overall success. Weak performers that have been around for years are rewarded. And many of our top performers aren't adequately recognized for their efforts.

As a result, the employees that we really need to stay (leaders, risk-takers, innovators, passionate) become discouraged and leave. Unfortunately many who opt to stay are not the ones who will lead us through the dramatic change that is needed.

Solving our Problems

We have awesome assets. Nearly every media and communications company is painfully jealous of our position. We have the largest audience, they are highly engaged and our brand is synonymous with the Internet.

If we get back up, embrace dramatic change, we will win.

I don't pretend there is only one path forward available to us. However, at a minimum, I want to be part of the solution and thus have outlined a plan here that I believe can work. It is my strong belief that we need to act very quickly or risk going further down a slippery slope, The plan here is not perfect; it is, however, FAR better than no action at all.

There are three pillars to my plan:

1. Focus the vision.
2. Restore accountability and clarity of ownership.
3. Execute a radical reorganization.

1. Focus the vision

a) We need to boldly and definitively declare what we are and what we are not.

b) We need to exit (sell?) non core businesses and eliminate duplicative projects and businesses.

My belief is that the smoothly spread peanut butter needs to turn into a deliberately sculpted strategy -- that is narrowly focused.

We can't simply ask each BU to figure out what they should stop doing. The result will continue to be a non-cohesive strategy. The direction needs to come decisively from the top. We need to place our bets and not second guess. If we believe Media will maximize our ROI -- then let's not be bashful about reducing our investment in other areas. We need to make the tough decisions, articulate them and stick with them -- acknowledging that some people (users / partners / employees) will not like it. Change is hard.

2. Restore accountability and clarity of ownership

a) Existing business owners must be held accountable for where we find ourselves today -- heads must roll,

b) We must thoughtfully create senior roles that have holistic accountability for a particular line of business (a variant of a GM structure that will work with Yahoo!'s new focus)

c) We must redesign our performance and incentive systems.

I believe there are too many BU leaders who have gotten away with unacceptable results and worse -- unacceptable leadership. Too often they (we!) are the worst offenders of the problems outlined here. We must signal to both the employees and to our shareholders that we will hold these leaders (ourselves) accountable and implement change.

By building around a strong and unequivocal GM structure, we will not only empower those leaders, we will eliminate significant overhead throughout our multi-headed matrix. It must be very clear to everyone in the organization who is empowered to make a decision and ownership must be transparent. With that empowerment comes increased accountability -- leaders make decisions, the rest of the company supports those decisions, and the leaders ultimately live/die by the results of those decisions.

My view is that far too often our compensation and rewards are just spreading more peanut butter. We need to be much more aggressive about performance based compensation. This will only help accelerate our ability to weed out our lowest performers and better reward our hungry, motivated and productive employees.

3. Execute a radical reorganization

a) The current business unit structure must go away.

b) We must dramatically decentralize and eliminate as much of the matrix as possible.

c) We must reduce our headcount by 15-20%.

I emphatically believe we simply must eliminate the redundancies we have created and the first step in doing this is by restructuring our organization. We can be more efficient with fewer people and we can get more done, more quickly. We need to return more decision making to a new set of business units and their leadership. But we can't achieve this with baby step changes, We need to fundamentally rethink how we organize to win.

Independent of specific proposals of what this reorganization should look like, two key principles must be represented:

Blow up the matrix. Empower a new generation and model of General Managers to be true general managers. Product, marketing, user experience & design, engineering, business development & operations all report into a small number of focused General Managers. Leave no doubt as to where accountability lies.

Kill the redundancies. Align a set of new BU's so that they are not competing against each other. Search focuses on search. Social media aligns with community and communications. No competing owners for Video, Photos, etc. And Front Page becomes Switzerland. This will be a delicate exercise -- decentralization can create inefficiencies, but I believe we can find the right balance.

I love Yahoo! I'm proud to admit that I bleed purple and yellow. I'm proud to admit that I shaved a Y in the back of my head.

My motivation for this memo is the adamant belief that, as before, we have a tremendous opportunity ahead. I don't pretend that I have the only available answers, but we need to get the discussion going; change is needed and it is needed soon. We can be a stronger and faster company - a company with a clearer vision and clearer ownership and clearer accountability.

We may have fallen down, but the race is a marathon and not a sprint. I don't pretend that this will be easy. It will take courage, conviction, insight and tremendous commitment. I very much look forward to the challenge.

So let's get back up.

Catch the balls.

And stop eating peanut butter.

As Yahoo Falters, Executive's Memo Calls for Overhaul

'Peanut Butter Manifesto' Seeking Focus and Cuts Makes Waves at Web Titan

Can It Wring More From Ads?

By KEVIN J. DELANEY. Wall Street Journal, November 18, 2006; Page A1

It is called "The Peanut Butter Manifesto" -- a four-page call to arms from a senior executive of Yahoo Inc., declaring the Internet company is spreading itself too thin and must define priorities and radically reorganize its management structure.

Now the manifesto has attracted the attention of Yahoo's top brass as they scramble to boost revenue and protect the company's status as the most popular stopping point on the Web for U.S. users, amid heated competition from Google Inc. and others.

Yahoo, which consumers use for email, news and a wide menu of other services, is under increasing pressure to hold its top position. One analyst predicts Google will overtake Yahoo in users in 2007. Microsoft Corp. has stepped up its Internet activities, and Time Warner Inc.'s America Online unit increased usage recently by opening up free, unrestricted access for its services. Sites including News Corp.'s MySpace have rapidly gained visitors and attention from advertisers.

Brad Garlinghouse

This year, Yahoo has suffered from slumping shares, slowing revenue growth, staff defections and a delay in a crucial project aimed at boosting online ad sales. As the memo shows, even some current executives have been fretting that the Internet company's top management isn't prepared to take the strong medicine they feel is needed to right the ship.

Some worry that Yahoo -- whose activities range from online dating to fantasy sports -- has stretched itself thin and lost track of priorities. Recently, the company has been outmatched in key areas such as search advertising and social networking.

Last month Brad Garlinghouse, a Yahoo senior vice president, wrote the memo, titled "The Peanut Butter Manifesto," for top executives. His contention: "Change is needed and it is needed soon."

Mr. Garlinghouse, who once shaved a "Y" in the back of his head, argued in his manifesto that Yahoo is spreading its resources like peanut butter on bread, thinly and evenly across all its activities. "Thus we focus on nothing in particular," he wrote, saying the Sunnyvale, Calif., company needs to pick specific areas to focus on and make bigger bets on them while dropping nonessential activities.

The memo doesn't specify any areas to sell or eliminate. Some analysts say activities such as Yahoo's online dating site and services for small businesses such as Web hosting could be possible candidates.

There are signs the Peanut Butter Manifesto has resonated with Yahoo's top executives. Chief Operating Officer Dan Rosensweig has asked Mr. Garlinghouse to head a group of Yahoo staff looking into the issues in the memo over two months, say people familiar with the matter.

In a statement, a Yahoo spokeswoman said the company is sharpening its focus on key areas recently identified by Chief Executive Officer Terry Semel "in order to better exploit its considerable strengths." She cited positive early feedback to a major ad system upgrade, a new mobile ad partnership with Vodafone Group PLC and the acquisition this week of the online contest start-up business Bix.com Inc. as proof of those efforts. "The memo itself highlights that we have an open, collaborative culture and a senior management team that is intensely committed to helping Yahoo fulfill its potential as an Internet leader," the spokeswoman added.

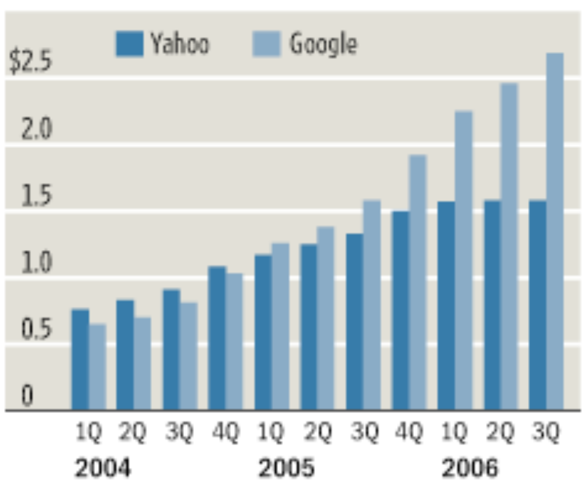
Headings in the peanut-butter memo, which was reviewed by The Wall Street Journal, include "We lack a focused, cohesive vision for our company," and "We lack decisiveness." The recommendations include a deep reorganization of the company, a 15% to 20% head-count reduction and holding executives accountable for poor performance. "Heads must roll," it read.

"Stop eating peanut butter," the memo said. Mr. Garlinghouse wrote that he hates peanut butter himself.

The latest criticism of Yahoo doesn't appear to be a repudiation of its general strategy: providing a broad range of Web services from email to news and weather, luring an audience it can sell to advertisers. Rival Google, of Mountain View, Calif., has moved closer to that model in recent years, as it released offerings including a personalized home page and a finance site.

Slower Connection

Yahoo's revenue growth hasn't kept pace with rival Google's. Quarterly revenue, in billions:



Source: the companies

Even Mr. Semel recently acknowledged problems. "We've got to get back to basics and again zero in on a few key priorities," he said in comments after last month's earnings' release. Mr. Semel cited several areas that Yahoo intended to prioritize: search and display advertising, video, social media and mobile Internet services. "I am not satisfied with our current financial performance," Mr. Semel told analysts, "and we intend to improve it."

Yahoo shares have fallen about 31% since the start of the year, compared with a roughly 20% rise for Google. EMarketer predicts Google will command 25% of U.S. online-ad revenue this year, compared with 18% for Yahoo, when certain marketing expenses are factored out. Both had a roughly 19% market share last year, according to the research firm. Yahoo's quarterly revenue has essentially plateaued near $1.5 billion for the past four quarters it reported.

Yahoo last month said third-quarter net income dropped about 38% from a year earlier, largely because of changes in accounting for stock options, and it lowered its 2006 revenue projections, citing competition for ad dollars.

Rob Norman, director of interaction world-wide for WPP Group PLC's GroupM media-investment unit, says Yahoo missed opportunities seized by the likes of YouTube Inc., Facebook Inc. and MySpace. "Yahoo had every single asset you would have needed to do those bigger, faster and sooner than anyone else," says Mr. Norman, whose clients buy Yahoo advertising.

Rumors of changes at the top of Yahoo are circulating within the company, according to people familiar with the matter. One is that Mr. Rosensweig and Chief Financial Officer Susan Decker will be elevated to jointly hold the title of company president, a move seen as a prelude to the eventual retirement of Mr. Semel, 64 years old. Another person familiar with the matter says Mr. Semel has no intention of leaving Yahoo anytime soon.

A Yahoo spokeswoman declined to comment.

Yahoo bulls say the company's position is fundamentally strong. It reported more than 418 million visitors worldwide at the end of the third quarter, a 19% increase from a year ago; the number exceeds 500 million when joint ventures in China and Japan are included. Yahoo executives say assets such as its Answers service, which has 60 million users, would be generating a lot of buzz if they were independent start-ups.

Some people close to the company argue that its decision not to buy high-flying start-up businesses such as YouTube, which Google recently acquired, or Facebook is a sign of discipline and might turn out to be a good thing.

When Mr. Semel, the former co-head of the Warner Bros. studio, was recruited to Yahoo in 2001, its revenue was falling and it was posting losses. In a move that echoes the Peanut Butter Manifesto, Mr. Semel identified a few major opportunities, such as overhauling its online-advertising-sales efforts. Yahoo laid off staff and allocated more people to core businesses. It shut down activities viewed as nonessential.

"What I kept saying is, 'let's focus on the things people use Yahoo the most for," Mr. Semel said in a 2004 interview. "I looked at the Yahoo flowchart, and I saw it had 44 business units and realized neither I nor anyone else could ever manage 44 different business units," he added. He eventually slashed that to four.

The payoff was enormous, as online advertising recovered with a vengeance, broadband usage proliferated and Yahoo led the charge. Yahoo's shares rose over 270% from Mr. Semel's arrival in May 2001 though the end of 2004.

Yahoo added Web search as a major focus and plunked down about $2 billion on acquisitions to build its search and search-ad business. Still, Google's breakaway growth in that market outshone Yahoo's efforts. Thanks to ongoing tweaks to its system, which sells ads linked to keywords in Web searches and sites, Google brings in roughly 45% more revenue per search query it handles than does Yahoo, according to estimates by Majestic Research Corp. in New York.

One reason is that Yahoo displays search ads in the order of how much advertisers agree to pay for each click on them. So if one advertiser offered to pay $1 each time a user searching for "Hawaii hotel" clicked on his ad, the ad would be displayed above that of an advertiser willing to pay 99 cents.

By contrast, Google uses a formula designed to elevate the ads more relevant to users. That strategy means consumers click on Google ads more frequently, and since Google gets paid by the click, it gets more revenue.

Yahoo's project to overhaul its search-ad system, codename "Panama," has suffered from delays, shifts in scope, and turnover in the managers, say people familiar with the matter. In July it announced a delay in Panama that helped prompt a one-day drop of 22% in its shares. Yahoo said it needed more time to test the upgraded system, citing the challenge of moving hundreds of thousands of Yahoo advertisers to it without disruption.

Last week Yahoo co-founder David Filo said he was confident the company would meet its schedule for Panama. He also said he couldn't specify how quickly or how much Yahoo search ad revenue will improve.

Overall, "we are in a great position today both on the business side and on the product side," Mr. Filo said. "And over the next five years, if we're going to continue to be successful, it's really up to us to execute and deliver on that potential." He added, "It remains to be seen whether we can pull it off."

Mr. Garlinghouse, a Harvard M.B.A. whose responsibilities include overseeing its core email service and Yahoo.com home page, began circulating his memo last month, say people familiar with the matter. In the memo, Mr. Garlinghouse described it as an attempt to "be part of the solution rather than part of the problem." He wrote, "If we get back up, embrace dramatic change, we will win."

The Peanut Butter Manifesto identifies concerns that some current and former executives say are generally on the mark. Among them: the absence of a "focused, cohesive vision" for Yahoo, which means it wants "to do everything and be everything -- to everyone." The result, Mr. Garlinghouse wrote, is a company that is reactive and "scared to be left out." He cited bickering between business units and a proliferation of executive hires from outside as contributing to the problem.

Another issue identified in the Manifesto: a "matrix" corporate structure where responsibility for a product's performance is spread among multiple executives -- in engineering, product, marketing and corporate strategy. The memo cites competing offerings, such as Yahoo's photo sharing site Flickr and Yahoo Photos, as well as Yahoo Media Group's video activities and the search unit's video service.

Mr. Garlinghouse suggested creating manager positions with responsibility for all aspects of a particular business, from marketing to engineering and business development and including its bottom-line results. The memo also suggested "the leaders ultimately live/die by the results." Eliminating redundant activities means Yahoo must reduce staff by 15% to 20%, Mr. Garlinghouse wrote.

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Yahoo's Brad Garlinghouse Makes His Power Move

TechCrunch, by Michael Arrington, November 18 2006

Brad Garlinghouse, the Yahoo SVP who owns massive pieces of the overall organization (front page, mail, IM, etc.) wrote an email memo to senior staff about his views on the state of Yahoo. The entire email, including typos, was reprinted by the Wall Street Journal today and is copied below. The memo calls for a top-down overhaul of Yahoo to eliminate redundancies and expedite decision making.

The document is a lighting rod, and Garlinghouse must have known of the high risk of it being made public. However, the document is so critical of current leadership at Yahoo that it was clearly not written to be voluntarily leaked. This is Yahoo's dirty laundry spread all over the world for everyone to see, and it voices a frustration that suggests CEO Terry Semel's chief lieutenants are restless and frustrated.

Yahoo PR isn't saying much, other than to point out that the very existence of the memo shows that Yahoo has an open culture: "The memo itself highlights that we have an open, collaborative culture and a senior management team that is intensely committed to helping Yahoo fulfill its potential as an Internet leader."

My guess is that Yahoo senior management has been discussing these types of changes for some time, and this may be a power move by Garlinghouse to get in front of the parade. If changes are made, he looks like a hero. If they aren't, he can take credit for trying.

Either way, at this point, I don't see how Semel and Garlinghouse can both remain at Yahoo. From what I'm hearing, Semel may be the one to lose. The WSJ reports that Yahoo COO Dan Rosensweig has put Garlinghouse in charge of a working group to review how the points in the memo can be put into action.

An open culture is a good thing - but when your lieutenants openly question your leadership and are then put in charge of overseeing change, the writing is on the wall.

Yahoo's Growth Being Eroded by New Rivals

By SAUL HANSELL, New York Times, October 11, 2006

As Google whips out its fat wallet to buy the video site YouTube, it is making Yahoo look even more out of step with the fast-changing Internet advertising market.

Jim Wilson/The New York Times

Terry S. Semel is considered to have built a mature and disciplined team.

Yahoo itself tried to buy YouTube just a few weeks ago and got as close as negotiating price and terms, according to an executive briefed on the discussions. But the talks broke down, and Google swooped in and closed the deal quickly, just as it has in several recent partnership negotiations. Indeed, many Internet executives are noting just how often Yahoo appears to be late and slow, both in its own business and in negotiations with other companies.

Yahoo would seem to have a strong hand. It is the world's most popular Web site, with more than 400 million monthly users and a major seller of advertising for its own and other sites. It has top Web properties in areas like e-mail messaging and music. And its management team, led by Terry S. Semel, a former Hollywood executive, is well regarded for its skill and financial rigor.

But in recent months the company has suffered some embarrassing setbacks in its sales of both display and Web search advertising. Many advertising industry executives say Yahoo's lead in working with big marketers has eroded as other companies have built up popular Web sites, sales operations and advertising technology.

"Yahoo has lost the favor it enjoyed a year or two ago," said David Cohen, a senior vice president of Universal McCann, a media buying agency of the Interpublic Group. He said his clients were reducing the share of their budgets they allocate to Yahoo in favor of newer sites, like MySpace, and sites developed by big media companies like Viacom.

"There are more players in town, and the others are closing the gap relative to the things Yahoo is good at," Mr. Cohen said.

But the problems at Yahoo go beyond advertising. From video programming to social networking — areas of interest to users and advertisers alike — the company is losing its initiative. And each time a product fails in the market or is late, Yahoo loses some ability to do more deals and hire more talented employees. The shares are down 38 percent this year, sending some employees out the door in search of better shots at stock market wealth.

Google, in the meantime, is taking advantage of Yahoo's problems to cement crucial deals that could make its rival's recovery even more difficult. Before Google agreed to buy YouTube for $1.65 billion in stock, it paid $1 billion for 5 percent of AOL, locking in the right to sell text ads that appear next to its search results. And it agreed to pay $900 million over three and a half years to sell ads on MySpace.com, giving it a huge number of pages where it can place banner ads. (Yahoo flirted with AOL and bid actively for MySpace.)

With these and other deals, Google has neutralized Yahoo's big competitive advantage on Madison Avenue: its ability to sell the full range of advertising, from splashy video campaigns to text ads on search results.

Joanna Stevens, a spokeswoman for Yahoo, said that no Yahoo executive would comment for this article.

"We feel our business is very strong, even if we are not growing at the rates at which the financial community is expecting us to," Ms. Stevens said. "Of course growth will slow when you already reach one out of two people on the Internet." She said that Yahoo frequently discusses business arrangements with other Internet companies, but declined to discuss any potential negotiations with YouTube.

Yahoo has been stymied because its text advertising business has been largely frozen until it completes a new software system. The upgrade is more than a year late and the delay has sucked up the company's engineering resources and prevented it from developing new advertising products. Yahoo's system produces much less money from every page than Google, a handicap in bidding for advertising deals.

Moreover, Google has grown so much wealthier and has so much more stock market value, it can afford to make deals that would be much more risky for Yahoo, said Jordan Rohan, an analyst for RBC Capital Markets.

Google has $11 billion in cash and a market value of $131 billion, while Yahoo has $4 billion in cash and is worth $34 billion. "In poker terms, Google is the dominating chip stack," Mr. Rohan said.

Some analysts argue that Yahoo needs some bold moves to signal to investors, advertisers and customers its commitment to innovation. Its growth in users is slowing. The United States audience grew just 6.5 percent in September from a year earlier, to 106 million unique visitors, while Google's grew 25 percent.

Yahoo has made several overtures to buy Facebook, a social networking site popular among college students. This would help compensate for the failure of Yahoo's own social network — Yahoo 360 — to find a place in the market. It could also expand Yahoo's appeal to young people, an area in which it has slipped.

But Mr. Rohan said it would be a mistake to respond to the Google-YouTube deal with a big offer for Facebook. "Facebook is a nice small business," he said. "I would prefer they spend less than $1 billion for it."

The company's stumbles are a puzzle, as Mr. Semel is widely considered to have built a mature and disciplined management team. He led the company out of the collapse of the Internet ad market and built a credible Internet search unit after it became clear that Google was more a rival than a partner. But in this market, what was once admirable discipline may now look like timidity.

Yahoo may well be slipping because of the sheer scope of its ambitions. It competes in news with CNN, in sports with ESPN, in e-mail with Microsoft, in instant messaging with AOL, in social networking with MySpace, and of course in searching with Google. And it does so in dozens of countries.

"It's hard to figure out what they want to be when they grow up, even though they are grown up now," said Tim Hanlon, a senior vice president of Denuo, the media futures consulting arm of the Publicis Groupe. "Are they a content company? Are they a services company? Or are they a portal to other things? You ask three people and you may get three different answers."

Current and former Yahoo employees say the company has been bogged down by bureaucracy and internal squabbling. For example, the media group, which handles video programming, and the search group, which has a system to find videos on the Web, both wanted to offer a service for users to upload their own video clips. The search group won, but the delay allowed YouTube, a start-up, to dominate the market.

"When you become Yahoo's size, you become a little complacent, a little fat and happy," said Youssef H. Squali, an analyst for Jefferies & Company.

Companies that try to do deals with Yahoo also say they find it to be slow, demanding and inconsistent in negotiations. The discussions with YouTube floundered, in part, over Yahoo's demands for assurances over how YouTube would handle copyrighted material, concerns that were not so important to Google, the executive briefed on the negotiations said.

"They can't close a deal," said a top executive of a large media company who said he was frustrated because negotiations over a partnership with Yahoo had bogged down. "They are smart guys, but they are having real problems," said the executive, who declined to be identified because his company has other dealings with Yahoo.

Yahoo's faltering image and plunging stock price may also be hurting its ability to recruit talented people. "A lot of entrepreneurs I talk to would rather work for a hypergrowth technology company than what they consider — and this is funny — a stodgy old Internet company," Mr. Squali said.

Yahoo's existing employees are grumbling that with the stock price so low, many of their options have become worthless. Some Yahoo veterans have bolted for trendier start-ups. For example, Mike Murphy, a longtime ad salesman, is now the chief revenue officer of Facebook, and Gideon Yu, Yahoo's treasurer, quit last month to become chief financial officer of YouTube.

"They woke up and realized they had an attrition problem," said one executive who quit for a start-up this year.

Yahoo has responded by giving substantial raises to favored executives it wants to keep, according to one current executive who spoke on the condition of anonymity because he did not want to jeopardize the raise he received.

Yahoo has also had trouble developing many new offerings that capitalize on the latest trends on the Web and offer innovative formats for advertisers. Many marketers, for example, have become intrigued by the possibilities of weaving their products into the fabric of social networking sites. Even more, they are sponsoring original Internet content, especially video programs.

Two years ago, Yahoo made an expansion in Hollywood in an attempt to produce new video-focused Web sites, but it later backed off from the plan amid internal bickering.

Perhaps the biggest area of strategic confusion for Yahoo is its advertising network, which sells ads on other sites. Its Yahoo Search Marketing division has been falling further and further behind Google in selling text ads on other search sites. Yahoo lost a major source of attractive search pages when MSN began selling its own ads this year. And the Yahoo Publisher Network, which is meant to sell ads on blogs, news sites and other content pages, has languished. Dow Jones, for example, withdrew The Wall Street Journal and other sites out of the Yahoo network this spring, hiring Seevast, a small New York firm, instead.

Moreover, Yahoo has made few moves to expand its ad network to sell other types of advertisements like banners and video commercials, even though it is a leader in selling such ads on its own site. With a plethora of blogs and Web publishers looking to earn money from their efforts, there is a booming business in selling ads for these sites. AOL has made a major play in this field, buying the leading banner network, Advertising.com, and Lightningcast, a video network.

Google has moved to expand its network from text ads to selling banners and video ads, and the YouTube purchase will no doubt accelerate its push into video. Moreover, Google wants to sell ads in print, radio and soon traditional television as well.

"Google is so much ahead," said Peter Hershberg, a managing partner of Reprise Media, a search advertising agency. "Google is going into new channels like video and Yahoo is still trying to fix their core channel."