



THE  
DUKE MBA  
CONSULTING CLUB

## Case #16

**Company:** Katzenbach (Round 2)

**Topic:** Valuation

**Industry:** Internet Portal

### About the Case

*This is a valuation case and involves assessing the potential threat of competition's merger to the business. The case is primarily qualitative in nature and tests the candidate's conceptual understanding of M&A activity and overall business knowledge/judgment. The case offers the candidate several opportunities to be creative in problem-solving. A quality candidate will imbue the discussion with structure, creative solutions, and demonstrate knowledge of current business landscape.*

### Defining the Problem

You have been hired by the internal strategy group at Yahoo. You are asked to analyze the recent acquisition of YouTube, an online video community, by Google for \$1.6 billion. Is this move a competitive threat for Yahoo?

**Prompt 1: Core Competencies and Overall Situation Analysis** - *The candidate should think about the acquisition against the backdrop of the core competencies that each firm brings to the table. There are no absolute right/wrong answers; one approach is outlined below.*

Suggested Answer: Yahoo has positioned itself as a destination site. It wants consumers to go to Yahoo! and explore all of its wonderful services, spending time and money there. Time means that advertisers' ads are more likely to be clicked. Money means that Yahoo! is making e-commerce transactions, or selling subscriptions to premium online services. It tries to promote a sense of community among its users.

Google has spent its early years as a search engine. To 'google' has become synonymous with search. To take advantage of this brand-name recognition, Google pioneered advances in ad-based software that allowed businesses to better target consumers segments based on the particulars of the search. Google has the "eyeballs" of the consumers, but it doesn't have the

consumers' wallet. It wants to monetize all this traffic.

The acquisition of YouTube by Google is a competitive threat. YouTube is a move toward creating a community. The company spent \$1.6 billion because it believes it will be able to monetize this traffic somehow.

**Prompt 2: Competitive Response** – *Inform the candidate that Yahoo wishes to counter this threat and assume that feasibility and cost are not a concern at this point. Ask the candidate to develop a competitive response and give candidate creative license. There are no absolute right/wrong answers; some ideas are outlined below.*

**Author's Commentary/Notes:** *The candidate should ask for a moment to collect his/her thoughts, and ideate creative solutions*

Suggested Answers:

- Create an offering to counter YouTube for the Yahoo community
- Buy Google
- Find a way to share real-time videos among friends from mobile devices or wristwatches. This would involve a cross-selling strategy with a partner
- Create backdrops (or allow open source coders to create them) from historical events or sporting arenas or famous movies, and enable people to be able to re-enact scenes or create new ones (An example of this might be a rock stadium backdrop and you and your friends can jam on instruments and make a rock video)

**Prompt 3: Customer acquisition** – *Provide candidate the hypothetical situation in which Google decides to proceed with the YouTube acquisition and believes that it can charge \$150 per user annually and make 67% margins. Ask the candidate to compute the time taken to recover the acquisition costs.*

*Information to be given if asked:*

- User base: 40 million
- Discount rates should be ignored
- Assume no user base growth or attrition.

Answer:

User base: 40 million

Acquisition Cost = \$1.6bn

Therefore, Margin/user needed to recover acquisition cost = \$40

Actual Margin/user = \$100 per year

Therefore Google will recover acquisition cost in less than 6 months.