Interpreting Icahn and Yahoo! Inc.

In the most current stage of the long and maybe still evolving saga at Yahoo!, the company and dissident shareholder Carl Icahn have reached a settlement in which the latter and two of his alternative slate of directors will join Yahoo's board. While this is newsworthy for a multitude of reasons, not least of which in its presumed relapse of a corporate battle that had been raging and escalating, the resolution may also contain a much broader and more interesting symbolic aspect: the meeting of old and new, East and West, and the bridging of divides between Silicon Valley and New York. If West Coast media has been characterized by the Internet's multitude of new media platforms, personified in the likes of Yahoo!, Google, Amazon, Microsoft, Facebook, and now Twitter, the East Coast has traditionally been the home of older media powerhouses… Viacom, Time Warner, NewsCorp, and "Madison Avenue." And while we often hear about the necessary transition of old media to new digital and interactive forms, the time may also have come for new media to, as it were, grow up. We see increasing evidence of such stirrings, and Mr. Icahn (an East Coast grown-up, to be sure) joining the board of a West Coast Internet company with an exclamation mark in its name, may not be as much a mixture of oil and water as natural evolution. Below are a few notable events and observations from the digital media sector, reflecting what may be viewed as symbolic facets of the Icahn/Yahoo! marriage: institutional discipline, profit orientation, strategic value creation/extraction, and management maturation.

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- Institutional discipline: Many participants of the blogosphere have noticed and bemoaned the recent acquisitions and institutional financings taking place in their world. Examples include Silicon Alley Insider, BlogHer, and JuliB in the past few weeks, in addition to The Huffington Post and Giga Omni Media since the latter half of 2007. The purists of this community, having enjoyed the offerings of free-lance (not to say casual) scribes, are loudly lamenting what is believed to be an irreversible trend that will change the nature of blogged content to more tightly buttoned professional reporting. Perhaps there is an element of validity in this concern, as the genuineness and freedom of the traditional blog could certainly be damaged by an editorial staff. That said, if the Internet is coming of age (as some believe, see paragraph below), and if blogs indeed serve an important information distribution function (as many have argued), then, much as some would like to think otherwise, blogs are destined to be a real business. As such, branded hubs of quality content are sure to be more efficient at attracting advertising dollars than an individual post… and, maybe revenue is not such a bad thing for writers.

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• Profit orientation: Speaking of revenues and blogs, a favorite writer among the digital media community, Fred Wilson of Union Square Ventures, together with his partner Brad Burnham, have increasingly made mention of the turning corner in the web space. While Union Square has been known for interesting (albeit revenue-free) discoveries and investments in the likes of Twitter and Tumblr, here is a quote from a recent Wilson blog: "As investors like us start thinking about how to allocate capital to a global internet, it would be very useful to focus on revenue/user instead of just global audience." Pretty clear and no beating around the bush, and from Fred's partner Brad in a separate post: "Though it is not often stated, I think insiders feel the web is coming of age, and they are wondering what's next." What's next may be illustrated in the following Silicon Alley Insider headline on July 27: *Bad News For MySpace: Growth Curve Flattened. Good News For MySpace: It's A Real Business*. The report underscores that "MySpace and the rest of Murdoch's Web properties are now… making real money. That's worth remembering as we enter the late stages of the Web 2.0 boom."

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• Strategic value creation/extraction: We have seen some notable small-scale strategic M&A in the digital media sector lately, which is to say, M&A activity that does not constitute the typical VC-exit scenario with the usual West Coast suspects, but rather strategic acquisitions by VC-backed smaller platforms. For example, Twitter's strategic acquisition of Summize (contextual search technology), and Zynga's announced acquisition of YoVille (digital gaming), are indicative of up-and-coming but single-dimensional enterprise seeking to round out asset value and competitive profile by filling in potential strategic holes or branching out into new terrain, rather than merely adding more users. One has been accustomed to such strategic acquisitions in more mature businesses – indeed, Microsoft's run at Yahoo! and Carl Icahn's views regarding the latter's strategic options are a good case and point – but more rarely, until now, as part of a relative start-up's value creation exercise.

- Management maturation: Among Carl Icahn's many proposals for Yahoo! was the replacement of key management and board members with individuals he felt to be more qualified for a company facing Yahoo's growing challenges. While the validity of this idea is debatable, there is on a lesser scale some of the same going on at the lower end of the sector. The same Zynga mentioned above, for example, brought in a 26-year gaming industry veteran – who according to some commentators has been around the sector longer than existing Zynga staffers have been alive – to help run the company on the heels of a new investment by Kleiner Perkins. More widely publicized have been the senior-level additions and reshufflings at Facebook, reflecting that company's rapid conversion from youth-targeted novelty to a formidable presence facing the issues of establishment.

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And so in summary, while the traditional school of thought (if "tradition" can be applied to a sector that is younger than most of its participants) had put the onus on old media to not so much inch as move by leaps and bounds in the direction of digital/interactive technology, there may be a new school emerging, which seems now to push the newer media to evolve. To generate profit, let alone revenue, is no longer an afterthought but an area of focus. To manage professionally, rather than by intuition, is increasingly desired. To create advertising and/or subscription models that can be packaged and sold, is an old media staple that is now getting attention on the web. And as the IPO market seems at least for now to have become a less facile exit alternative for venture capital, there are signs of VC-backed platforms beginning to focus on value creation through strategic planning rather than merely growth. If all these aspects of more traditional enterprise are indeed taking shape in new media, as we believe to be the case, and if the joining of Carl Icahn and Yahoo! symbolize a mutual approach and union of previously distant worlds, we here in New York – accustomed as we have been to the company of large entertainment empires, publishing houses, and advertising conglomerates – look forward to increasing interaction with the West. In passing, we mention that Google last month expanded its New York office space by another 50,000 square feet and now employs 1,600 people in the area. Silicon Alley may not be in the shadow of its more animated sibling much longer.

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