

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.