



THE NET

# SMALL BIZ, BIG BUCKS

Google, Yahoo!, and the Yellow Pages are hotly pursuing lucrative ads from locals

**BY TIMOTHY J. MULLANEY**

IN NEW YORK CITY, PEOPLE MOVE from the Upper West Side to the West Village, from Riverdale to Red Hook, from Bay Ridge to Battery Park. Ali David Cohen wants is for folks in transition to call

his company, the five-truck Divine Moving & Storage. Cohen tried advertising in the Yellow Pages, but increasingly he is shifting his ad spending to Google Inc. and Yahoo! Inc. Cohen has to cough up about \$750 each time someone clicks on the Divine ad that appears when they search for "Movers NYC." But he figures 30% of those surfers hire Divine, providing 90% of his business. "That's why we can afford to pay \$7.50 a click," he says.

Cohen and millions of small companies like Divine are in the middle of the nextbig fight over the future of advertising. Yahoo and Google have built booming businesses out of helping companies use the Web to reach national and international audiences. Now the/re leading a gaggle of Net companies going after the ad dollars of small businesses—movers, mechanics, and pizza makers—that get their customers within a few miles of home.

It's a \$15 billion market that has been dominated by local phone companies, via the Yellow Pages. The Bells see the danger and are racing to build up their own Web presence. SBC Communications and BellSouth Corp. have even merged their online publishing units and snapped up the site YellowPages.com from a Henderson (Nev.)-based startup. Now the/re preparing to launch a megasite to fend off the Net players (page 96).

Why all the fuss over ads for plumbers and personal injury lawyers? Money, and lots of it. Yellow Pages is an incredibly lucrative business, with profit margins of 50% or more. SBC pulled in \$2 billion in

**MANWITHVAN**  
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operating profits from its publishing unit last year, on revenues of \$3.8 billion. Researchers at Kelsey Group predict \$3.8 billion of Yellow Pages money will move online by 2008. To put that in perspective, the total Internet ad market was \$9.6 billion last year. "The local search market should be larger than [Google's] other markets because most people's purchases are local," said Eric Schmidt, Google's chief executive, at an investor conference on May 25.

Such emerging competition means the musty old Yellow Pages are heading for a burst of innovation. Forget flipping through a fat phone book. Instead, you can go to the Web and search for Italian restaurants in your ZIP code. The listings may be paired with sample menus, customer reviews, and a map of the neighborhood or a satellite photo. Yahoo will even let you send directions to the restaurant from your PC to your cell phone with a single click. "This is the stuff that makes local come alive," says Paul Levine, general manager of Yahoo Local.

The phone companies aren't letting the Net upstarts come up with all the new ideas. While SBC and BellSouth may be the most aggressive, all four of the major Yellow Pages publishers are gearing up for the competition. Verizon Communications Inc., which runs the most popular of the Bell sites, SuperPages.com, has developed technology to let Web surfers search for local stores and Net retailers simultaneously. All four of the majors are encouraging entrepreneurs to buy all their Net advertising, including on Google and Yahoo, through them to save time. "Small businesses want to go online, but they want it simple," says George Burnett, CEO of Dex Media Inc., the Yellow Pages publisher in the 14 states served by Qwest Communications International Inc.

This won't be a simple fight, with one side clearly winning and the other losing. Yahoo could best Google, while YellowPages.com thrives. All three could struggle if an innovative newcomer emerges.

The phone companies start off with a faithful following. People have long turned to the Yellow Pages to find insurance agents, car dealers, and doctors. And consumers—especially older ones—will take that strong brand recognition with them as they move online.

But portals have a big edge among the younger generation, and they're better positioned to pull together all the information people need to research products and find the companies that sell them. Already, search engines attract 66% of on-

line local-search users, while the Yellow Pages listings get 34%, according to researcher comScore Networks Inc. "People will ultimately start that process with a search engine and end it with a search engine," says Jeff Lanctot, vice-president for media and client services at online ad agency Avenue A/Razorfish.

The Web outfits are using several approaches to move into local advertising. Yahoo has 176 million registered users, so it can direct local ads to people who have provided their cities or ZIP codes when they registered. It also has a customized local site that asks searchers for the city or ZIP code they want to search. Google has a similar service, Google Local. Both portals are rolling out an even simpler method: They're figuring out where someone is by tracing them back to the city from which they access the Net.

Once they know where a surfer is, the search engines aggregate content they think the user wants. Type "Cheap Indian Food San Francisco" into Google Local, and you'll get a listing of restaurants meeting that description, such as Naan 'n' Curry on O'Farrell Street. A map shows

locations for all the choices. The Naan 'n' Curry page has links to reviews from regular folks at Dine.com and professional reviewers at CitySearch. "Having the most complete content will drive the user experience," says Sukhinder Singh-Casidy, general manager of Google Local.

## MindsetMinder

YAHOO'S APPROACH IS to combine content with a greater ability to close a sale on the Web. Its local search engine has links to let you book tables at restaurants or buy movie tickets on the site. Yahoo also is offering to build basic Web sites for small businesses—at no charge—so they'll be more likely to buy online advertising from the Net giant.

Yahoo also is testing a technology called Mindset that lets you use a sliding scale to tell Yahoo whether you are beginning to research a product or getting close to buying it. If you're buying a car, for example, you might get links to auto-information sites if you're just starting to compare Fords and Toyotas, or connect to dealers if you're ready to talk price.

## THE WEB'S WIZARDS

Only three Web companies made the Info Tech 100 this year. But two of those are emerging giants in new media, and the third is a key player in Internet security.



### GOOGLE ERIC SCHMIDT

Remember all the experts who said Google's IPO was a dud-in-the-making? Oops. The stock has tripled since, powered by soaring profits. Still, challenges lie ahead. Google must defend its search turf as it pushes into new areas like products tailored for local advertisers.

### YAHOO! TERRY SEMEL

Along with Google, it was a big beneficiary of 2004's 51% increase in U.S. spending on search ads. Sales more than doubled, while profits more than tripled. As growth in established markets slows, Yahoo must serve booming online populations in China and India.

### VERISIGN STRATTON SCLAVOS

VeriSign became known for operating the Internet's address books, managing the directories for so-called domain names such as .com. But it has been steadily branching out into other services such as ringtones, games, and other content for mobile phones.

While the phone companies have strong relationships with local businesses, their argument that entrepreneurs need a simple approach to Net advertising may not hold up. Consider Michael Jimenez, a custom upholsterer in San Rafael, Calif., who began advertising online in January. It's taking him some time to learn search advertising, but he has no doubt that it's worth it. Revenues for his 10-worker business are up about 10%

over the past five months, thanks to the 1,000 pr só inquiries he has gotten from his Google ad. "I want to do more of it, I know that," he says. Meantime, Jimenez plans to reduce his quarter-page phone-book ad to a listing of his phone number and Web address, saving most of the \$500 a month he has spent on Yellow Pages advertising.

In the end, this battle will boil down to which medium can deliver more cus-

tomers to advertisers—and then prove their performance. "I look very heavily to [ads] where I can track a specific customer," says Wayne Ussery, director of Internet marketing for Jim Ellis Automotive, a 12-store dealership in Atlanta. Ussery is still experimenting with a variety of online advertising. But already, 40% of the people surfing jimellis.com come from Google. That's a mighty big head start for the Net players. •

## LET YOUR FINGERS DO THE CLICKING

**W**ith Web giants Google Inc. and Yahoo! Inc. storming into the local advertising market, the telephone companies can't afford to sit still. For decades their Yellow Pages books have dominated the ad game for small businesses, and they simply have too much money at stake. In 2004, SBC Communications Inc. pulled in \$2.1 billion in operating income from Yellow Pages, on revenues of \$3.8 billion. BellSouth Corp. earned \$954 million on \$2 billion in revenues.

So the two Bells decided that if anyone was going to take the Yellow Pages online, it had better be them. They pooled their Yellow Pages sites in a joint venture, bought rights to the YellowPages.com name, and tapped 32-year-old BellSouth exec Charles Stubbs as CEO of the Pasadena (Calif.) venture. Now they plan to take on Google and Yahoo for supremacy in the brave new world. "We're going to be just as big as Google Local or Yahoo Local," Stubbs vows.

Easy to say, hard to do. Stubbs's challenge is to take an established business whose 4,000 ad sales reps are mostly union members and make it nimble enough to duel with two of the toughest companies on the Net. Together, YellowPages.com will have to develop top-notch search capabilities and additional content for researching products and services. Then Stubbs will have to convince consumers that his site is as good as the search engines—when "to google" has become

part of the popular lexicon. The Bells share "a culture that's certainly not accustomed to the accelerated product development on the Internet, and that's a very real barrier," says analyst Greg Sterling of advertising consultant Kelsey Group.

What the phone companies do have in their favor is feet on the street.

Their thousands of sales reps pound the pavement in towns where Google and Yahoo merely float in the ether. The reps have such deep relationships with their clients that the renewal rate for Yellow Pages' advertisers is more than 90%.

The pitch to local customers these days is straightforward: Keep it simple and buy all your advertising, online or off, from us. The salespeople can bundle ads in the printed book with ads on the YellowPages.com site. They can buy ads on Google and Yahoo, too, if clients want to use the search engines,

that's a comfort for those business people who don't want to spend time learning the complexities of search advertising, in which prices change constantly and bills can spike any time there's a flurry of clicks.

The phone companies are burnishing their own Web site, too. Coming upgrades to YellowPages.com will let consumers sort businesses by factors like what brands of air

conditioners they sell, store hours, and the credit cards they take. SBC also has channels about "life change" topics like moving or getting married. Why? Seventy percent of Yellow Pages users use the books to buy products for big events, from wedding gowns to paint, says Neg Norton, president of the Yellow Pages Assn.

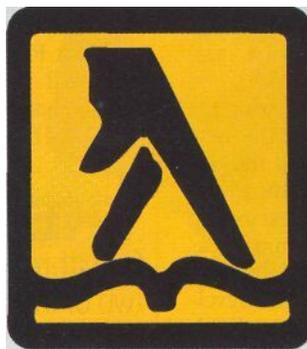
The venture also has the muscle of its parent companies behind it. YellowPages.com will be able to send marketing materials, including its Web address, into millions of homes via SBC and BellSouth's phone bills and print Yellow Pages. And since SBC and BellSouth own Cingular Wireless, Stubbs expects to lead the way in sending

ads through text messages or video clips to consumers' mobile phones. "Our parents will offer the best one-stop shop for a complete ad campaign," Stubbs says.

Small advertisers seem willing to give him a try. James Cunningham, president of Superior Plumbing in Kennesaw, Ga., advertises with both BellSouth and Yahoo. He says BellSouth's site gives his \$6 million a year business twice as many leads as Yahoo, and Verizon's SuperPages.com site beats them both. Cunningham also likes that the online Yellow Pages cost him less than half as much per lead as the printed books. He just added a staffer to figure out how to best spend his online budget. "If I could spend a ton more on the Internet, I would," he says. "It's the future."

Such is the brand-name appeal YellowPages.com is counting on. Although the phone companies face a tough battle against the Net giants, Kelsey Group's Sterling says there may be room for three or four winners in the local advertising market. Stubbs is determined to make YellowPages.com one of them.

—By Timothy J. Mullaney in New York



**CEO STUBBS** Leading YellowPages online