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Think Local

Rachel Rosmarin,

Listen up, little guys. **Google** and the rest of the search giants are giving you a shot at a potentially huge business--for now.

The market for local searches on the Internet--searches that include geographic information like a state, city or ZIP code--should be booming. Research shop the Kelsey Group estimates the sector generated \$3.4 billion last year, but it could grow to \$13 billion by 2010. Meanwhile, traditional local advertising--from newspapers, local commercials, yellow pages ads and the like--generates an estimated \$100 million per year.

But while Google (nasdaq: [GOOG](#) - news - people) and Yahoo! (nasdaq: [YHOO](#) - news - people) dominate nearly every other part of the Web, they have yet to fill up on local-search traffic. The top five local search sites are only reaching about 55% of the general Internet audience, according to ComScore: Local searchers are most frequently looking for hotels, the research company says, followed by queries for nearby **Wal-Mart Stores** (nyse: [WAL](#) - news - people) and restaurants.

Google itself isn't even making the most of the local-search market share it has. About 25% of all Google searches are local, but only about 10% of Google's ad revenue--about \$220 million in its last quarter--comes from ads generated through local searches, says Piper Jaffray analyst Safa Rashtchy.

What gives? "Everyone is tantalized by the sheer volume and wants to tap into these billions upon billions," says Greg Sterling, principal analyst at Sterling Market Intelligence, "but it's very difficult to capture those dollars--it's a complex, fragmented and inefficient market."

The biggest problem is getting small mom-and-pop business owners--some 23 million of them--to sign up and pay for online ads. The auctioned-off, pay-per-click pricing for ads at search engines like Google and Yahoo! are far too complicated for small retail and service businesses, says Assaf Ran, chief executive of **DAG Media** (nasdaq: [DAGM](#) - news - people), a niche online directory company.

Even online directories like **Verizon's** (nyse: [VZ](#) - news - people) SuperPages.com, which offers plenty of help in conducting an online campaign, is too much for most small shops, says Ran. He says his 17 years of experience selling ethnically targeted print directories has helped him figure out what small-business owners want: an extremely simple platform.

Ran's answer is NextYellow, a service launched this month that promises to connect local searchers with local merchants, even if they're not online. Ran's company will take Internet surfers' queries and pass them along to relevant businesses via phone. NextYellow's sales force is supposed to tantalize small businesses by passing on a single lead for free--say, telling a plumber in upstate New York that someone nearby is looking for help--then charging for more.

Ran says his service will be more effective than current online offerings, because it connects consumers directly with businesses, even if they don't know where to look. "The reason we haven't seen a significant increase in revenues in the online directory industry is because for users, the model is no better than using a phone book," he says.

But there is something to be said for the phone book model--after all, print directories are already used to going door to door to sell ads to tiny shopkeepers.

Verizon, which has plenty of experience selling traditional directories, is building on that traditional model while moving online. The company already has a 3,000-member sales staff to market ads for its SuperPages.com and traditional phone books. Now, it is moving into the reselling business by taking some of its online ad requests and handing them to Google and other search engines at a 30% markup.

Will Google shift gears and hire its own foot soldiers to preach the benefits of its AdWords service to local shops? It's possible, but not likely, says Eric Chandler, who oversees the Internet division of Verizon's Information Services unit. "If you look at what building a local sales force might do to their stock price and margins--financially, it just wouldn't make sense for them," he says. Google declined to comment on its online plans.

Some small online directories, such as Yelp.com, insist they don't view Google and the other major-leaguers as competition. "They don't have any content, and they don't have a community," says Russel Simmons, chief technology officer at Yelp.com, whose site organizes reviews of local products and services from opinionated city-dwelling consumers.

Yelp.com had a million visitors in March--more than upstart competitors InsiderPages and Judy's Book, says Simmons. The site makes money through sponsored pay-per-view listings, a few pay-per-call ads and by allowing brands to pay to host parties for the site's most active members.

"We think if we truly solve the idea of word-of-mouth local reviews, that there's more money to be made by matching a search up with one very relevant, specific result than by trying to recreate yellow pages listings," says Simmons.