



CLASSIFIED INTELLIGENCE

Consulting Services for the Classified Advertising Industry

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Technology and bizdev forum

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ICMA 2005

Prepared for: ICMA 2005 delegates
Presented by: Peter M. Zollman and Classified Intelligence
Presented: May 9, 2005

Executive summary

Classified advertising – depending on how you count – is a \$100 billion business internationally. Maybe more. But the business is undergoing fundamental, structural change that is already having a significant impact on traditional publishers of classifieds. And that impact is only going to get more difficult.

The down-side is that classified ad publications face a growing migration of services to interactive media. The up-side is that interactive media can provide better, less expensive, faster, more targeted approaches that actually *increase* revenue (and eventually, profit margins), while serving audiences and advertisers better as well.

A number of companies with online and other interactive-media services already show significant profits – Trader Classified Media, New York Times Digital, CareerBuilder, McClatchy Newspapers, Tribune Co. and others.

Your goal: Avoid “**Death by EBay.**” If you don’t respond effectively to EBay, Craigslist, Kijiji, Gumtree, Monster.com, broadcast classified services and other new models which eliminate the traditional publisher from the advertiser’s and user’s equation, *you’ll be out of business* – or at least *out of the classified advertising business* – in a few years.

EBay and Craigslist are particularly challenging for ICMA members. EBay invested nearly \$1 billion (about \$865 million U.S.) in 2004 buying classified advertising and merchandise sites globally, including Baazee.com in India, Internet Auction in Korea, MarktPlaats.nl in the Netherlands, and 25 percent of Craigslist in the U.S. Just since Jan. 1, it has announced plans to invest at least \$100 million in China; launched free-classifieds site Kijiji.com in almost 100 cities including China, Japan and Taiwan; added new EBay sites in Poland and Sweden, and purchased Gumtree.com in the UK / Europe and Loquo in Spain.

Craigslist – which offers free classifieds in a remarkable community-based site – poses a separate but similar threat, and is having its greatest impact in employment advertising and real estate. (*For more about EBay and Craigslist, see “Competing with Craig: Strategies and tactics for battling Craigslist and its counterparts,” available to ICMA members for €125 by e-mailing us [regular price \$250], and the related free report about the impact of Craigslist and EBay on newspapers, available at our Web site.*)

One great advantage ICMA members have over traditional daily newspaper publishers is: **You know how to sell!** You built your business on aggressive sales; lower margins than the daily newspaper in town; innovation in distribution and circulation, and development of a real marketplace where buyers and sellers meet. Don’t let that get away.

If you are to succeed as a classified advertising publisher, you must remember these simple rules:

- **Your job is to grow and maintain the marketplace.** Make sure your Web site, printed publication and interactive-media services are **the first and best place** to go to find a car, a job, some “stuff” or a home in your market. Otherwise, you’re sure to fail.
- **Serve your audience(s) and advertisers** first and foremost. It’s easy for me to say and not so easy for you to do – but if you focus on “protecting the franchise” or maintaining your existing margins and businesses, you won’t act decisively and take the steps you need to build the new business while taking advantage of your competitive strength – your existing business.
- **Deliver and demonstrate results:** New media make it much easier for advertisers (and users) to determine where they got the best “bang for the buck” and obtained the results they need. You have to make sure you deliver those results, but more important **prove to your advertisers** that you’re the best medium for them to use.

Trends we're following in 2005:

- **Web-to-print:** Many newspaper publishers and non-traditional publishers like directory companies and Web sites are using databases compiled online to output material for new print publications. Great cost-cutting potential; excellent new-product development opportunity.
- **Self-service ad placement:** Customers buy things online. They want to place ads online, too. And when they do, if you make it easy for them, they spend more money. These services are growing steadily, as they should. Self-service ad placement increases revenue, reduces costs and improves customer service. A real “no-brainer.” (See our Web site for a free report.)
- **“Meg and Craig:”** Merchandise classified ads are threatened with “death by EBay.” The company, headed by the brilliant Meg Whitman, is growing its “critical mass” in merchandise sales, while many newspapers don’t have critical mass at all. EBay continues to invest heavily in international markets, especially Asia. Last year it spent about \$12 million to buy 25 percent of Craigslist. Craigslist keeps growing as a tough competitor – it’s now in 164 cities – partly because it’s run like a counter-culture service for friends, not a traditional business.
- **E-commerce enabling classifieds:** By adding a “buy now” and “make an offer” button to an online classified ad, all sorts of wonderful things happen. You can support instant gratification of buyers and sellers; you can generate specific leads for sellers and your publication / site; you can track how many times an ad has been viewed and / or a purchase offer made, and so forth. CityXpress and AdPay are the two leading providers in the States. Study what they’re doing, and buy it from them or replicate it if that serves your purposes better.
- **Yellow pages and classifieds:** This may become the online “killer app” for finding local products and services. Combining the strong, frequently updated database of a local classified advertising publication with the rich directory data of telephone yellow and white pages may create the best local online shopping experience for users. Several of these combos launched in 2004; you’ll see more in 2005. We’re even working with one major, telco-affiliated directory publisher on its classified advertising strategy.
- **Local search:** As more users turn first to search engines for products and services, and Google and Overture (among others) surround those results with useful targeted ads, local advertisers are learning to post pay-per-click ads to generate business. If your site doesn’t offer easily searchable ads, classifieds and advertiser lists, and contextual ads, you may lose out to “Goog-erture.” (Overture is now called “Yahoo Search Marketing” – same difference.)
- **Pay for performance:** “Pay per click” and “pay per action” ads are increasingly popular with advertisers, who like to know exactly what they got for what they paid. Recently a smart newspaper advertising sales executive told me he’d never offer PPC and PPA services; I say, “Never say never.” One major newspaper I know is negotiating to give a real estate advertiser a test program of half-page ads that cost nothing up front but generate revenue based on leads delivered by those ads. Fascinating. (We’ll see if it happens.)
- **Accountability:** Advertisers are getting smarter fast about learning how the money they spent on advertising actually brought customers into their stores, home-buyers to their agents, job-seekers to their chairs. Using Web tracking, unique telephone numbers, call identifiers, lead-generation systems and other systems, advertisers can tell, for instance, how much it actually cost to hire each of the people who came in through various specific sources. Powerful. A real positive development for media that deliver results; big trouble for those that don’t.
- **Richer content online:** The days of saying, “Sorry, we can’t put a picture of your house on our Web site” or “... in our publication” should be over. Sadly, they aren’t. Online, advertisers can offer lots of photos, even video clips. They add value to house, apartment, car, even job ads. If you don’t offer them, your competitors will.

Classified ad pricing may fall to near zero, experts say

By Peter M. Zollman

Are you preparing for the day when the price of a classified ad in your newspaper or publication falls to pennies, or nothing? Gannett and Knight Ridder are. They know they need to reinvent classifieds.

The No. 1 and No. 2 newspaper groups in the United States, respectively, Gannett and KR foresee pricing pressure on classified ads like never before. They're preparing for radical changes in classified ad business models – including major changes in sales strategies, and “participation in the transaction” to capture revenue that's disappears from the classified pages.

Mindful of the impact Craigslist, EBay, social networks and declining print readership are having on traditional classifieds, Mike Kment, Gannett's corporate classified advertising director, and Tom Mohr, former corporate classified VP at KR, spoke recently at a regional conference of newspaper classified ad directors. (Mohr's now president of Knight Ridder Digital.)

They didn't pull punches.

“I sometimes don't think we have fully come to terms with the degree to which we need to undergo transformational change in order to be in a defensible position for the next five to 20 years,” Mohr said. “As an industry, we have in some ways, let me be tough, failed miserably, in the ways we have responded to the competitive threats we face. ... I see the need for very aggressive, very significant, transformational change. And I see that beginning to happen.”

Mohr said newspapers have almost lost all advertising for apartments, although “I think it can return.” And “we have now virtually lost the merchandise private-party category, or at least it's in serious jeopardy.” There's “increasing online risk in real estate and automotive, where you have the emergence of pay-for-performance models,” he said, and newspapers have had to fight “a tremendous battle for recruitment (advertising)” as well.

Bleak view of private-party ads

Kment painted a bleak picture of private-party advertising – the “liners” that are the core of the classified section – and commercial merchandise advertising.

“I think the price point for both private-party and commercial customers, relative to ... bringing buyers and sellers together, is just slightly north of zero,” he said. “I'm not sure exactly what the amount is, but it's slightly north of zero.

“The great advantage that we have going forward is the proximity to the transaction,” he said. “We are by definition local, local, local. How do we bring (together) people who will benefit from being proximate to the timing of the transaction ... and how can we monetize that? Because at some point we're not going to be able to do what we've always done, ... kind of put our finger up in the air and guess how much more can we charge, because what we can charge is going to go rapidly down and it's going to go greatly down.”

Earning transactional revenue

Kment said newspapers have to earn transactional revenue. He mentioned a major city where Craigslist carried 12 ads for used pool tables while the metro daily and its Web site had none. What happens, he asked, if the newspaper offers those ads for free to recapture the marketplace, but then earns revenue in

several steps along the way – for example, payments from companies that move the pool tables, and / or from people who replace the felt on pool tables?

Mohr said right now, most classifieds are bought rather than being sold.

“I don’t think we have come to terms with the degree to which we need to change as sales organizations. I have talked about it as the shift from being catcher’s mitt to pitching machine. We have got to make a fundamental shift that increases the sales pressure in our market, not by 5 or 10 percent, but by 500 percent, or more.”

Newspapers have let competitors take away classifieds

Competitors have found it easy to take away newspapers’ business. “Frankly, in most cases, we just let ‘em do it,” Mohr said.

Kment later told me he thinks the price collapse will affect mainly private-party and small-business advertisers.

“I don’t have the same pricing or relative-value concerns about display advertisers, … particularly classified display advertising that features both branding and inventory,” he said. “I’m very optimistic. I think the fact that newspapers … have developed multiple platforms and strong local classified advertising markets, should give us all confidence that our foundation of ‘local’ and the trust implicit with our local newspaper brands is a tremendous comparative advantage relative to our competition.”

The need to ‘reinvent classifieds across our platforms’

At the meeting, Kment said publishers and classified ad directors are “kind of conflicted” by the need for change. “We all know we’ve come a long way in the last few years, and it’s become ever more clear that we’ve got a long way to go. We’re not even sure where that ‘is’ is that we’ve got to go.

Whatever that “is” is, it clearly doesn’t include just doing things the way they’ve always been done. As Kment put it: “If we can be the ones to reinvent the business model and reinvent classifieds across our platforms (so they) may last another 50 years, or at least another few years, then we really will have done something. If all we do is we are present at the wind-down of what somebody else built a long time ago, that would be sad. So my challenge to you is … to really think about the responsibility we have to reinvent this business.”

Amen to that!

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(Originally published, March 2005)