

LOCAL
SEARCH
REPORT
MAY 2004

THE NEIL BUDDE GROUP



ADVANCED INTERACTIVE MEDIA GROUP, L.L.C.

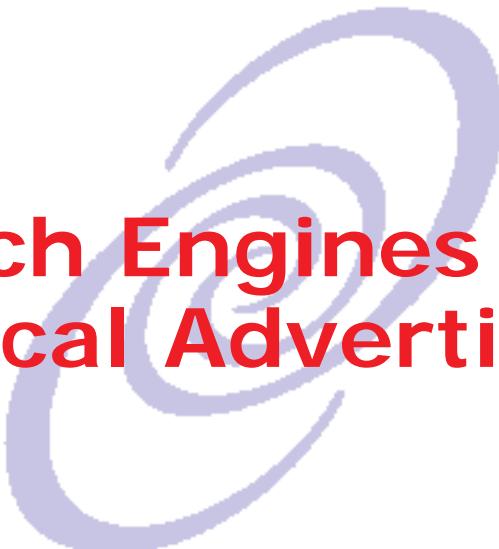
Helping to build successful interactive media services

PREVIEW EDITION

The

Geo-Google™ Threat

Search Engines Target Local Advertising



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with data compiled by

eMarketer™

Executive Summary



Peter M. Zollman

The New 'Googleography' of Local Search Is Changing the Advertising Map — Forever

With \$2.7 billion or so more in its pockets from an initial public offering, Google's likely to step up its aggressive efforts to land thousands of local advertisers — plumbers, attorneys, restaurants, dry cleaners and more.

Always unwilling to let another company be No. 1 in its field, Microsoft won't sit back; it's already talking about its code-named project to strengthen its online search offerings.

Yahoo, having invested \$1.86 billion in Inktomi and Overture, won't quietly concede ground to either company.

And a horde of smaller search competitors you only occasionally hear about are eagerly devouring the crumbs left by the big three.

All of that could spell disaster for newspapers and local media.

As their audiences migrate online — especially young readers, or more accurately, non-readers — local newspapers will face a new battle for advertising that may make the "Monster.com vs. newspapers" fight look like a relatively minor skirmish.

It's called "local search."

* * * *

Imagine the old supermarket bulletin board, chockablock with fliers and notices and business cards — all touting local accountants, kids with lawnmowers, babysitters, Girl Scout troops selling cookies, people trying to unload that used motor home down the block, landlords looking for tenants. All of those people posting "unclassified ads" exactly where they know the community looks for them.

Now take that type of microlocal, almost-free advertising; merge it with the telephone directory and yellow pages; throw in classified ads from the Trading Post or a similar community publication; put it online where the audience is growing and people are looking for products and services, and deliver those ads in a highly targeted environment — sometimes by demographics, sometimes to people who were looking for that apartment, sometimes when people type in their postal code or keywords like "florist" or "dentist" or "tooth whitening." Couple that with a pricing mechanism that charges the advertiser only when a searcher clicks on his ad to learn more.

Pretty powerful advertising. The type of advertising that may solve the age-old conundrum so eloquently described by retailer John Wanamaker: "Half my advertising is wasted; I just don't know which half."

Think this sounds like science fiction? It's not.

Sensis, the yellow pages publisher in Australia, is close. It launches its online local free-text search engine in mid-year, incorporating data from the country's yellow pages; white-page telephone listings, and material from the company's Citysearch online directories. In March, Sensis took the business model one giant step further, buying the Trading Post Group of publications and Web sites.

"We're really trying to combine our data from the white pages, yellow pages, Citysearch, all of the information we can provide," said Elisabet Wreme of Sensis.

It may take a couple of years, but Sensis will combine them all. And searchers won't care from which source the data came. All they'll care about is that they found what they wanted, at the right price, locally or shipped, as quickly and easily as typing a handful of keystrokes and clicking a mouse a few times.

* * * *

This report is all about local search and its impact on the media that have formed the underpinnings of the local advertising market for the past 100 years or so: newspapers, yellow pages and local broadcasters. They all share in the local advertising pie, estimated at \$22 billion last year in the United States alone.

Newspapers may find local search, along with the migration of audience and advertisers to interactive media, disrupts everything they know about advertising, as retail patterns shift and local advertisers find they can pay only for advertising that works. Retailers small and large, auto mechanics, attorneys, theaters — all of them mainstays of newspaper and/or yellow page advertising — can now buy “pay-for-performance” advertising where millions of people are looking for exactly what they want, when they want it, like the used, low-mileage Infiniti we recently found and purchased. “Googerture” — IPO-enriched Google and Yahoo-owned Overture — are taking their new-found (and profitable) search muscle from the national and international stages and applying it locally.

Will this put newspapers out of business? Or force yellow-page companies to stop printing the big books and put everything online? No. But maybe. Some daily newspapers may publish just two or three days a week as news and advertising moves online. Directory publishers are experimenting with self-service ad models; pay-for-performance ads; time-sensitive ads, and other products that may eventually supplant the importance of “letting your fingers do the walking” in a dead-tree edition.

In the pages that follow, we review the trends, the activity and the statistics (with help from our friends at eMarketer). A few examples:

- The development of pay-for-performance business models by the search engines and their impact on local advertising. Meineke Car Care Centers put pay-per-click ads at the front of the list in searches on some online yellow pages. Citysearch switched to flat pay-per-click charges of 30 to 40 cents for restaurants and 50 cents for hotels, and grew from 8,000 to 25,000 local advertisers within a few months of the conversion.
- DexOnline.com and SuperPages.com from Verizon are frantically upgrading and expanding their local search services, integrating new self-service tools for advertisers with mapping tools, coupons, pay-per-click ad models and yellow pages content in hopes of increasing their market share and giving their small- and medium-business advertisers a new way to promote their products.
- AdWords and AdSense are two key programs from Google. One lets advertisers buy their own ads, decide what they are willing to pay, and pay by credit card; one works with newspaper Web sites (and thousands of others) to target local markets. Newspapers know Google may be the enemy, but the \$150,000 a year in revenue that one site receives outweighs — at least for now — the threat Google may pose. “In today’s world, you are always going to be in bed with a competitor,” one newspaper exec told us.
- Threats often present commensurate opportunities. Newspapers have launched “integrated marketplaces,” which merge information from print ads, print classifieds, telephone directories, local newspaper service directories and more — in hopes and expectation of capturing a larger portion of local advertising revenue (and perhaps even stealing market share from the print yellow pages). We examine several of the early versions and the difficulties that caused one integrated marketplace to stumble.

Local search cuts across a wide range of advertisers, products, services and ad categories. Thus it has the potential to change the advertising landscape more than, say, Monster.com, which — while a crushing competitor to newspapers — affects just one category: recruitment advertising. Local search can be, and is, used for cars, accountants, home security systems, electronics gear, tennis shoes, restaurants, you-name-it. “This will really all come down to usability, relevance and user [preferences],” Sensis’s Wreme said. “We will have to make it easy for our users, no matter where they are, to get the information they need to buy the products and get the services they want.”

With more and more of those users “searching” instead of “reading,” local media face the competitive fights of their lives.



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This is a preview of the 2004 Local Search Report from The Neil Budde Group and the AIM Group. We hope you learn something from it. But more importantly, we hope you buy a copy. Better still, buy a dozen for distribution to your colleagues and friends!

This preview is available on our Web sites for free. The full report is available through either one of our Web sites — www.neilbudde.com and www.agimgroup.com.

We offer great discounts for clients and for bulk purchases. Call us for details.

And if you know anyone else who ought to learn more about local search, please forward this preview to them — or direct them to our Web sites, where they can download it

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About The Neil Budde Group

THE NEIL BUDDE GROUP

Neil F. Budde formed The Neil Budde Group in January 2003 after more than 25 years of working for newspapers and online publishers. Most recently, he was the founding editor and publisher of The Wall Street Journal Online and vice president and chief product officer for Dow Jones Consumer Electronic Publishing.

The Neil Budde Group has been engaged by clients to analyze their online operations, develop strategy and manage a range of projects, including:

- Development of a new recruitment site, including evaluation, selection and oversight of ASP.
- Complete site redesign based on a user segmentation analysis.
- Migration to a hybrid free and subscription model.
- Business plan evaluation and ongoing advice to startup planning subscription service.

Budde's philosophy is to base strategy and product design and development decisions on a customer focus — whether the customers be advertisers or readers — and a deep understanding of usage patterns and behavior. Strategies should be unique to each organization.

His interest in local advertising issues derives in part from his 10 years working for daily newspapers in Elizabethtown, Ky., Richmond, Va., and Louisville, Ky. He began publishing LocalAdInsights.com during the course of research for this report; it will continue to serve as a mechanism to keep publishers up to date on developments in local online advertising.

* * * *

The Neil Budde Group and the AIM Group offer several levels of consulting services to publishers developing their strategies and plans for local search, including:

- Market and site analysis and strategy review
- Continuous advisory service
- Custom projects

Call either Neil or Peter for more information.



ADVANCED INTERACTIVE MEDIA GROUP, L.L.C.

Helping develop successful interactive media services

About The AIM Group

The Advanced Interactive Media Group, L.L.C., is a consulting group that works with media companies, dot-coms, application service providers and others to help develop successful interactive services.

We focus on interactive media as they impact traditional media — especially newspapers, magazines and broadcasters. We concentrate on issues that affect audience and revenue, including:

- Local search
- Web site audience registration and paid-content
- Selling print subscriptions online
- Digital editions and multiple media platforms
- Cooperation between media operations in local markets
- Strategic development of interactive media
- “Packaging” traditional and interactive-media sales efforts

The AIM Group was founded in 1997 by Peter M. Zollman, who was director of news for the world's most advanced interactive-media project, Time Warner's Full Service Network, and previously was involved in interactive media at Reuters news service and United Press International. The AIM Group is affiliated with Classified Intelligence, L.L.C., a group that focuses on interactive classified advertising.

AIM Group and CI clients include The New York Times Co., Washington Post Co., CareerBuilder.com, AutoTrader.com, Daily Mail group (London), Finn.no, The Sears, Roebuck & Co., SAP America, ABC News, the Newspaper Association of America, Radio and Television News Directors Foundation and many others.

The AIM Group focuses on practical solutions and profitability. Everything we do is geared toward what your company or organization should be doing now and in the immediate future for the success of your business. Every program we provide, every project we tackle, is customized to meet the client's needs. We spend time with clients before, during and after the project or program to make sure they achieve the results they need.

About eMarketer

Founded in 1996, New York-based eMarketer — “The First Place to Look” — is the leading independent source for statistics, trend data and original analysis covering every aspect of the Internet and e-business.

Unlike other research firms, which present only their own proprietary findings, eMarketer aggregates e-business data from more than 1,600 sources worldwide. The company’s research and analyst teams filter and organize this information, and provide concise analysis around it, helping business executives, government officials and others make better, more informed decisions.

eMarketer information can be accessed in a variety of ways:

- Reports — comprehensive and objective, eMarketer reports cover a wide variety of e-business topics, combining aggregated statistics from leading research firms with original analysis.
- eStat Database — the most comprehensive compilation of up-to-date e-business information and statistics available anywhere, with 29,000 easy-to-read charts, graphs and articles, and hundreds more added each week.
- Total Access™ subscription package — the most cost-effective solution for corporations that want to efficiently access and share vital e-business information among their employees. eMarketer will work with you to create customized extranets, intranets or other solutions.
- eMarketer Daily — a free HTML newsletter that brings you highlights of the latest statistics and relevant research data every business day.

eMarketer is online at www.emarketer.com.



About the contributors

Neil F. Budde

Neil formed The Neil Budde Group after more than 25 years of working for newspapers and online publishers. Most recently, he was the founding editor and publisher of The Wall Street Journal Online, the largest paid news site on the Internet with nearly 700,000 subscribers.



He began formulating ideas for an online version of The Wall Street Journal in 1993. Late that year, he formed a small team to create an online Journal; work switched to the Internet in 1995. The Journal launched its first site in July 1995 and rolled out the full Wall Street Journal Interactive Edition in April 1996. It began charging for access shortly afterward and steadily grew its subscriber base and advertising revenue, achieving positive cash-flow in late 2002.

From the inception of WSJ.com, Budde directed the design, development and evolution of the product and its free companion sites on careers, real estate and other vertical categories. In January 2000, he added the title of publisher and assumed responsibility for all business, marketing and sales in addition to his duties as global head of news, design, development and technical operations.

Before his work on the online Journal, Budde was deputy editorial director for Dow Jones News/Retrieval, where he oversaw design and development of new information services, including early natural-language searching features.

He spent 10 years as an editor and reporter at The Courier-Journal in Louisville, Ky., USA Today and The Richmond Times-Dispatch. In 1998, he was named Business Journalist of the Year by TJFR (a newsletter covering business journalism).

Budde earned a bachelor of arts degree in journalism from Western Kentucky University in Bowling Green, Ky., and an MBA from the University of Louisville in Louisville, Ky.

* * * *

Peter M. Zollman

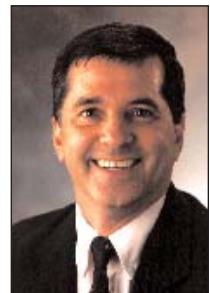
Peter is an internationally known consultant, speaker and researcher with more than 30 years of experience in the news industry, including more than 20 years working in interactive media — since the days of faxed newsletters and audiotex. He is founding principal of Advanced Interactive Media Group, L.L.C. and Classified Intelligence, L.L.C., consulting groups that work with media companies, dot-coms, application service providers, and other organizations to develop successful interactive media services.

Zollman focuses on profitability and practical solutions in his consulting. His group offers strategic planning; proprietary and published research; advertising development and training; market analysis, and marketing support. He is an expert on interactive classified advertising, and executive editor of Classified Intelligence Report.

Zollman has presented in Asia, Europe, Latin America, the U.S. and Canada about interactive media and interactive classifieds, and served as chairman or keynote speaker of several major industry conferences. He's been quoted in *The New York Times*, *Business 2.0*, Bloomberg News Service, *Inside Content*, *CIO* magazine, *Editor & Publisher*, *RTNDA Communicator* and other publications.

Before becoming a consultant, Zollman was director of news at the world's most advanced interactive media project, Time Warner's Full Service Network. The project served about 4,000 homes near Orlando, Fla., with a full range of digital interactive television services, including news on demand, movies on demand and high-speed Internet access.

Zollman was an award-winning newsman in more than 14 years with United Press International and five at Reuters news service. He has worked for a daily newspaper, been managing editor at a television station, and a radio news executive. He also reviewed restaurants in New Orleans, which he describes as "the world's best city for eating."



About the contributors

— *CONTINUED*

John Zappe has been a long-time director of new-media products at California newspapers.

He has both a reporting and editing background and a law degree. He has been a contributor to Classified Intelligence and the AIM Group for about six months, focusing on strategies and revenue opportunities.

For three years, he served as VP of new media for the Los Angeles Newspaper Group, an eight-newspaper, multi-niche operation. He increased revenue from \$400,000 to \$5.2 million in a three-year period, generating a 40 percent margin and winning several awards for excellence, including an "Edgy" award for best site in 2002 from the Newspaper Association of America. Previously, he headed new-media services at The Press-Enterprise Co. in Riverside, Calif., and the Press-Telegram in Long Beach, Calif. He has also served as a reporter and city editor and a freelance journalist covering trials in southern California. (No, not the O.J. trial.)

He earned his J.D. at the Syracuse University College of Law.

* * * *

Sharon Hill spent almost 17 years in the classified advertising business as a sales rep, supervisor, product manager and trainer before entering the world of freelance writing.

She's got one book to her credit, "Implementing and Managing Telework: A Guide for Those Who Make It Happen," published last year by Greenwood Publishing and co-authored with Bill Fenson. She's got a contract for a second book, about recruitment advertising, and is trying to figure out how to handle the writing while managing her other assignments.

Hill has written about local search and other topics for Classified Intelligence Report since late 2003. She also has written for publications and sites including Suite101.com, HR.com, *Employment Weekly* and the *Blue Ridge Business Journal*. She also writes and edits for business clients, including job descriptions, training manuals, speeches, commercials and articles for publication.

She's based in North Augusta, S.C., but lived in Anchorage, Alaska; Sacramento,

Calif.; Rock Hill, S.C.; Chapel Hill, N.C.; Binghamton, N.Y.; and Indianapolis during her newspaper career.

* * * *

Jim Townsend is a principal and editorial director of Classified Intelligence, and a longtime journalist and interactive-media specialist. Townsend has been an analyst and editor for more than three years, covering real estate, autos, auctions and other topics.

He served as the new-media content director for the *Houston Chronicle*, capping a 20-year career there in 2000. He was SVP of a start-up dot-com that — like so many others — crashed in 2001. Townsend, who's based in Houston, also worked as a copy editor and for the *Galveston News*.

* * * *

Christine Allen serves as production director for the AIM Group and Classified Intelligence, turning out Quark and PDF files faster than the editors can ship her copy. She learned every aspect of the newspaper business during 11 years at a weekly community newspaper in Central Florida, where she climbed the ladder from proof-reader to managing editor. She then served as news editor of a monthly business-to-business magazine serving specialty retailers. Before joining the AIM Group and Classified Intelligence, she was editor of three bi-monthly magazines in Orlando.

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Geosign Corp. provides business data, URL data, franchise data with attributes and other custom data-mining services. Geosign powers local search services and provides data to many of the leading Internet yellow pages and search engines including AOL, Switchboard and other leading portals. Information is available at www.geosign.com or 866-GEOSIGN, (866-436-7446), ext 223.

