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2006 Lead-Generation Roundtable

Barriers to Entry… Lead Quality… The Attraction and Danger of Content… Soaring Keyword Prices… Ethics… Alternatives to Search… The Rise of the Math Geeks… Click Fraud… Learning to Love Google

desilva+phillips MEDIA INVESTMENT BANKERS
475 Park Avenue South • New York, NY 10016
(212) 686-9700 • mediabankers.com
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2006 Lead-Generation Roundtable

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Edited by Ken Sonenclar
Managing Director, Digital Media & Technology Group
sonenclar@mediabankers.com

Panel Moderator
Ken Sonenclar

Panelists
Mike Mathieu
Chairman & CEO
All Star Directories, Inc.
Seattle, WA

Kurt Robertson
CEO
FranchiseGator, LLC
Roswell, GA

Howard Tischler
Group President, Dealer Services
First Advantage Corp.
Columbia, MD

Sam Zales
President & CEO
BuyerZone.com
Waltham, MA

On the cover, clockwise from upper left: Mike Mathieu, Howard Tischler, Kurt Robertson, and Sam Zales.

DeSilva + Phillips, founded in 1996, is an investment bank specializing in the media and digital media industries. We provide M&A services and private placements of debt and equity to the magazine, Internet, newspaper, book publishing, trade shows & events, information, educational, and marketing-services industries. In the online world, we work closely with firms specializing in search marketing, advertising, lead generation, rich data, business intelligence, vertical search, web publishing, email services, and rich media. Contact us at (212) 686-9700. Or on the web at mediabankers.com.

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About the Panelists' Companies…

All Star Directories

All Star Directories is a four-and-a-half-year-old bootstrapped company that specializes in lead-generation for the post-secondary education market. All Star Directories publishes comprehensive directories in more than a dozen specific fields of study, and last year connected more than a million prospective students with more than 5,000 "featured school" programs. The company's network of sites includes: All Nursing Schools, All Business Schools, All Criminal Justice Schools, All Psychology Schools, All Allied Health Schools, All Education Schools, All Engineering Schools, All Art Schools, All Culinary Schools, Natural Healers, All Computer Schools, All Online Schools and All Career Schools

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BuyerZone.com

BuyerZone is an online marketplace for business purchasing, matching buyers and sellers for over 125 high-value product and service categories. The company was founded 14 years ago as a content business, providing articles, newsletters, and guides to teach businesses how to purchase more effectively, but moved to an online marketplace model seven years ago. At BuyerZone, a buyer fills out a Request For Quotes form, which is then matched to a set of seller profiles, and then matched to four or five relevant national and local suppliers for that product or service category. Sellers receive the full buyer spec, including the request, and full contact information, and then directly contact the buyer.

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First Advantage

First Advantage is a $650 million publicly held company that focuses on risk mitigation and business-process solutions. The company targets selected vertical markets, particularly financial services, dealer services, employment services, and investigative services, which addresses the insurance and legal industries. The company is investing in lead management as a method for sending pre-qualified prospects to its customers.

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FranchiseGator

FranchiseGator is an online lead generation company in the franchising marketplace, aimed at people who want to run their own business. The site launched in February 2002. Around 650 franchisors and businesses now participate in the service. The company uses a flat-fee-based model (in essence, an online version of the old *Entrepreneur* magazine). The creation of new franchising concepts, as well as international expansion of old concepts, continue to fuel growth

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The discussion below is an edited summary of the "Lead Generation: The Web's Killer App?" panel held at the DeSilva + Phillips 2006 Media Dealmakers Summit on February 6, 2006 in New York.

Q. It's suggested that barriers to entry in online lead generation are very low. Is that true? Can you build them to protect your niche, and how?

Mike Mathieu: Barriers vary widely by vertical. Within education we've made a major investment in customer relationships with thousands of schools. This breadth of selection makes our sites more credible to students simply because your degree isn't a "low price" commodity. A second barrier that applies to all lead-gen markets is the ability to monetize traffic. Superior monetization, even with escalating online media prices, makes it very difficult for new players to come into the market.

Howard Tischler: Over time, barriers change as businesses mature. Our concentration in financial services becomes a barrier as the market matures. Early on, you could enter markets without vertical expertise because you could pick off the low-hanging fruit, but once the low-hanging fruit are gone, the relationship with customers in the vertical becomes a big barrier.

Kurt Robertson: Lead-dissemination policies are important. Early on, ethical questions were raised about reselling leads. For instance, if someone filled out a Subway form, would a vendor resell it to another potential franchisor? Some competitors did this and weren't up front about it. So franchisors are now very skeptical about accepting new entrants into their advertising mix.

Sam Zales: The price of entry has to be close rates. Chief Marketing Officers are getting smart about where they spend and you have to have a program that closes business and makes an economic return. A second barrier is value-added information services. After a lead is sent, we track and survey the buyer post RFQ to see how things went with the seller in terms of salesmanship, the price/value equation, and product or service features. We take this information back to the sellers so they can improve against their competitors, creating a closed-loop system. Proprietary information from the buyers' perspective forms a value-added service that is a barrier.

Q. What trends to do you see in key-word pricing? And what are the best alternatives for generating traffic?

Sam Zales: Prices for search are rising in the short and long terms. Across office products, services, manufacturing, and industrial, more competitors want to acquire customers, so the price per click goes up. You also have players who are looking for customer acquisition and not tracking every dollar they spend on search. They are motivated by brand positioning or simple competitiveness: "the other guy is in there so I have to be there, too." Whatever the reason, it drives prices up. One buffer to that is partnerships. In our case that's Yahoo, *Business Week*, and other players with a visitor base who are looking for a tool that will generate an economic return and great service to the visitors to that site. Gaining those site visitors is a

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great way to buffer the cost of search-engine marketing.

Howard Tischler: We don't rely heavily on search. Still it's clear that short-term prices are going up. In the long term an equilibrium will be reached, tied to the value of the click. We believe that successful lead generation requires a multi-faceted approach, utilizing online and offline techniques to draw traffic, including search, advertising, direct mail, and television: a mixed approach to get the best consumers.

Kurt Robertson: FranchiseGator depends 100 percent on search. We're our own SEO firm, taking pieces of content and individually marketing the pages franchisors pay for. The company handles PPC internally as well. Because we feel capable of driving all the traffic we need, the company has intentionally avoided alliances and partnerships. Thirty-five percent of our traffic comes through organic search; but that generates more than half the leads. So natural search does much more for us. Traffic is important, but leads more so.

Mike Mathieu: Prices will keep going up because there's a glaring cost gap between traditional media and online. Some of our customers still do traditional direct-response TV ads that are 10x more expensive. In education we foresee a world where online lead prices will ultimately become more expensive than off line because that's where the audience is – prospective students are living more and more on the web. It's also worth mentioning the recent *Business Week* article on math geeks taking over the business world – specifically the use of mathematical techniques to optimize media and your whole demand chain. The boost in performance and cost-effectiveness of your marketing activities can be staggering – from 10x to 100x. If you're not learning how to monetize better than the next guy, doing your multivariate Taguchi method testing, you're going to be the laggard. Google has a big lead over Yahoo in per-visitor search monetization, and as they continue to improve, that's good for us because we're not a monetization laggard and it just opens up the gap between us and the competition.

Q. How can companies use proprietary content in the lead-capture process and how can it drive profitability? And can too much content undermine a lead gen site?

Mike Mathieu: We see two general types of Internet users: transactors and infoseekers. For transactors you want to provide the minimum amount of information needed for them to feel comfortable with their decision. Too much content can get in the way and lower conversion rates. For info seekers, you capture people earlier in the pipeline, while they're researching, and they want more content – which helps move them down the pipeline. It's a balancing act. Net users don't have the attention span of print readers, so too much focus on proprietary content can stand in the way of conversions and monetization.

Kurt Robertson: Our content is paid for. Content is a profile page with information about a franchise for sale. This content gives us an opportunity to market under certain keywords.

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Sam Zales: Yes, you must be careful where you place content and how you make it available. But buyers' guides and newsletters are an important part of the purchase process for higher end, complex products and services. Content is particularly important to organic search, which relies on proprietary content that's relevant to the search engines. We are also now taking and making use of user-generated content: sharing budget and pricing and supplier-rating information.

Howard Tischler: We do not provide info research sites. Too much content equates to fewer transactions. Too much content can be counter-productive.

Q. Given your expertise in mathematics, site design, and search technology, could you replicate success in other verticals?

Kurt Robertson: We are an advertising, sales, and marketing company within the franchise space that understands lead generation on the Internet. Could we go into another lead gen business? Yes, not a problem.

Howard Tischler: We're a vertical market company. As businesses mature, we believe domain expertise becomes more and more important. We could spread our technology to other markets and that is easier to do early on, but it becomes less so as markets mature. Ultimately, strong technology applied to vertical market expertise wins.

Mike Mathieu: We agree that domain expertise becomes more important as a market matures. Expertise is a growing barrier to entry. Just knowing the technology was enough to win a big share of a market three years ago. Still, our company is All Star *Directories*, not All Star *Education*. We believe there are thousands of opportunities in markets throughout the economy. For a lead-gen company that has its sights set on horizontal expansion, the opportunity is more about new market development for segments that haven't been touched by the mathematical precision of measurable media.

Q. Are those niches getting harder to find?

Mike Mathieu: The $50 billion markets are, but there are so many people hanging out in the economy making a great living just because they have access to propriety data. The Internet can blow that wide open. There's lots of opportunity.

Sam Zales: We serve buyers and sellers; we're a comparison shopping service for high-end products and services for businesses. Our model is not tied to any particular product or service; rather the model is about figuring out how to make people smarter in the purchasing process. That has allowed us to move, for instance, into the purchasing of construction and industrial equipment such as fork lifts. This is an area where the company recently started, but has already demonstrated success by using the RFQ model and building content that was relevant to that purchasing category. The model, once it works, is replicable across numerous categories.

Q. Is Google's ability to control search algorithms and keyword pricing troubling? How would you respond to Google entering your market?

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Mike Mathieu: As a well-run company, Google is going for the most leveraged return it can. Compared to our directories, they are very horizontal and thin; they don't go deep. Their focus is to take their half-inch depth down another quarter of an inch, because that's an extra $10 billion. If they start focusing on how to take a sliver like education as deep as All Star Directories, that's a sign that they've lost control of the market that makes them such an important company. I have zero fear of Google. Google is a friend because as its smart engineers improve their own monetization, that increases our presence in the market; it kicks out smaller bit players who cannot monetize like we can. A real example of a major horizontal site trying to go vertical is Yahoo! Education. They're a bit player.

Sam Zales: What Google does well is demand aggregation. We're a demand fulfiller. Google provides users access to multiple sources and web sites. Our company ties together multiple websites to make the process a one-stop shopping experience.

Q. If Google doesn't worry you, what does?

Sam Zales: Click fraud. Aggressive users of search. And search providers are not providing enough information back to search marketers. Big increases in costs per click may be caused by search engines looking for a broader distribution to visitors who might not be the right clicks for business.

Howard Tischler: Quality. Only a finite number of consumers will buy any product or service. 16-17 million new cars are sold each year, as well as a finite number of used cars. With more and more lead generators, we must worry about the quality of those leads. You must improve techniques for delivering a quality lead to a customer. If you're delivering leads that don't hold quality, buyers won't pay as much for it and your integrity in the marketplace will decline.

Kurt Robertson: Click fraud is a problem but not that big a concern. Quality has to be there too. Our concerns are internal, principally about not altering a successful model.

Mike Mathieu: I have two industry concerns and a third particular to our company. First are cases where there is lack of transparency within the traffic networks. That's like insider trading for Wall Street. It defeats your mathematical modeling. Click fraud could be a piece of that. But even the search engines themselves at times have tried to introduce a lack of transparency, whether it's content match with Google or Yahoo's match-driver technology. But as the market gets more sophisticated, it pushes back against those practices and the engines see it's not in their best interests. The second thing is industry practices. There are many sleazy players in the market. We make sure we own the high ground on inquiry quality. As we educate customers about best practices, they cut off those shady suppliers. My third concern is purely internal: hiring great people. We have a constant need for great people who are willing to change the world.

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