

2006 Vertical Search Roundtable



Vertical Search Defined! ... Google: How wide? How deep? ... The world's best classified sales agent... Building on content and community... Pink bathtubs? How many?

2006 Vertical Search Roundtable

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On the cover, clockwise from upper left: Mitch Rouda, Eric Shanfelt, and Colin Crawford.

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...

Hanley Wood

Hanley Wood, LLC, is the premier media company serving housing and construction. Through five operating divisions, the company produces magazines and Web sites, trade shows and events, rich data and custom marketing solutions. The company also is North America's leading provider of home plans. Founded in 1976, Hanley Wood is a \$225 million company owned by JPMorgan Partners, LLC, a private equity affiliate of JPMorgan Chase & Co.

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IDG Communications

International Data Group publishes more than 300 magazines and newspapers including Bio-IT World, CIO, CSO, Computerworld, GamePro, InfoWorld, Macworld, Network World, and PC World. The company features the largest network of technology-specific Web sites with more than 400 around the world. IDG is also a leading producer of more than 170 computer-related events worldwide including LinuxWorld Conference & Expo, Macworld Conference & Expo, DEMO, and IDC Directions. IDC provides global market research and advice through offices in 50 countries.

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Penton Media

Penton Media, founded in 1892, is today a global, diversified business-to-business media company. Penton publishes 50 specialized business magazines, produces more than 50 trade show and conference events throughout the world, and provides a broad range of online media and custom marketing solutions in numerous niches in aviation, baker/C-store, business technology, design/engineering, digital home, economic development, electronics, enterprise IT, food service, government/compliance, leisure/hospitality, manufacturing, mechanical systems/construction, natural products, and supply chain.

The discussion below is an edited summary of the “Can Vertical Search Prosper in the Age of GYM (Google, Yahoo!, and Microsoft)?” panel held at the DeSilva + Phillips 2006 Media Dealmakers Summit on February 6, 2006 in New York.

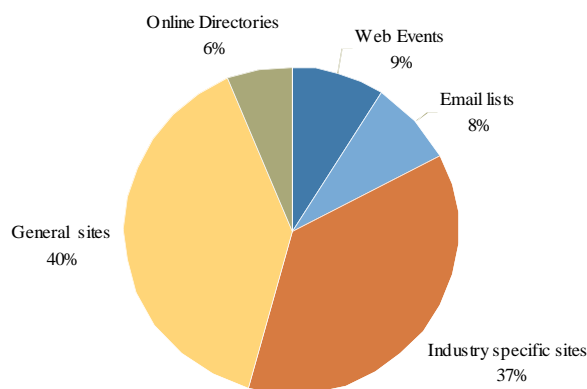
Jeffrey Dearth: Google, Yahoo, and MSN together account for roughly 5.1 billion searches per month, and that number is growing. Online advertising is forecast to grow from \$12 billion to \$20 billion over the next five years, fueled mainly by search. And in the third quarter of 2005 alone, Google’s ad revenue reached \$1.6 billion, of which \$530 was paid out to their various partners. Keyword advertising currently represents 40 percent of all online spending. And B2B searches represent 20 percent of all searches, so there’s a huge B2B opportunity in the vertical-search arena.

Vertical search is more than just

search. It is more accurate to define the process in the B2B sphere as *search*, *find*, and *obtain*. The idea is that you search for something, find what you’re looking for, and then create some sort of transaction to obtain it. When you think about the B2B universe, it’s really a lead-generation publishing model. The publisher’s object in life is to bring buyers and sellers together in order to create a transaction. That’s the amazing thing we are seeing with Google today.

The focus of this discussion will be limited to B2B search. I’d like each of the speakers to talk a bit about their company and how it is involved in search.

2005 B-to-B Online Marketing Spending



Percent of 2005 Online Marketing budget by tactic

General sites includes portals such as Yahoo!, search sites such as Google, and general business sites such as Forbes.com

Little research has tracked the growth of vertical search. But a study commissioned by American Business Media suggests that B2B marketers already appreciate the advantages of targeting industry-specific sites, a useful proxy for vertical search results.

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Colin Crawford: International Data Group is focused on the IT and media space. Our goal is to bring buyers and sellers together within a rich and trusted content environment. We've been around 40 years and have a tremendous print legacy, with the key now being the transition to the online environment. The philosophy now is "online first."

Building brands is very different in the online space. You've got to really engage your users. The publisher is no longer just in control of building the brand, and content comes from many more places, not just traditional "editorial." You have to draw upon advertising content and community content as well. The goal is rich online branded environments that must be engaging and exciting even sexy if you do it right.

Experts have been predicting the development of vertical search out of the major horizontal engines such as Google for several years. However, we're not there yet. Everyone understands that vertical search can offer many advantages over general searching. IDG works very closely with all the big search engines. They are partly competitors, but IDG works hard on search-engine optimization. They are huge traffic drivers.

Many people who come into IDG from Google we see as speed-daters. They're interested in intellectual short-term relationships: they come in for a particular piece of content and then they disappear again. This is not particularly useful to our business model. Our goal is to take advantage of that huge funnel coming in from the general search engines, but then show those people the richness of the IDG environment so they progress from a short-term relationship to

a more long-term, meaningful, emotional contact with our sites.

We have deep financial relationships with all the search engines. We work with AdSense and Yahoo Search Marketing. We do some search-engine marketing ourselves and some arbitrage in the various revenue programs. We get involved with comparison shopping as well. But on the IDG sites, vertical search can give the germane, relevant, contextual results that would be hard to get on the general search engines. So if we're going to be useful to our users, we need to make sure that the search results on our site meet their expectations. The whole ranking system you get on Google and the way the results filter up are often too general for the B2B environment. We're looking for tools to put up on our site to enhance vertical search. The big question for us is whether vertical search is a tool or a business. But over the next five or 10 years, there's going to be a lot of deal making and a lot of money made in the vertical-search field.

Mitch Rouda: I'm not sure I know what vertical search is, and I bet there are a lot of people in this room who don't know either. In some ways I believe that everything we do on line is vertical search, because I believe the only reason people use the Internet is to search. And since all the content we put up there is vertical in nature, it's all part of vertical search.

Hanley Wood is a broad media company in the building business. We have five divisions, but all have to do with construction. Our magazine group publishes 30 titles, 22 B2B and 8 B2C. Our exhibition group holds 14 big shows annually. Four of those are among the Top 100 trade shows in America. We also have a captive marketing company, which

makes Hanley Wood different than many other media companies. It works with many clients directly on how they build their businesses. The last two divisions are largely on line. First is Market Intelligence, which is a rich data group that publishes information about housing and economic activity in micro/local markets. The final part, which I run, is Hanley Wood eMedia. It has three parts. First are content sites, including e-newsletters that are paired with 16 of our magazines; next is eBuild, our largest traffic B2B site. It is a vertical search engine by my definition, though it does not use the appliance many talk about to spider the web. It is a product shopper, and what we have done is take the full-line product catalogs of virtually every major manufacturer that sells products into the construction industry and aggregated and normalized all that information into one standardized, sortable database, all of which enables parametric search of products. Finally is an ecommerce business – the largest thing we do online – which sells 23,000 architectural drawings (blueprints) that you can use to build your own home.

Eric Shanfelt: Penton Media is a diversified B2B media company in multiple markets, with approximately 40 magazines and 90 trade shows and conferences. We also have 47 websites that get 13 million monthly page views, with 2-3 million unique users (if you can trust unique-user measurements with the cookies issues these days). And we ran over 300 webcasts last year.

I agree with Mitch Rouda that “vertical search” is a very nebulous term. It can mean everything from Google Local and Yahoo! Local all the way down to the parametric-based searches where

you’re putting in specific parameters of what you’re looking for and receiving specific results. GlobalSpec works that way. We have a product in that space as well. And don’t forget the original parametric search engines, Expedia and Travelocity.

I have heard people say that Google is a mile wide and an inch deep. To the contrary, I see Google as a mile wide and a mile deep – and that’s part of the problem. Users and consumers are getting smart and savvy and putting complex search phrases into Google, which can turn it into a vertical search engine. People don’t search just for “Windows XP.” They search for “Cannot connect to SMTP server upon login,” and they’re finding the results they’re looking for. So as publishers, one of the things we need to bring to the market is something very very unique. What is going to distinguish us from what you can get at Google, even at a very detailed level?

Penton has launched three vertical-search initiatives in the last six or seven months. They’re new and we’re still feeling our way. Search Finance is focused on the high-end business/finance market. It’s a full-text search, traditional in its use of spidering and indexing, but focused only on sites that our editorial staff deems “search worthy.” We’ve also gotten input from readers and advertisers to see which sites they would like included.

FindPowerProducts is a parametric search product, built upon a complex database of information and meta data you own. Hanley Wood’s eBuild and GlobalSpec are examples of this as well. FindPowerProducts is an aggregation, within the electronics and EEOEM space, of the power segment, which is a very hot market.

Our third model is different once again, what we call a “machining web search.” This is a model we’re looking to replicate with several additional markets throughout Penton. One easy way to understand its structure is by comparing it to Search Finance, where our editors have chosen which sites are going to come in, with monetization built on sponsorships and paid clicks. Machining Web Search, on the other hand, is a full-text search engine, but the only content included for free is from associations. The rest will be paid inclusion, tied in with our directory.

We don’t know if any of these models is the ideal one yet and we have a lot more on the way. And we also participate with Google AdSense and other targeted products like that.

Q. I want to ask Colin and Mitch if they agree that Google is a mile wide and a mile deep. The conventional wisdom is that Google is a mile wide but very thin, which creates the opportunity for those with specific domain expertise to build a vertical search engine that does a better job at providing results. If you agree that Google is as deep as it is wide, doesn’t that suggest Google may own this space forever?

Colin Crawford: I don’t think the definition matters all that much. What’s important is unleashing the power of the communities under your B2B brands. The purpose of vertical search is to get to the information that’s germane to your needs. One of the best ways to get to that information is to harness together people of like-minded interests in your community. Maybe Yahoo is moving in that direction a little, but Google is not building emotional brands. It’s just a

function, a tool, to get you what you the information need. So there’s a real opportunity for anyone with a special-interest site and very powerful brands. Some are moving over from print and others are being created from scratch on the web. The goal is to pull together the content from your editors and from your vendors, and most importantly from your knowledgeable user base. So if you’re looking for a product, you do your research but then you ask people who have perhaps bought that product in the past to give you their advice. This deep type of involvement in special-interest areas is not something the general search engines can offer. Yahoo is moving into creating some original content; Google certainly is not at the moment.

Mitch Rouda: Google is most definitely a mile wide and a mile deep. And every time I hear it described as “thin,” I think that that is ludicrous. As Eric said, that depth is also its problem. Imagine, for instance, in the building industry, how relevant Google’s results would be for a search on *windows*. Or imagine what you might find for *weather stripper*. But on the other hand, if you search for *vinyl casement windows*, you would probably find results that are completely relevant. And if you search for *24-inch-wide vinyl casement windows*, the results will get more relevant. And if you add *wholesaler* to the phrase it will get even more so. Now, in the case of windows, it obviously would be an improvement to limit that search only to sites that sell windows and exclude Microsoft. But if you use Google properly you can exclude Microsoft Windows. And you can find your way deep into content.

But that doesn’t mean we have no opportunity in vertical search. The

opportunity, as Colin pointed out, is the two key assets that Google and the others don't have: content and community.

We as publishers should know best of all that editors make our business. Now, I got into the magazine business from the editorial side so I may be biased, but almost every publisher knows that if we want to attract and retain an audience we have to add value. One way you add value is through a parametric search, which is the way we have chosen to run eBuild. We have actually edited the data there. One example we use is a search for a *five foot pink bathtub*. If you search for that on Google you will find them. You'll find them on a variety of warehouse distribution sites, dealer sites, plumbing-supply stores and manufacturers. And every one of those sites will be organized differently. So if you want to compare and contrast you can't. And if you want to know which is "best," you can't. So standardizing and aggregating the data are one way – and not the only way – that we have added editorial value that makes that same search on eBuild a better experience. Google is an appliance company so they are not going to do this.

The other way is to add reviews and make use of the community and user-generated comments to help the buyer. Keep in mind that the problem we are trying to solve here is helping people find stuff they want to buy. Most of what we do on the Internet is researching products we want to buy. So the point of the exercise is to assist our audience do a better job of that. Technology helps here, but more important is breaking down the process of all things you go through when you're deciding what to buy and deciding what would be a companion or a help to that.

Q. It's true that publishers have the content and the community, but one of the things Google and other big engines have is the ad words. They've sold the terms – that *pink bathtub*, for instance. They have 400,000 different advertisers and they have managed to monetize different key words. How much of this has affected your current business? And do you see them as a partner in monetizing your vertical-search efforts going forward? Or do you think you can reach the critical mass you need to compete with them on a cost-per-click basis?

Colin Crawford: Google is excellent with the "long tail" – reaching marketers with smaller budget who can't afford to go into more traditional media such as magazines and television. What Google hasn't done so far – though they probably plan to some time in the future – is to look at the brand-building display advertising, including rich media. They've shied away because they want to keep their interface as clean as possible. So at the moment it hasn't affected us at all because they've gone off after a completely different set of advertisers.

Now does that mean we shouldn't look at going after some of those advertisers? Absolutely not. We look at how successful the GYM companies have been and we think that *we* should be doing some of that. So one of the things we're working on is our internal search pages. If Google can make so much money on external search, couldn't we be doing it better because there's so much contextual relevance to our target audience? And we can actually raise our CPMs and our CPCs – and we have – quite significantly over and above the equivalents on the general search engines.

In fact, at *PC world*, one of our consumer technology sites, the search page on PC World is our most successful and monetizable page. We make a lot of money off that page. And we do it partly by selling our own big-box IMU ad unit on there. And we do it also in partnership – we have a revenue-sharing arrangement with Yahoo in this case – because it’s a very high-volume page and we can start to get some of those smaller advertisers who are more of the self-serve type we are not going to reach with a sales force.

The B2B side is very different. The mass volumes of the B2C side leave us with a more constrained inventory. B2B is more about lead generation now. Lead generation is accounting for more than 50 percent of our B2B online revenue stream.

You pay for distribution for some extent with Google. They are driving massive traffic to our site; maybe 40-50 percent of all visitors are coming in through the search engines. Our goal is to make sure they we build a long-term relationship with them. And if Google makes a little money on the side and we can work with them on a couple of sharing programs, I have no problem with that.

Q. So you see it as incremental revenue? The share of your core revenue is not being affected?

Colin Crawford: There’s been a lot of talk about Google going out and stealing content because they monetize the listings. I just don’t view it that way. There will be some areas of conflict and competitiveness with Google but you have to find a way to work sensibly with them. You can work through it.

Eric Shanfelt: We have a very close partnership with Google. But I have to disagree with regard to the size of the companies affected by Google. In some of the markets we serve, search advertising is a very big component of even our largest clients’ ad strategies. We have one client who spends \$35,000 per month with Google. I would love to have them spend half of that with us.

Within the many markets we serve, we see very different levels of what I will call “e-media maturity.” In some, terms like “impression” and “CPC” are a new thing. In other markets – IT is on the cutting edge; engineering is certainly more mature – there’s been a typical cycle in their use of e-media. At first those marketers want to buy visual ad units that emphasize branding because that’s what they’re used to with more traditional media. Then they discover CPC and Google and the opportunities there to pay only for clicks they get. It’s the ultimate dream of a marketer to only have to pay for leads. And now in more mature markets, such as IT, there’s been a return to understanding that you can get more clicks if you do a good job developing the brand. And research is now showing that well-done SEO and SEM actually do build brand to a degree. So we partner with Google and the others. I do see it as a friend/foe relationship. And if you manage that partnership appropriately it can be very beneficial. We work with them on both the content and search sides and so far we have been able to manage it. We look at Google as our classified ad sales agent.

Q. And Google and the others have trained a lot of people. They’ve trained people to buy keywords and interact with search. So presumably if

you put a keyword-selling program on your own websites, people would feel comfortable buying those keywords.

Mitch Rouda: Let me make one point beyond vertical search and about Internet advertising in general. Internet advertising is particularly good at lead generation. And vertical search engines are designed to foster lead generation. But Internet advertising is also unbelievably good at building preference and awareness of brand. Now you don't want to push a rock up hill, and Chief Marketing Officers certainly like buying leads and they will continue to buy leads and we should have leads to sell them.

But CMOs also buy brand awareness and brand preference. And they spend much more money in print than they spend with us because of that. And yet we have bigger audiences that spend more time with advertising, are more responsive to that advertising, and can be purchased at a fifth or a tenth the price of purchasing that audience in print. We at Hanley Wood do both and it's important that as we model our businesses we do both.

Now, about Google. As Eric said, Google is a great classified-sales agent. It's very interesting to see how well Google ads perform on eBuild. We have installed AdSense across all of our sites – which is a nice business for us on the side. Our plan sites, which I mentioned briefly before, run 30 million page views per month, which is a lot. eBuild gets two to three million views per month. But we make much more money from Google on eBuild than we do on the plan sites because Google can target pink bathtub ads to our pink bathtub page; it's very synergistic and they deliver lots of customers. And the one thing we have

not done well on line so far is to sell little customers. We have not been able to develop the right sales formula for that yet. Everyone said the Internet would level the playing field for advertisers of all sizes. Well we haven't gotten the cost-of-sales equation straight yet for that yet – except for Google, where we pay them a relatively small commission for delivering lots of dollars. So they're good.

Q. Let's talk about content, specifically proprietary content vs. outside/external content. In the past, publishers have resisted crawling outside sites – other vendors' sites, for instance – which they might end up pointing to in their vertical search engine. Talk about the mindset needed to go out and embrace outside content.

Colin Crawford: IDG is a highly decentralized organization, which worked very well for us on the print side. It doesn't work quite so well on the online side. We try to put the user first. The user has a great affinity with our individual brands. But you've got to make sure the user gets what he wants. So if a user is searching for a particular piece of information, you have to make it easy for them to get it from your site; and you should make it easy for them to get it across all of our sites; and if necessary we should make it easy for them to get it from the "IT web." We have to have enough confidence in the quality the brands that that user will trust us and return to us on a regular basis.

Does that occasionally mean we have to send them off to one of our competitors? Absolutely. I have no problem with that. It's a benefit to the user. We've been testing this outside the

U.S., especially in Germany. We only have anecdotal feedback so far, but it seems the users appreciate it we point them outside our site if we don't happen to have the information they want.

Trying to convince some of our traditional editors of this has been a challenge. In fact, we hesitate even to use the word "editor" in relation to the online environment. We look at them more as "content producers" because they have to develop a very different mindset. They have to bring in and aggregate content in a way they would never have done before. In the traditional model you push the content out; the editor knows best and they give you what they think you want to consume. In the online world it's not like that at all. Editorial content is still incredibly valued because you need that filter and perspective. But in the online environment you can mash up and aggregate content from multiple sources. And you need people running your online sites who are willing to think that way. I haven't come across that many people who can make that transition. When we hire now we're looking for people with skills that might seem more analogous to the TV marketplace. You're looking to produce content, of course, but you also have to think about time of day, popularity, and ratings; and you have to be able to change things on the fly. In the static print world, these were issues we never had to deal with.

Eric Shanfelt: Opening yourself up to outside content is not even a choice any longer – it's an imperative. And it's rather egotistical at this point to think that we are the only ones capable of producing content that's of value to our readers. And if we want to own that reader's mindset and have them trust us to give

them the best answer possible, we have to be able to aggregate content from ourselves, from our competitors, from suppliers in the marketplace and from the marketplace itself – from peers. This is especially true in the IT markets, which are the most developed. There's so much information out there about how to solve problems generated by peers.

And I agree with Colin's comments about the editorial role in vertical search, which is to identify content that's out there, whether it is tapping the readers or finding it on the net: then the task is to aggregate, organize, and filter. That's a completely different mission for an editorial department, even different from "traditional online."

Mitch Rouda: I like the comparison between online and TV. I think we are very much more like TV than print.

Q. Focusing on cost per acquisition of customers, let's assume I'm a marketer and I get as good or better cost per acquisition on Google than on your service, how else are you differentiating yourself from Google?

Colin Crawford: When I look at top-end IT buyers, with multi-million-dollar budgets, these are not people searching on Google. These are the ones who go to the rich-content environments and who interact with their peers. The consumer market might be a little different. But even in our PC and consumer-electronics titles, it still comes back to the overall value of the community that we have and serve. Studies are underway now that attempt to compare the ROI attributable to buyers who come to a site via general search vs. through a targeted, branded

special-interest site. That is the publisher's task: to show that the buyers who originate in their sites have greater long-term value than the "speed dater" buyers who come in for that quick hit from Google.

Mitch Rouda: If Google is selling the same thing that we're selling for less, we have to lower our price. However, I don't think in most cases we're selling the same thing. Typically we'll make the B2B v. B2C argument, which is that we're delivering a professional who is likely to be both a repeat buyer and someone who will buy in quantity. In my old example that means a professional builder who might buy eight or 10 or a hundred pink bathtubs one year, versus a consumer who will buy one in their lifetime. So if we can make that difference to an advertiser, then our customers are obviously worth more. But if we're delivering someone who has the same buying power as someone Google delivers, then we have to adjust our price – assuming all we're selling is the lead gen. Now if we're selling brand awareness and I've got 400,000 people you want to build your brand in front of, then it's a better CPM buy to put your ads in front a qualified audience than a not-qualified audience.

Q. What role does – and should – registration play in vertical search?

Eric Shanfelt: There are different business models for different types of vertical search. Requiring registration in order to generate leads is one model. Another model is to try to get as much traffic as possible and convert the traffic on CPC or sponsorship or a CPM basis.

Mitch Rouda: We use registration, and long term we will use much more. It has been a bit of an Achilles Heel of the online environment that we don't have a larger registered user base.

Google makes the argument that media has always sold on demographics, which is a predilection to buy. For instance, your audience is a certain type and that person typically buys 10 bathtubs a year. So if you reach a re-modeler you have the opportunity to sell 10 bathtubs. On the other hand, Google's model is that they are reaching someone who is shopping for a bathtub today and that is a better predictor of buying. Now the fact is that both are right. But online we tend to use behavior to define our audience – they wouldn't be shopping for bathtubs if they weren't bathtub shoppers. Long term we'd be much better off if we registered.

Hanley Wood, like others, uses a couple of different methods for registration: the file cabinet and our e-newsletters. But it is not a prerequisite to use the site. Most of us have controlled-circulation publications and it wouldn't work to charge for them because you'd lose your audience.

Colin Crawford: People don't like registering online. They run a mile from it. Ironically, though, people will register online if it's for an offline product. So people registering online for our controlled-circ publications give us a wealth of information, sometimes filling in 50-70 questions. And that gives you your baseline registration. At IDG we've created a consolidated database and we've pulled together millions and millions of records from print and online and from attendance at events.

Newsletters are critical to our business. Requesting them defines intent. If someone is interested in security products, for instance, you can get them to sign up for several different security newsletters and then over a period of time you can tease out of them more and more information about their buying intent. It's very hard to do it all at once. We also use email to push them toward a particular piece of content – often third-party content – which could be a white paper or a webcast. That's when they tend to fill out a little more information that they're in the market to buy. So newsletters for us are a fundamental tool for showing intent of interest and they're also used for traffic drivers to specific areas of our websites and for various aspects of lead generation. They're so easy to put in place. There are some privacy issues you have to deal with as well spamming filters that may have to be overcome, but email marketing is going to be around for quite a while.

search engine by telling it what you want to spider from outside content. It's a good example of what all of us will eventually build.

Q. Can vertical search be leveraged to promote high-value, gated content?

Eric Shanfelt: We already make our gated content accessible to search engines. It's not a violation of our policy for spiders from Google and others to bypass our registration walls. We let them index it because we want everyone to be aware that we have this content. But we still want to keep it proprietary to us. We have some paid-circulation magazines. We don't want just anyone to be able to grab that content.

Mitch Rouda: One last comment. I'd suggest everyone take a look at a new product called Rollyo [rollyo.com]. It's a tool that lets you build your own vertical-