



Understanding SMB Search Management Market

As of April 7, 2014

Understanding the SMB

Small budgets, slowly transitioning to online marketing

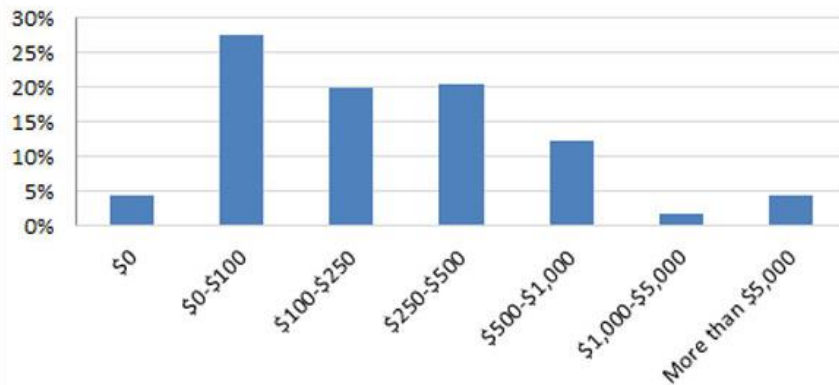
- SMB's are spending on average \$400/month on marketing activities, with 32% spending less than \$100/month (BrightLocal)
- 46% of SMB budgets are allocated towards internet marketing and over 30% spent less than 10% on internet marketing in 2013 (BrightLocal)
- More than half (54%) do view online marketing as being more effective than offline marketing (BrightLocal)
- Only 3% of their advertising budget actually goes to online (Boston Consulting Group, 2013)
- In 2014, 30% of SMBs plan on increasing their investment in paid search, more than social and online video (eMarketer)

Conclusions

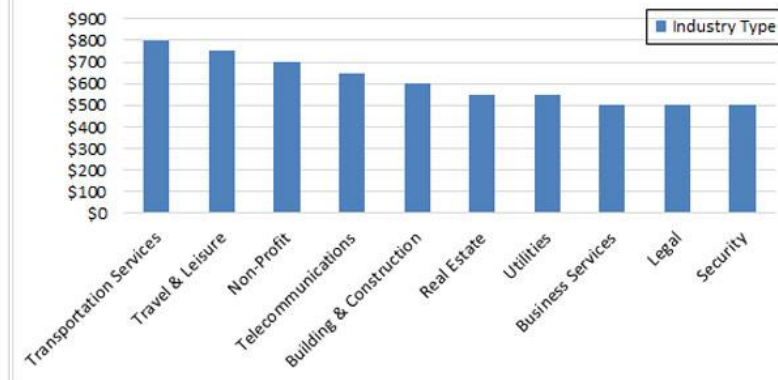
- **SMBs are slower to move into digital online marketing as the perception is still that other forms of marketing make better use of their investment dollar**
- **SMBs have a very limited budget for marketing activities at \$400 a month on average.**
- **There appears to be more skepticism/doubt about the results of online marketing so they continue to use more traditional channels**

Observations cont.

How much money do you allocate to marketing your business each month?



How much money do you allocate to marketing your business each month?



Best performing industries for search marketing are:

- Transportation (removals, haulage, hire cares)
- Travel and Leisure (hotels, vacation rentals, travel agents)
- Non-profit (charities, social service, etc.)
- Telecommunications (telecom repair/solutions)
- Building and Construction (contractors, repairs, excavations)

Understanding the SMB

Very high churn rate, new client onboarding a major challenge

- Borrell Associate estimates the annual SEM churn rate for SMBs is 50-70%, with up to 50% of SMBs quitting within 90 days (Searchengineland)
- Monthly churn rate of ~7% (Searchengineland)
- SMBs typically have to manage their own marketing efforts or have a single dedicated resource, not having the time needed to understand SEM metrics and to effectively manage advertising, many quit with the assumption it's not producing ROI
- Realistic expectations need to be set, with an importance on continuous optimization and management conducted by hibu

Conclusions

- **Our churn rate (~5-6% month) is around average and says we have the same difficulty in retaining SMBs**
- **SMBs have a hard time realizing the value and ROI from their investment in Search and it is the #1 reason for cancellation**
- **Opportunity to show true differentiation in offering by helping a customer find the value (through calculator or automated dashboard)**

Observations cont.



Highly competitive market

- 75% of SMBs claim they're contacted at least once per week by search agencies (BrightLocal)
- And 32% are contacted daily by a search agency (BrightLocal)
- 71% of SMBs have the desire or are currently trying to learn internet marketing themselves and only 9% say they would rather pay an expert to do it for them (Brightlocal)

SMBs seeking a low cost, reputable company

- Based on reports from 20,000 Chamber of Commerce SMBs, 19% feel low cost is the most important factor when selecting an internet marketing company. This is followed by good reputation and industry knowledge. (BrightLocal)
- A lot of leading small business PPC companies highlight their certifications and personalized account management.
- Lowest cost typically wins out potentially due to a SMBs being more risk averse, not confident in PPC's ROI and don't understand it enough to spend more. The issue with this strategy is spending less most likely leads to less management and lower bid potential, ultimately resulting in a poor ROI.
- 68% of SMBs handle internet search marketing in-house (Brightlocal)

Conclusions

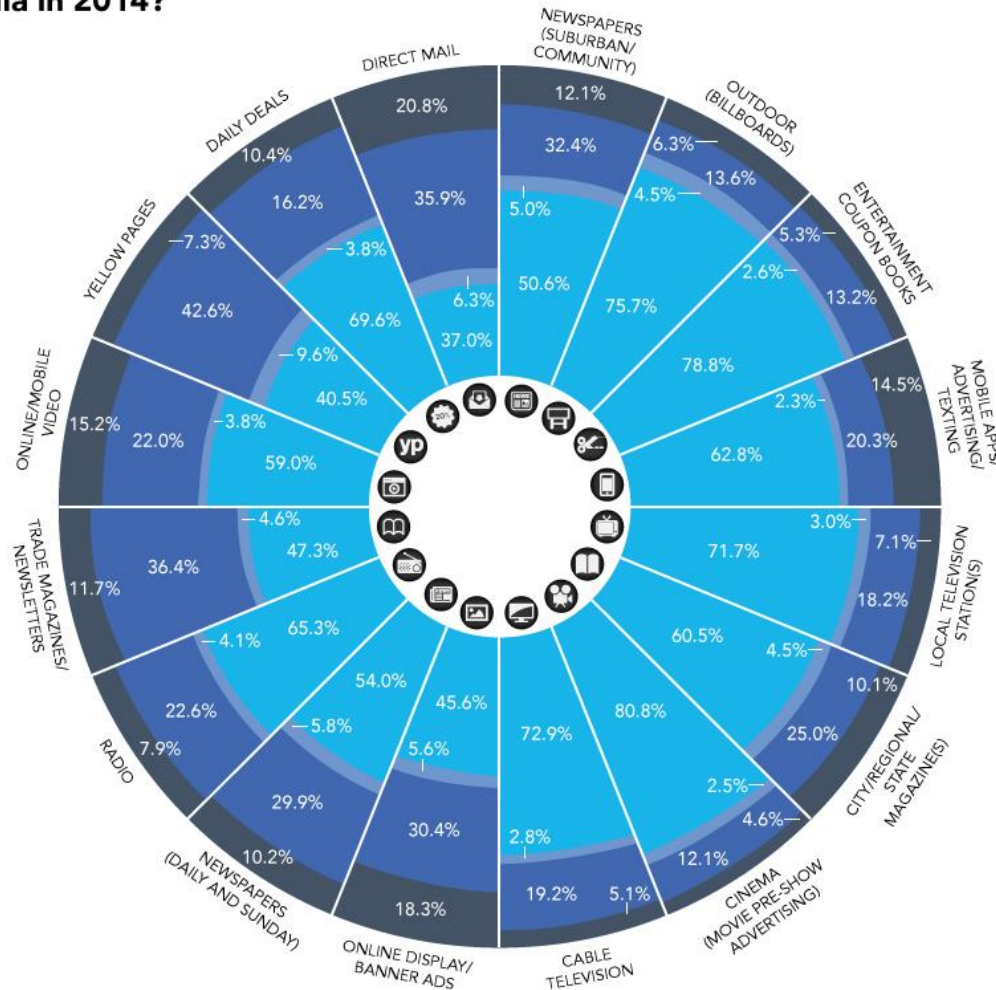
- **Positioning with low cost and personalized service tends to be the trend among competitors**
- **SMBs are not spending much in search due to fear of unrealized expectations and thus leading to poor performance in their campaign efforts**
- **Search agencies are very active but must utilize mostly cold calling SMBs –competitive advantage for hibu being able to meet on premises**
- **Positioning reputation seems to matter and means less risk to the client**

SMB 2014 Spending Plan

SMB 2014 LOCAL ADVERTISING SPENDING PLAN

\$1,000/Year Minimum Spenders: Do you plan to spend more or less on the following local ADVERTISING media in 2014?

- More
- About the Same
- Less
- Will Not Use



The SMB Search Customer



- Risk Averse due to perception of online marketing
- Spends on average \$400 a month on marketing activities
 - Only 46% is spent on internet and mobile marketing
- Only 21% of SMB's plan to increase spend in online marketing in 2014
- Feel word of mouth is still more effective than SEO and PPC combined for acquiring new customers
- Those that are investing in online marketing, 68% handle it themselves and only 15% have an agency
- Most find a hard time deriving value and ROI from their online investment; lists as the #1 cancellation reason

Source: Brightlocal Internet Marketing Survey 2013

Internal performance data story:

- churn rate is average among all providers from survey (opportunity to lower churn rate by helping customer find value) ~**5-6% per month**
- Latest performance data indicates a strong correlation of reps ability to sell search and volume of search sales (new records)
- Last month saw an **85% increase** in reps selling search which has lead to a pacing to close (Apr) **124%** higher in additional sold accounts
- Sales penetration will be tracked by Nick Hopkins going forward
- Strong evidence that the Site+Search promo has been successful (need to verify)

Competition for Search



- Tens of thousands of search management companies, largest providers are **SuperMedia, Yodle, Orange Soda, GoDaddy, BT Local Business, ReachLocal** and **hibu**
- **ReachLocal** appears to be the market leader (hibu benchmarking survey, 2013)
- **ReachLocal** had \$514.5m revenue in 2013 and can be considered the benchmark and market leader in this segment (need research team to confirm) and sales model (territory) similar to hibu

Benchmarking ReachLocal

- \$515m (2013) revenues
- 24,000 SMB customers world wide
- Less than 1,000 sales people
- Slight lower than average churn compared to industry and hibu
- Largely auto-mated based on algorithms and proprietary software
 - Allows for changes across thousands of accounts
 - Former VP said this is the only way to remain scalable for their business model
- Half of its sales force is prospecting new clients, the other half is retention based

hibu has larger footprint and sales force

Potential differentiator for hibu as we use actual experience account managers to manage ads and not software. Need to bring this out in our messaging

ReachLocal Search Collateral

What:
Value Prop

- Simple, effective one-two pagers
- Easily explains why, what, how
- Uses semi-complex terminology which gives the impression that they focus more on clients with some limited knowledge of online advertising

Why:
Tells story of SMB business case

ReachDisplay™

Maximum Brand Awareness, In Reach

Today, over 82%¹ of consumers are using the Internet for activities like reading content, browsing social networks, viewing entertainment, and shopping. So why aren't you advertising where your audience is spending their time?

ReachDisplay is an online display advertising solution that builds brand awareness where consumers are spending their time: online. We offer a variety of advanced targeting techniques to put your message in front of local consumers across the Web, so your brand is top of mind when they're ready to buy.

What We Do

- Your AD**
We build brand awareness by showing your display ads to consumers as they browse the Web. And, when combined with ReachSearch's search engine advertising, ReachDisplay can fill the results of your overall advertising efforts.
- Target Your Ads**
We offer many targeting options to reach the right audience, including geographic targeting, premium site targeting, behavioral targeting, and Facebook ads. We also provide a standalone retargeting solution that shows your ad to people who have searched for keywords related to your business and those who have visited your website, keeping your brand top of mind.
- Track & Optimize**
We use engagement data to get your ads on the sites and networks that are most effective at bringing consumers to your business. We track your campaign activity, including ad impressions, website visits, and more, so you can see how your campaign is performing.

How You Benefit

- 1 Build your brand on a network that reaches 90%² of the North American online audience
- 2 Increase awareness where consumers are spending their time
- 3 Stay top of mind with prospects who are looking to buy

www.reachlocal.com | 888.928.1660

How:
Drives the point of helping deliver business conversion

ReachLocal

More Leads, In Reach

Whether consumers are searching via Web or mobile, ReachSearch, our search advertising service, shows your text ads to consumers searching for keywords related to your business, products, and services. ReachSearch puts your message on top search engines like Google, Bing, Yahoo!, and dozens of local directories, helping more local customers find your business when they search online.

What We Do

- Get More Leads**
With historical data from nearly one million search campaigns, we select just the right keywords for your business. Then, we put your ads on popular search engines to drive calls, email, and contact forms from local consumers searching for your products and services.
- Optimize Your Campaign**
Your certified campaign team works with you to develop your custom plan and execute your search advertising campaign. Then, our powerful technology optimizes your campaign daily based on conversions – not clicks – to drive the best possible performance for your budget.
- Track & Report Results**
We track your campaign performance 24/7 to ensure it delivers the results you want. With our online reports, you can view all campaign data, such as site visits, emails, and calls, and even to the recorded calls captured from your campaign, so you exactly know if it's performing.

How You Benefit

- 1 Reach people on 98%³ of the places they are searching online
- 2 Get more leads with conversion optimization
- 3 Work with a Google AdWords™ Premier SMB Partner and team of search advertising experts

www.reachlocal.com | 888.928.1660

Benefits:
Clearly stated benefits

Differentiation Summary



How we *need* to be different

- Find a solution for helping existing customers find value and ROI instead of leaving it up to them. Calls and Clicks is **not** ROI as that leaves it up to the customers to convert and when it fails, we are to blame and cancellations occur (#1 reason a customer cancels after contract). These clients need the ability to see an easily quantify their investment into real sales dollars.
 - ROI calculator embedded in portal
 - Educate them (whitepaper?) on how to find ROI with advertising and marketing spend
- Do more to educate on the value of Paid Search and search management to overcome negative perception at time of sale
 - More educational content materials (whitepapers, videos, etc.)
 - Help the customer by holding their hand across the digital/traditional media divide
 - Nurturing through the customer journey
 - More case studies and success stories available
 - Downloads via the website (hibu business store)
- Position our differentiation
 - ReachLocal and Yodle use mostly software automation
 - Software automation is basically algorithms; it is not dedicated campaign management by an certified expert. We give personalized service and add a different level of care that a program cannot replicate
 - Use this as a competitive advantage to our business model