



## SMBs, Search Packages and Churn: Perspectives From Industry Leaders

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**Summary:** Small businesses have been aggressively targeted for search packages. But while sign-ups have been promising, the churn rates are alarmingly high. What do the churn rates mean for the companies selling small and medium-sized business packages, and how should they change their strategies? We talked to several industry leaders to get their viewpoints.

### Viewpoints Vary

Are small businesses really churning from search packages at a rate that might surpass 60 percent per year? And in some cases, even reach 90 percent? That's huge.

Just doing the math, the pool of small and medium-sized business prospects would dry up in a short period of time if the reputed churn rates were to continue. But that's one contention of a newly released Borrell report commissioned by Clickable, a technology company that competes against existing third-party value-added resellers. We've heard similar things elsewhere.

The Borrell/Clickable report also suggests that the huge churn numbers, combined with high customer acquisition costs and low average value of accounts, make existing third-party sales players like ReachLocal, WebVisible, Marchex, Yodle and MatchCraft unsustainable. It concludes that the only way the business succeeds is by narrowly targeting specific verticals — those filled with high-end, non-churning SMBs.

By efficiently targeting such vertical players, the savings can be passed on to advertisers, which will likely stay with the reseller. That makes it a much smaller business (forget about targeting even a portion of the 16 million

U.S. SMBs), but also a more sustainable one.

That's heady analysis, and flatly contradicts the notion that marketing packages centered on search would appeal to a large number of SMBs and constitute a new and bigger Yellow Pages industry. We talked with a number of players who are in the heart of the action to get their observations. While hardly scientific or comprehensive, a full range of opinions are expressed here, both pro and con (and in-between).

### Ryan: 'Not Turning and Burning'



Kevin Ryan, WebVisible chief marketing officer, says there's no denying some players have serious churn problems. But a more accurate assessment of industry-wide churn, with seasonality and failed businesses removed, is probably south of 50 percent.

WebVisible's own rate ranges are significantly lower.

"We're not turning and burning," he says. "We're a fully managed enabling technology designed to create and maintain a strong online presence."

Ryan also takes issue with any idea that SMBs are

rejecting value-added (and highly marked up) resellers so they can “self serve” Google and others on their own. But some businesses are upgrading their online marketing strategies and taking a more customized approach. WebVisible and others are ready to serve them, he says.

“The canned SEO approach from the early days of search — the guys who’d fix a Web site, update tags, build link equity — some are doing great work. Some aren’t,” says Ryan.

The real proof of the pudding, he says, is whether advertisers are upgrading to \$10,000 monthly accounts from those in the \$2,000 to \$3,000 range. “These are the ones who see it isn’t just a search play. They understand that you’ve got SMS text, behavioral targeting, geomodifiers” and other features, he says.

“At the end of the day, what they want to know is how many leads they got; the cost of media; how many people watched videos on their site; how many people got text messages. Actions that have a chance to turn into conversions are the true quantifiable return for the SMBs. We’ve got eight years of data to back that up,” says Ryan.

### Keister: Churn Doesn’t Happen Because of ‘Perceived Value’



Marchex President John Keister also takes issue with the notion that the winds are turning against value-added resellers because an unacceptable percentage of SMBs churn off.

“Churn doesn’t happen because of ‘perceived value,’” he says. “The value is there. It happens because of businesses failing and pieces of the package not coming together.” But there are ways to hold on to customers. The churn numbers decrease as advertisers “move up the transparency chain. If they are executing in the right way, the numbers are far, far lower.”

Sales support also plays a major role in reducing churn. “It is a matter of how the sales team understands the

products they are selling, and renewing them effectively, fulfilling them month after month,” says Keister.

Getting comprehensive reports to customers is also a major part of the effort. “Even if less than half open and actively use [reports], the fact that you are willing to say: ‘Here are where phone calls came.’ ... That is extremely valuable,” he says. “When it comes time for renewal, that’s where rubber meets the road.”

In any case, Keister believes the idea of “clicks and search” as a primary indicator is outmoded. “That might have been the case two or three years ago,” but advertisers are getting more complex, customized packages that reflect the whole range of conversion-oriented consumer actions. “Today, it is all about phone calls, e-mails, video plays, how many folks download driving directions, consumer actions on a landing page or proxy.”

Different advertisers will respond to different things, adds Keister. Ultimately, it is all about selling them “transparent” advertising that clearly brings in return on investment. “They all want to see the transparent value. And that doesn’t always mean ‘clicks and search.’

“The real estate broker may prefer getting text messages to phone calls,” he says. “The insurance company wants to see the number of calls into the call center. The plumber may want to see if customers can make appointments via a profile page. That’s why we’ve been focusing on programs that deliver consumer actions to advertisers.”

### Cunningham: Keep Them Six Months; You’ll Keep Them Forever

For Court Cunningham, Yodle chief executive officer, there is little doubt that value-added resellers like his company add value to SMBs. But only if the SMBs get a chance to be educated about the value they bring.

Cunningham confirms that churn rates are very high for new customers. Industry-wide, they are anywhere from 50 percent to 100





percent, he says. Yodle's churn rates are about average for Google resellers. But Yodle's contracts are only for three months. After six months, Yodle's churn rate is just 1 percent more per month, or 12 percent per year. By that point, it has had a chance to educate the customers, and they will have seen the value for themselves. "We're dealing with a marketplace segment where 40 percent still don't have a Web site," he says.

A primary issue is that companies are selling a product with low expectations. "They're selling a bucket of clicks. The incentives are not aligned with their performance," he says. But customers tend to be content if they have the right expectations.

Cunningham tells the story of a conversation with a cleaning company that was paying \$25 per lead, and felt it was too high for a bucket of clicks. They wanted to pay \$20 per month. But Yodle's sales reps were able to point out that the average value of acquired customers was north of \$500. Instead of nickeling-and-diming and trying to get a small number of customers for \$25, the cleaning company should get an arsenal of tools and pay \$40 to \$50 for a considerably larger number of customers. It was a convincing argument, he says.

### **Pestinger: Make the 'Right Sale'**

Kevin Pestinger, MatchCraft vice president of marketing, refuses to downplay the danger of high churn. And he fully believes Borrell's estimates are accurate. "We believe these type of numbers are both 'unsustainable' for the individual companies involved and highly detrimental to the SEM and local advertising industries overall," he says.

But companies can cut churn if they focus on making "the right sale" and delivering ROI to the merchant,

and if they only deliver traffic from top-tier sources (i.e., Google, Yahoo and MSN Search). Making the right sale is the real focal point. "We will know we have truly made the right sale when the merchants renew their SEM programs year after year," he says.

If churn rates are going to come down, sales reps need to learn the merchant's industry, educate merchants about SEM, and set appropriate expectations for clicks, calls, e-mails and leads, says Pestinger. They also need to "sell the appropriate SEM package for each merchant that matches up to their advertising needs. It is not about perceived value."

### **Final Thoughts: The Kelsey View**

Our own view is that the industry has been hurt by overly aggressive sales tactics and poor follow-up. But in the past year, we've seen greater engagement by SMBs in their online marketing options than at any other time of Kelsey Group coverage.

While the economy is throwing everyone for a curve, the integration of search, display, online, mobile and even outdoor advertising suggests advertisers will rely on consultative selling to a greater degree than we've seen in the past — not less. And unless Google and others find a way to sell these accounts on their own — and they haven't — that's good news for all these companies.

Some value-added resellers might do well to stick to certain winning verticals. This has been the approach of companies like G5 Search Marketing, which focuses on providing top-quality service to the self-storage industry, and in five years has only seen three customers churn out of 130. Other companies, however, can effectively sell across the spectrum if they tailor packages and education to each segment. **ILM**