

U.S. Local Video Forecast: Market Overview and Outlook

Analyst: Michael Boland **Document:** Advisory #08-13

Summary: Many market forecasts have attempted to size the U.S. online video market, which consists of ads that are tied to a growing subset of online music sports and entertainment clips. The forecasts project the market will grow to between US\$4 billion and US\$7 billion by 2012. But what is the local portion of this? The popularity of online video has trickled down to the local level in the form of small and medium-sized business video advertising that accompanies local listings and business profiles. Opportunity exists in the increasing segment of video production companies targeting SMBs and growing interest among Yellow Pages publishers in adding video to their local sales bundles. Reception so far has been positive, given the general appeal of video and its simplicity when compared with other forms of online advertising (e.g., pay-per-click). This includes new advertisers that are not tradi-

tionally sold on Yellow Pages advertising. Demand for video will drive Internet Yellow Pages to execute tighter sales and fulfillment, and the medium's favorable margins will further compel publishers to embrace it as a means to offset print revenue declines. The Kelsey Group projects that these factors will contribute to the growth of U.S. SMB video advertising from US\$10.9 million in 2007 to US\$1.5 billion in 2012, a compound annual growth rate of 167.8 percent.

This Advisory is one component of TKG's four-part video forecast bundle. More information is available in the following documents:

- "U.S. Local Video Forecast: Market Projection Data"
- "U.S. Local Video: User Data"
- "U.S. Local Video: Vendor Profiles"

The Revolution Will Be YouTube'd

The past few years have seen a transformation in online media, which has had a ripple effect on nearly every other form of media. Much of this emanates from a new media culture, based largely on consumers getting what they want when they want it.

The on-demand consumer has been taught by search engines that all media should be a few mouse clicks away. Such consumer attitudes, and the business models that

both quench and reinforce them, have been the basis of what is commonly known as "Web 2.0."

Online video has played a central role as both an instigator and a beneficiary of Web 2.0. It's been enabled by broadband penetration (about 70 percent of active Internet users, according to Nielsen/Netratings) and reinforced by its killer app: YouTube.

The pervasiveness of YouTube has fueled user expectations that video should permeate nearly every form

Online Video Ad Formats

SOURCES: IAB, EMARKETER (2008)

	In-Stream Video (Linear)	In-Stream Video (Nonlinear)	In-Banner Video	In-Text Video
Core Ad Products	Pre-rolls, mid-rolls, post-rolls, take-overs	Overlays and ticker strips	Rich media	Rich media
Consumer Experience	Ads take over full screen	Ad run in parallel, not over content	Video triggered with banner, often alongside	Video shown when users roll over keywords
Ad Placement	Before, between or after video content	During, over or within video content	Within Web page or around it	Linked from highlighted word in context of page
Additional Ad Products	Text, rich media, video player skins content	Text, rich media, video player skins content	None	None

of online media, including news, sports, entertainment, search, social networking and now local.

Overall, online video has gained 139 million unique users as of this March, according to comScore. That figure represents 73.7 percent of the U.S. Internet audience and about half the total population. It also corresponds to 11.5 billion video streams during the month (83 videos per viewer).

To put this in perspective, video streams have surpassed searches done on core search engines (10.8 billion in March, according to comScore). Search accounted for US\$8.2 billion, or 37 percent, of the online ad market in 2007 (TKG), and video ads brought home US\$775 million (eMarketer), which underscores the monetization opportunity.

An Opportunity With Challenges

With this opportunity, however, comes a sizable challenge. Pairing ads with online video isn't as easy

or seamless as it is with text. Video isn't inherently searchable or indexed for contextual ad matching the way text is. More importantly, video windows offer limited options for ad formats.

The most prevalent form of video advertising so far has been the pre-roll ad because of its favorable CPMs over other formats. Pre-roll ads are also conceptually similar to the television advertising to which brand marketers are accustomed. Finally, the production costs can be relatively low when existing 30-second ads are repurposed.

But study after study has shown distaste among consumers for pre-roll ads. One example is a Burst Media survey that showed three-quarters of viewers who saw pre-roll ads found them intrusive. Half even claimed to stop watching a video altogether if faced with a pre-roll ad.

This has caused development around other methods such as inline text and overlays that are triggered based on voice recognition or other contextual cues. But these

too have been met with distaste in the trials performed by YouTube and others.

There is meanwhile distaste from national brand advertisers for some of the most watched video clips online. Though YouTube has been influential in standardizing video clips as a mainstream medium, the leading video provider's (38 percent market share) content is mostly deemed questionable by brand advertisers.

Some companies have been able to create commercial value in viral video with a new form of marketing distribution not yet mastered by the ruling class of Madison Avenue. Such low overhead video series place products in wacky situations, with examples including Blendtec's "Will it Blend?" and EpyBird's "Extreme Diet Coke & Mentos Experiments."

But these videos aside, most marketers have concluded that a good portion of online clips are unmonetizable.

Enter Local Video

National video's monetization challenges are only mentioned to make a point about local video. The two are very different animals whose market opportunity and monetization strategies should be distinguished. But first, how are they similar?

Local video has come about from the same trends that drove its national counterpart. The same drivers that have caused an Internet culture that demands video across all online experiences has trickled down to the local level, causing an expectation for rich media to accompany local search.

But local video monetization won't be hampered by the same factors that compromise the monetization of national video. In other words, local video doesn't require adding advertisements to the content because the content itself is the ad.

"There are very few times in our world where you have that win-win where the content is the [ad]," says Alfred Chow, senior manager, Internet, for Yellowbook.

Video is mostly complementary to local search as it is inherently conducive to the framework of a local

listing or business profile. Most merchant videos that have been integrated with local listings are descriptive in nature, as they are intended to convey trust or sense of place to the local searcher.

"If you're buying a product, you don't care who you're buying it from. You just care about price," says Chow. "Yellow Pages isn't about price; it's about how do you feel about the business. It's about people and trust. You're not buying an iPod."

Video in the local search environment also combines the traditional branding attributes of television advertising with the direct response capabilities of the Internet. Data from TKG's User View Survey show how the majority of online video viewers perform follow-up activities such as checking out a Web site or going to a physical store (see complementary slide presentation "U.S. Local Video: User Data").

"It's the intersection of the old television media and the distribution opportunity of the Internet," says Rob Angel, vice president of product strategy at Citysearch. "We have a lot to learn from old media. The more we can leverage what we're good at — operating on the Internet environment — and sew those two worlds together, we'll be in a really good spot."

A typical use case for local online video can involve looking on an IYP or a city guide for a restaurant. In addition to basic listing information and/or reviews, an embedded video can draw the user's attention, and ultimate purchase decision, more effectively than text.

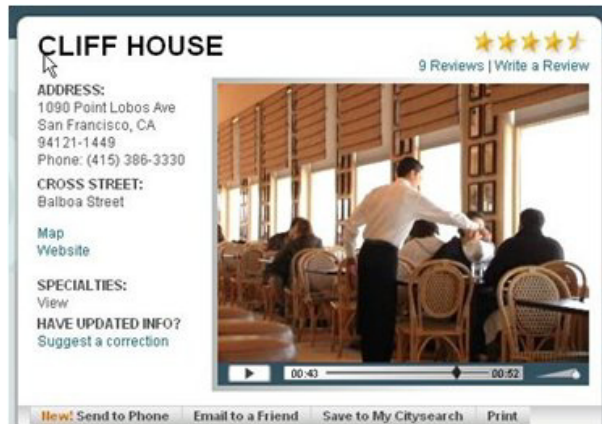
"If a picture is worth a thousand words, video is worth a thousand pictures," says Chow.

Interviews with the chef and sweeping views of a dining area can eliminate the uncertainty involved in trying out a new restaurant. The same can be true for a lawyer, dentist, exterminator or any advertiser that can convey a sense of trust through a well-produced video.

"It's working well for service-based businesses. You get to put a face and a personality and to some extent some credibility behind that business before you make a commitment as a buyer," says Robyn Rose, vice

SMB Video: Context for Local Search

SOURCE: CITYSEARCH (2007)



president of marketing for Superpages.com. “Now you can not only compare prices but [also] get a sense for how they run their business or how clean cut they look or how they talk about the business they provide.”

The value of this extra context for users will only improve as video volumes grow and can be viewed in comparison.

“People are inherently lazy and are looking for an efficient way to gather information. It’s much simpler to watch a 30- or 60-second spot than dig through pages of a Web site,” says John McIntyre, chief executive officer of PixelFish. “Web design is so inconsistent, so how you find information and navigate is frustrating. If I can just watch a video, I don’t have to go any further.”

Similar to the dynamic that exists with higher ticket print advertising, the presence of a video or its quality can be perceived as a proxy for the success of the business, and for comparing different businesses.

“The fact that you have this video tells me you’re above your competition already,” says McIntyre.

Advertiser Appeal

Advertisers have shown interest in video because it is a more effective means of selling a location, service

or personality. The personality sell is particularly resonant within certain verticals, including restaurants, professional services and trade services.

“The SMB advertiser had always had a hard time differentiating himself. If you’re a plumber, how are you going to stick out? You can have a tagline saying ‘I’m the best plumber,’” says Yellowbook’s Chow. “But now here’s your chance. You can differentiate yourself against a big national player like Roto-Rooter. In this business it’s all about relationship hiring, and the video is the interview.”

In addition, video offers proprietors greater control over an online marketing message in an era where consumer opinions have been given much more transparency through user-generated content and local ratings and reviews. It is also a good way to have a listing stick out among others, as video thumbnails (like other IYP upsells) can attract the eye.

“Right now, in order to differentiate yourself on a directory or [in] paid search results, you have to make sure your description is better, or that you link to a better Web site, and lots of things tend to be a little more out of your control,” says PixelFish’s McIntyre. “What’s happening now with directories and search is that the existence of video itself acts as a differentiator.”

More importantly, video is a medium SMBs understand and to which they can assign value. By comparison, some SMBs find certain forms of online advertising abstract, such as pay-per-click.

“The concept of video advertising is far less obtuse,” says McIntyre. “The reality is that it was much harder to get SMBs to the Web and to use online marketing. But now that they see the measurability and the effectiveness of online marketing, matching that with a known concept of a commercial to drive even higher lead generation is a no brainer.”

Meanwhile, video has traditionally been out of reach for the majority of SMBs as it involves writing a script, hiring a videographer and navigating the complex media buying process of cable spot advertising.

“What small business hasn’t sat there watching TV

late at night with their family and thought, ‘Gee, I wish I could afford a commercial,’” says McIntyre.

The Producers

So video advertising represents a longstanding demand, which is only recently being realized as traditional barriers drop.

Specifically, online distribution is considerably less expensive than cable. And local video producers have begun to utilize digital production technologies to consolidate the supply chain into more efficient production and distribution packages for SMBs.

U.S. local video production vendors and their production formats include:

- Adfare: Stock, montage, documentary
- AditAll: Stock, montage
- Buzzspot: Stock
- QuickPro Video: Documentary
- Digital Media Communications: Stock, montage, documentary
- Jivox: Stock
- Mixpo: Stock, montage, hybrid

- PixelFish: Montage, documentary, classic
- SpotMixer: Stock, montage, hybrid
- Spot Runner: Stock, montage, documentary
- Spotzer: Stock, montage
- TurnHere: Documentary
- VideoBloom: Stock, montage, classic

(See complementary Advisory “U.S. Local Video: Vendor Profiles.”)

Some vendors have developed nationwide service footprints with outsourced networks of videographers that scale to regional business levels. TurnHere was the first in a growing crop of local video vendors to do this.

TurnHere also popularized the documentary style for local merchant ads. The documentary captures the essence and personality of a business through candid interviews with proprietors and staff. Because of the relationship hiring concept mentioned above, this style has taken an early lead in popularity among SMBs.

To appeal to a wider swath of small businesses that possess a broad range of tastes and budgetary constraints, local video vendors are beginning to develop other styles as well. These include customized stock video and “pan

Local Video Production Styles

SOURCE: THE KELSEY GROUP (2008)

Production Style	Price Range	Description
Stock Footage	\$99-\$500	Buckets of video content specific to business category, which can be customized with voiceover, end card and sometimes segment transitions
Montage	\$99-\$500	Still images of a business that are edited together with a “pan and scan” effect and voiceover
Documentary	\$750-\$2,000	Highly personalized video shot on site and edited by professional videographer
Classic	\$2,500-\$7,500	A traditional 30- to 60-second spot containing scripts, proprietors and/or actors
Hybrid	\$150-\$750	Style containing elements of all of the above, as dictated by the tastes or budgetary constraints of the advertiser

and scan” montages of business photographs.

For all these options, there is a sliding scale of price versus personalization, and different levels of manual attention in production and editing. Most vendors are also able to repurpose or use existing video advertising, if a business has it.

“One of the things that we’ve learned about the SMB market is that you need to give them options and you have to make them easy to select — small, medium and large — because their budgets and their needs are going to vary,” says McIntyre. “Our job is to figure out what is the equivalent of the small, medium and large that would provide the best range for the marketplace.”

The Web Site Parallel

McIntyre brings with him a perspective and a background in Web hosting, as the founder of Affinity Internet in 1999 (acquired by Hostway in 2007). This is appropriate as many parallels exist between Web sites and video, such as their adoption curves among SMBs.

“Web site adoption finally took [the shape of] that hockey stick [graph] when it became easy and inexpensive to get yourself onto the Web. And then people started using online marketing when simple tools like AdWords launched,” says McIntyre. “Before that you had to go out and get a specialist. It was challenging for SMBs. The same thing is now happening in video except it’s happening much faster.”

Video’s market potential also can be put into perspective by looking at historical Web site penetration, a model being examined by a number of IYPs.

“Forty [percent] to 50 percent of SMBs still don’t have Web sites,” says Chow of Yellowbook. “That is my target to make sure that 60 percent of SMBs have videos. I’m saying internally that video is the new Web site of the future. It’s even better because not all businesses need a Web site. Video is applicable to 99 percent of our advertisers.”

This adoption could happen at an accelerated rate because of video’s lack of complexity when compared with Web design and hosting. Its market introduction also comes at a different time, when the market is

more open to online products than when Web sites first launched.

IYPs: The Glue

To summarize where we’ve been so far, broadband penetration and YouTube have led to consumer demand for online video. This has trickled down to the local level for users and, in turn, SMB advertiser demand, which drove the supply of low-cost local video vendors. Now, the final and most important step to bring the industry’s growth to the next level: IYP adoption.

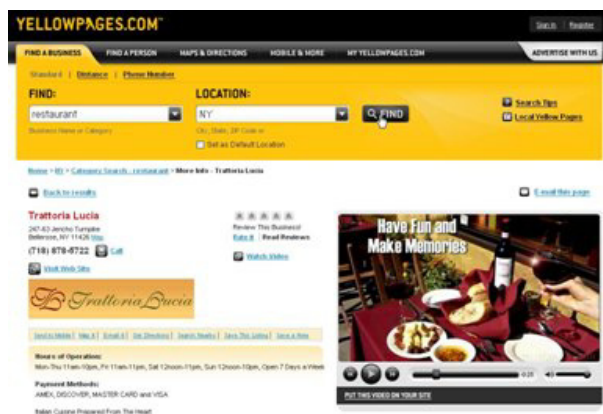
For the same reason that Yellow Pages publishers have been in a better position than anyone to sell pay-per-click advertising to SMBs, they will also lead the way with local video. The growth of local video for any individual local search site, and for the market overall, will hinge upon the ability to deliver it to SMBs.

This includes effectively selling the product to SMB advertisers, which is already being done in various trial programs at DexKnows.com, Superpages, Yellowbook.com and Yellowpages.com. Like any other big product integration, this will be difficult and take time to get right. In this respect, IYPs should fold video sales in with existing cross-platform training.

The second important part of the equation,

IYP Video: Yellowpages.com

SOURCE: YELLOWPAGES.COM (2008)



fulfillment, will be somewhat out of IYPs' hands, as it's more a function of the video vendors with which IYPs work. Here also, time will be required to get it right — especially given the moving target of rapidly increasing sales levels.

TurnHere, for example, recently developed a new product to adapt to sales increases. Its videographer network has held up as purported. But a bottleneck became the timely manual process of account management and postproduction. So it designed a self-serve platform through which advertisers sign on to a personal dashboard and manage editing, including default and free-form notes to the production team.

“The only way to make it scale is to be templated,” says John McWeeny, TurnHere senior vice president, business development. “But of course everyone wants customization, so you have to create something that is both.”

This is just one example. There will be a give and take as IYPs and vendors each evolve and streamline the processes between them. But when the two sides of the equation balance, IYPs will be the primary beneficiaries of the local video revolution.

Vendors will be a key part of the process, and their fulfillment execution will decide the quality of the product and the fate of advertiser retention. But they will mostly be behind the scenes from the perspective of the online user. They will also be secondary for the advertiser when the IYP brand is the visible entity that is knocking on their doors, selling them the products and shaking their hands.

But vendors will by no means get a raw deal in the end because they will experience considerable growth on the backs of IYP video sale ramp-ups. And the reward for their quality execution will be IYP contracts and further growth.

False Start?

None of this will come without a fair amount of growing pains and integration challenges for IYPs. Introducing

an entirely new product will require training at sales and support levels.

“Everyone is still in the ‘how the hell do we sell this’ mode,” says PixelFish’s McIntyre. “And even though it seems intuitive at the 50,000-foot level, there is a lot that goes into launching a new product for a company, particularly Yellow Pages publishers, whose model was originally built around getting people to buy a two-inch-by-two-inch square of paper.”

As vendors ramp up business levels through IYP sales, they will also have to be nimble and able to scale all the parts of their operations in relative unison.

“There are lots of vendors in the space right now, and they’re going through some learning experiences working with IYPs,” says Rose of Superpages. “They all need the ability to scale fast to support all of us [IYPs]. They’re going to need to keep up.”

One challenge is the need to keep time-constrained SMBs engaged throughout the process of fulfillment, given that a feedback loop is required in the creative process. The feedback loop exists with some other products publishers sell, such as Web sites and display ads, but to a much lesser degree.

“There will be growing pains, and we’ll all figure out ways to deal with them,” says Rose. “But any time you enter a new product realm, it opens up different questions than you had with your other products.”

As suggested above, there will be bottlenecks throughout these processes that will be exposed when business levels increase. The ability for vendors and IYPs to anticipate and hammer them out will dictate how successful they are with video.

“There will be some false starts along the way for the next 12 to 24 months,” says McIntyre of PixelFish.

Driven to Innovate

That is all a matter of “how”; now for the “why.” Why will IYPs be compelled to embark on the long and complex process of video enabling their listings and training tens of thousands of sales reps to sell a new product?

Select Margin Contribution (%) of Sales

SOURCE: THE KELSEY GROUP (2008)

	Incumbent Publisher	Discount Publisher	Video
Offline	50%	25%	
Online	20%	15%	60%*

* NOT INCLUSIVE OF EXPECTED SEM, SEO OR DIRECTORY CAMPAIGNS.

NOTE: REVENUE AND COST ALLOCATION PRACTICES VARY WIDELY AT MULTI-CHANNEL SALES ORGANIZATIONS. DATA ARE REPRESENTATIVE OF SURVEY RESULTS BUT VARY WIDELY AMONG GROUPS.

The answer is either opportunism and foresight or necessity. Either way, the driving factor is the looming reality of print revenue declines as many advertisers shift budget from print to online.

The shift so far has mostly included IYP and search advertising. The expressed goal for publishers has been to retain advertisers by being the ones to provide the online advertising; otherwise, they'll get it somewhere else. This is behind the cross-selling and "platform agnosticism" that is the battle cry at nearly every Yellow Pages industry event.

But the challenge, similar to what newspapers face, is the hesitancy in practice that comes with providing an online solution that could cannibalize or accelerate the decline of a core revenue source.

Furthermore, when living from quarter to quarter and trying to maximize earnings in the face of precipitous valuation declines, sacrificing short-term losses for long-term gains is never easy.

Marginal Solution

One of the advantages of video is that unlike pay-per-click and other tools that have been added to the sales bundle, its integration will be less of a headache because sales training is easier. For the same reason SMBs "get it," sales reps get it — which means they can sell it too.

"It's selling well in big markets, but I'm confident it will sell in all markets, in all categories as we roll it out," says Yellowbook's Chow. "Our sales guys are just itching to sell it."

More importantly, video is the first product to come along for publishers that has the potential to offset print losses. The margins with video are much more favorable than other forms of local online advertising, including display, pay-per-click and paid search.

These margins are owed to higher ticket products for which IYP upfront cost is minimal and returns continue on a monthly basis (see pricing examples in next section).

As time goes on and a more sustained value chain evolves around this market opportunity, video's economies will improve through digital production technologies tied to the benefits of Moore's law and streamlined processes between IYPs and vendors. Costs to produce and fulfill video will come down, economies of scale will be gained, and margins will improve.

The economic advantages of video are compelling enough to force sustained sales focus and — unlike other online ad bundling — wholehearted integration that isn't just lip service during conference keynotes. Many are already acting on the promise.

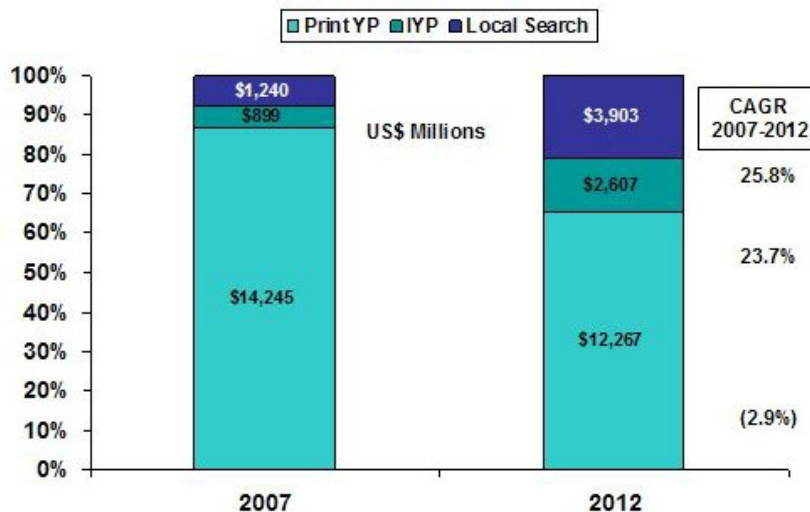
"Video is going to potentially be the savior of our industry," says Chow.

It could come down to a matter of necessity. To put it in better perspective, data from TKG's Global Forecast show IYP revenues growing from US\$899 million in 2007 to US\$2.6 billion by 2012. This comes mostly at the expense of print revenues. To reach these numbers, higher margin upsells on the digital side are necessary (in addition to more advertisers).

As advertisers move from print to IYP, video will be

Local Search and Yellow Pages Forecast, 2007-2012

SOURCE: THE KELSEY GROUP (2008)



NOTE: FIGURES ARE ROUNDED.

the way to not only retain advertiser relationships but also maintain margin levels that are closer to those of print than any other local online ad medium.

“In the end it’s going to be about finding people who already have a budget and are already spending it with you that you can convince to either increase or shift to online,” says McIntyre of PixelFish. “You’re going to have to get them to at least shift. Otherwise you’re going to lose them to someone else.”

That someone else could be other advertising media that vie for the local ad dollar. Specifically newspapers have parallel video initiatives that are showing early signs of execution. Local cable will also vie for this opportunity, as the current market leader with merchant video advertising.

Some advertisers will leave print for other online sources such as search. But the advantages of video could overcome this with a net positive effect on advertiser volume, by appealing to new advertisers the YP sales channel hasn’t traditionally sold.

The total number of SMBs in the United States is 24 million, while the addressable market (those with storefronts) is about 15 million. The Yellow Pages industry as a whole has only sold about 3.2 million of that total, meaning there is a sizable opportunity to appeal to the remaining segment, given the right product.

Video is far enough away from the traditional sales bundle that it has the potential to appeal to this segment. This combined with video’s inherent attractiveness to SMBs, outlined above, and one of its greatest attribute for IYPs becomes its potential to bring in new advertisers.

Along these lines, the appeal of video could serve as a hook to introduce this new set of local advertisers to other forms of advertising in the Yellow Pages sales bundle — including print, IYP and paid search.

“In our market trials, we have high double-digit percentage of sales from brand-new advertisers that did not buy Yellow Pages before,” says Yellowbook’s Chow. “That got the reps excited.”

How Much?

So how much does video cost? How much should it cost? And what is the sweet spot for SMBs? The answer is ... it depends. At this early stage, there is no conclusive evidence about what pricing and product models will become the industry standard.

“The market has not standardized,” says PixelFish’s McIntyre. “People look at this and say, ‘Do I charge you for the content creation up front? Do I spread it out over some period of time? Do I give it to you for free but charge you a lot on a monthly basis? Or do I charge you on a clickthrough basis?’”

Tied to pricing are other important questions, such as who owns the video and the rights to use it in other places. And of course there are different price points along the sliding scale of personalization, as dictated by the vendor and video styles outlined above.

Since it’s too variable to give a solid answer about what pricing looks like, we’ll take a look at one particular IYP as an example of pricing models. Superpages charges US\$990 for a 30-second ad and US\$1,750 for a 60-second ad. The 30-second ad has been more popular so far, according to Rose.

“I don’t know that there is any value in the 60-second option beyond just 30 extra seconds,” she says. “That [decision] may tie more to the price point and be driven by price. Most of these businesses can get their message across in 30 seconds.”

So far, though, it is beginning to seem that US\$1,000 is an attractive price point for most SMBs at Superpages and other IYPs.

“I don’t know if that’s the exact sweet spot, but it’s an acceptable amount,” says Rose, “because it’s not so cheap that it looks like a home video. It’s professional enough because you’re paying someone for it, but it’s not nearly in the realm of professional television quality video where you have a production company.”

This is only the production cost, though. When you add a monthly hosting or advertising fee, the total annual cost nearly doubles. Superpages, for example, charges a flat fee of US\$50 per month to host the video on the business’ profile page and also provides a video icon in the search results that is akin to other featured placement upsells offered by IYPs. It also offers a pay-per-click model that charges the advertiser based on the number of times the video was viewed. Any advertiser can choose between the two options.

Rights to use the video elsewhere are an important question for Superpages, and again here we’re seeing experimentation in the marketplace by different providers. Citysearch, for example, keeps the rights to the video, while Superpages allows advertisers to purchase the rights for an additional fee.

“In our test phase we got questions about whether or not they could own the video and use it in other advertising,” says Rose. “It wasn’t across the board but

Video Sales Pricing Examples

SOURCE: THE KELSEY GROUP (2008)

	Company 1 (Documentary Video)	Company 2 (Documentary Video)	Company 3 (Stock Video)	Company 4 (Documentary Video)
Upfront	\$0	\$1,000	\$99	\$0
Monthly Reoccurring	\$189	\$50	\$159	\$800
Yearly Revenues	\$2,268	\$1,600	\$2,007	\$9,600*
Fulfillment Costs	\$600	\$600	<\$100	\$550

*INCLUDES BUNDLED PAY-PER-CLICK ADVERTISING.

it was enough of a question that we created the option to have the ability to repurpose the video elsewhere for an incremental fee. We didn't want to make everyone pay for this and build it into pricing, but we did want to offer the option."

Local Video: By the Numbers

Driven by all the market factors outlined in this report, The Kelsey Group projects the SMB video market will grow from US\$10.9 million in 2007 to US\$1.5 billion in 2012, a CAGR of 167.8 percent. In 2012, video will represent 23.1 percent of IYP and local search combined revenues.

One reason for the steep incline in video revenues over a five-year period is the current low level of video sold compared with its potential, as examined throughout this document.

Most major IYPs are in trial periods with video, as they experiment and feel their way through sales processes and training procedures. This is the learning curve mentioned above that will take time to master

before local video meets its true market potential.

The largest percentage jump in this timeline will come from 2009 to 2010, when video's escalating status as a must-have local ad medium will reach a turning point.

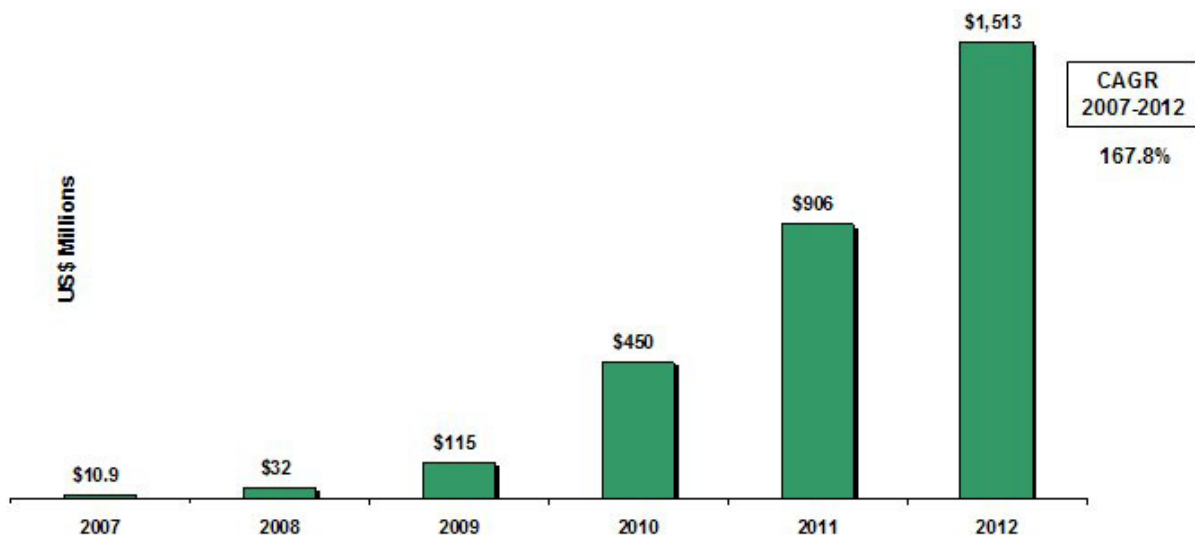
"We're in an early adopter stage. Eventually it will cross that chasm and it will hit a point where not only are you being opportunistic to differentiate yourself with video, but it's now in the mainstream," says McIntyre of PixelFish. "This is when it will go from [being] an interesting thing to test out, to being prevalent every single time I go onto an IYP or search engine. That's when you're going to start to see real growth."

This longstanding demand for video, outlined above, is already present, but it will take the next 18 months for sales and fulfillment processes to reach full stride. It will take this amount of time for the message to adequately reach SMBs that video is something that's within their grasp.

During 2010 this will be accelerated by competitive pressure when enough SMBs have video that it will become evident to competitors in certain categories that they must have it too. Throughout 2011 and 2012,

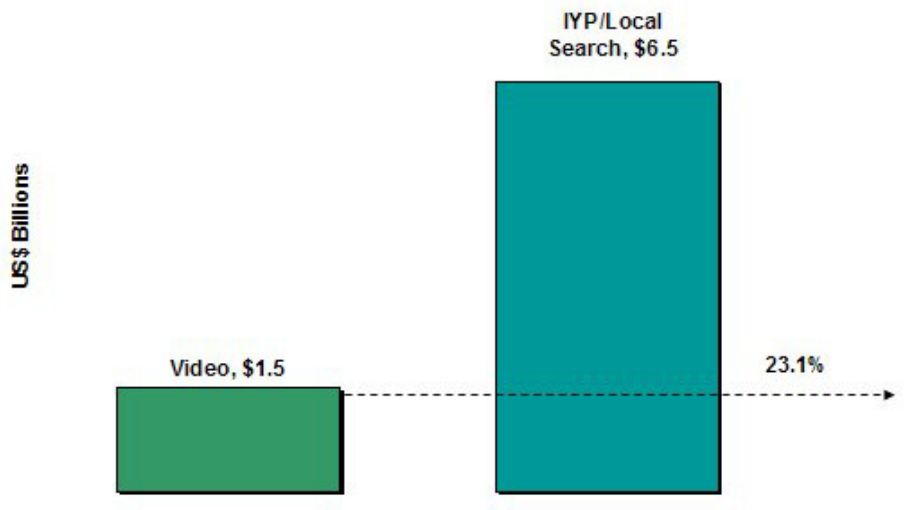
U.S. Local Video Forecast, 2007-2012

SOURCE: THE KELSEY GROUP (2008)



2012: Local Video vs. IYP/Local Search

SOURCE: THE KELSEY GROUP (2008)



this factor will cause linear growth as video approaches the status of table stakes among IYP advertisers.

“If you think back to the days of bigger display ads or color in the print directory, color took off as more businesses added it,” says Superpages’ Rose. “My competitor has red or blue or white knock-out. Now they have a double truck, so I need a double truck. In the YP space particularly, you see a lot of that, where all of a sudden it becomes table stakes for these businesses when their competitors have these products.”

By 2012 video penetration among IYP advertisers will be about a third, though this comes out to about 4.6 percent of the overall SMB addressable market. (More comparative data points can be found in the accompanying slide presentation “U.S. Local Video Forecast: Market Projection Data.”)

Distributing the Wealth

The majority of this document has dealt with the dynamics and drivers for serving SMBs video. An equally important part of the puzzle comes next: distribution.

Over the past 12 months, in the early stages of IYP video adoption, the content has primarily resided within IYPs’ own listings. As examined above, this can have a complementary role to a traditional business profile. But much more can be gained from distributing the video elsewhere.

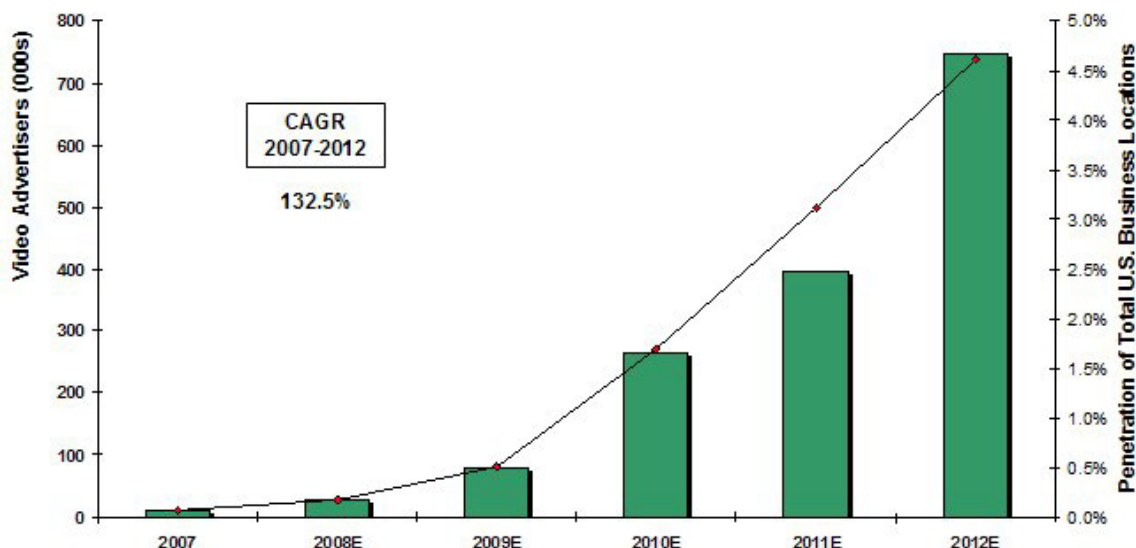
YouTube can be an attractive option for its ability to reach tens of millions of viewers with the right video. One benefit is driving more exposure and leads for advertisers, but it can also serve IYPs’ own marketing ends. Viral distribution can spread a brand message through a video’s watermark or end card. This can lead to future video sales when would-be advertisers see it, as well as general brand marketing.

This should be done carefully though, according to Angel, who has formed distribution deals for Citysearch’s content with Local.com, Marchex and other sources of local traffic. As it continues to build video content, Citysearch will fold it in with these content distribution arrangements.

“You’ll start to see that pick up as we handpick

U.S. SMB Video Advertisers as Percentage of SMB Base

SOURCE: THE KELSEY GROUP (2008)



where our merchants should be,” he says. “But when you open the floodgates and let everyone have access to your video, it’s not necessarily good representation for the merchants if their video is being distributed in an uncontrolled manner. You have to be measured in how you go about doing it.”

Search engines can also be a powerful distribution channel. By employing SEO strategies, video can appear in search results for local queries. This is underscored by the universal search trend, in which search engine algorithms increasingly favor video content and provide result pages that are blended with video, images and text links.

“We’re all about extended distribution of video,” says Yellowbook’s Chow. “We don’t want to own it; we might help distribute wherever they want. We also want to help make sure the video is search engine optimized.”

For example, manual SEO tactics can be applied to video to make sure it is tagged correctly, or that transcriptions are made in order to have content with which to index the video.

“It’s amazing how much good content is on the video, but right now it’s not searchable,” says Chow. “We’re looking at extracting that content for the benefit of advertisers and users. People say great stuff in these videos, but it’s invisible to search engines.”

Open the Front Door

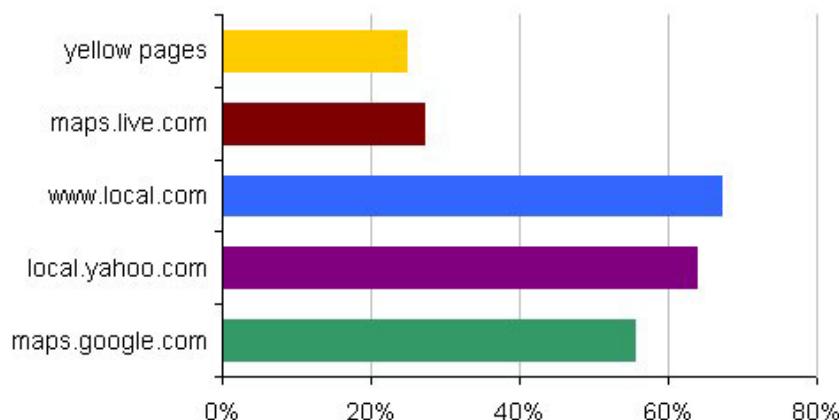
An SEO strategy and distribution beyond the IYP’s walls can result in additional traffic that is directed back to its own domain. In combination with universal search, the concept here is to acknowledge the reality that most Internet users use search engines as the front door to their online experiences.

Although some IYPs have valuable URLs and strong brands, they are no exception. A sizable portion of IYP upstream traffic, in fact, comes from search engines. If IYPs can get on the video SEO train in a more concerted way, they will essentially benefit from a larger front door.

For the video distribution paradigm to gain acceptance from IYPs, however, it has to be trackable

Percentage of U.S. Upstream Traffic From Search (March 2007)

SOURCE: HITWISE (2007)



in a way that still lets them communicate analytics and ROI back to the advertiser. This could occur through direct relationships with search engines or YouTube to gain access to the analytics that will be the basis of ROI reporting back to advertisers.

Call tracking could be used here as an initial reporting metric — an area in which the Yellow Pages Industry has familiarity, practice and systems already in place.

“One of the things that I would say is an industry opportunity is for the search engines to come up with a way for us to put small-business videos on their site that actually ties in with tracking capabilities,” says Rose of Superpages.

Rose argues that you can upload video to YouTube today and it’s free distribution that is gaining greater exposure due to universal search. But it’s hosted on YouTube, meaning it’s not tied in with Superpages’ own reporting for its advertisers. This is particularly important if you consider Superpages advertisers that opted for its pay-per-click ad model outlined above.

“For my fixed fee customers, it would just be a value add to distribute [their videos], and it’s less of a concern to have the reporting,” she says. “But if I’m going to be able to charge for that extra view, I’m going to need

tracking associated with it. I think if there is the ability to tie it in with [Yahoo!] Panama or [Google] AdWords to bid on a click to a video, that’s powerful.”

This type of direct integration with a paid search platform would likewise be attractive for Google in that it could facilitate a large base of video content, to be fed into its index and monetized. Google has a proven interest in gaining video for its index, as shown by universal search. Meanwhile more local video clips would jibe with its well-known efforts to become a go-to local search starting point.

Google has shown it has a glimmer in its eye for SMB video through its quiet launch of Google TV. The new program mostly places video on broadcast television using a bidding process through the AdWords dashboard. But Google’s effort to collect SMB video in this environment shows a clear interest in online distribution as well.

“We’re waiting with bated breath for Google to announce that they’ve had a successful trial of video in their paid search product and are putting it out to a limited launch,” says PixelFish’s McIntyre. “When Google allows advertisers to place video in their text ads, you will see massive adoption.”

Given that IYPs will be the biggest source of local video as they step up sales and bundling efforts, they will be in a position of leverage with powerful distribution channels such as Google.

Form Factor

In local online video's nascent stages, IYPs have mostly adopted the documentary-style video because of its abilities to appeal to SMBs with the "personality hire" mentioned above.

This will continue to be the most popular form and the gold standard for SMB merchant video advertising. But to gain the maximum economic advantage in reaching the SMB marketplace, IYPs will have to fill out the product set with a variety of styles and price points.

This opens up the market to a wider range of not only stylistic preferences but also budgetary constraints. Given the fragmented and diverse makeup of the SMB marketplace, a variety of offerings is important on both counts.

As video volume grows, it will also be important for IYPs to work with many vendors to have an aesthetic diversity across the many videos users will be viewing.

Tying It all Together: Interactive Video

As these formats evolve, they should develop around the very attributes that make online video valuable to local searchers. The way video complements listings with additional levels of context, as explored above, should be kept in mind.

This is all based on the notion that local video combines the traditional branding strengths of television advertising with the direct response capabilities of the Internet.

Though local video is in its early days, its measurability as a lead generator has shown signs of effectiveness in many categories, according to Mixpo, a company that creates and tracks video for SMBs.

Overall, the company shows that click to view (percentage of visits that click to launch a video) is in the 35 percent to 40 percent range for video run on Web sites or business profile pages. Conversions, measured by users clicking to take some form of follow-up action such as a request for more information, range from 11 percent to 50 percent depending on the category.

Given that local search happens closer to the point of purchase, calls to action should be an important part of the video experience.

Currently the setup is to have video embedded within business profiles where there are a growing set of interactive calls to action already present. But when video starts the evolutionary steps of growing legs and moving into different online destinations, direct response capability should follow.

This can include video overlays that allow users to contact the business, regardless of where they view it (YouTube, search engines, etc.). Mixpo is one company leading this charge, and AgendiZe this month launched an API to allow IYPs to build call-to-action buttons into their videos. These products also come with the all-important tracking capabilities mentioned above.

In addition to the sales and fulfillment stressed throughout this report, having this portability, distribution, embedded calls to action and tracking will be the winning combination that drives IYP and advertiser adoption toward a US\$1.5 billion market opportunity. **ILM**