An Assessment of the

Local Information Provider Marketplace
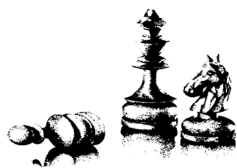
Prepared By:

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Internet Market Strategies

Research and Consulting

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Overview

PAFET has asked the Yankee Group to research the variety of institutions providing localized, Web-based consumer information services. The firms were researched from two perspectives: investment opportunities and partnership opportunities.

1) Local content/city-based
2) Enhanced Yellow Pages
3) Other (combination of both camps/directory services)

On-line services such as AOL's Digital Cities and Microsoft's Sidewalk were not covered in this effort.

We evaluated these companies on a series of criteria which were in turn weighted according to strategic importance. These criteria included positioning in four main categories:

1. brand/marketing/sales,
2. corporate and competitive,
3. content and services, and
4. technical.

Brand/Marketing/Sales was viewed as the most important characteristic. Corporate and competitive factors were valued equally as importantly since this category includes the company's business model, overall positioning and current financial backing. Content and services factored in the offerings' diversity of content partners and alliances, while technical strength weighed-in last and focused on the company's philosophy towards developing and maintaining a unique technology portfolio..

Overall, companies falling into the local content/city-based camp fared the best. Yankee sees these companies positioned to offer the most consumer value-add and the most profitable forum for content partners. These companies include the likes of CitySearch and Zip2. The middle ground, incorporating features of both local content, directory services and yellow pages include Big Book, Yahoo and Lycos, seen in their combinations of regional "content" and categorized business search capabilities. The enhanced yellow pages group includes NYNEX's Big Yellow, PacBell At Hand and US West. These companies are limited in what they could offer to any content partners due to the primary focus on search capabilities rather than local value-added content.

Detailed Discussion

Exhibit 1 shows how we've rated the players. The overall score reflects the weighted average of the players along the four dimensions discussed earlier. A detailed description of each player and the evaluation criteria follows.

Exhibit 1: Overall Rating of Local Service Providers (Weighted)
Source: the Yankee Group, 1996
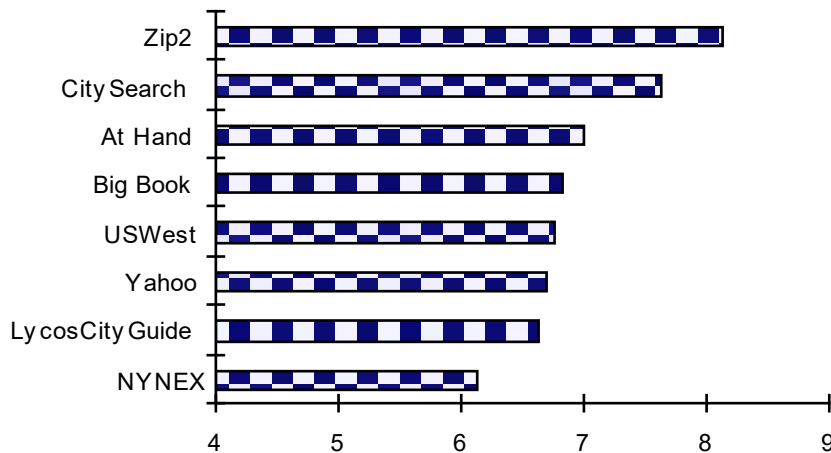
Definition of the Rating Criteria

Technical

Technical Posture:

Rating is based on the firm's overall focus on technology as a competitive edge. This rating does not include an assessment of the firm's IT, infrastructure, or logistical capabilities which are rated separately.

H: Industry Laggard- little emphasis on technology

HH: Average-

HHH: Above Average-

HHHH: Industry Leader- aggressive development of value-add technical capabilities

Infrastructure and Logistics

Score is based on the "back-end" capabilities of the firm. Development tools, hosting metrics such as turn-around time, etc.

H: Industry Laggard- needy of improvement

HH: Average-

HHH: Above Average-

HHHH: Industry Leader- aggressive development infrastructure

Marketing and Sales

Marketing Strength:
Score is based on the overall marketing capabilities of the firm and its partners. The rating reflects the ability to market both locally and nationally.
H: Industry Laggard- questionable ability to develop consumer mind share
HH: Average-
HHH: Above Average-
HHHH: Industry Leader- access to significant and multiple consumer channels

Sales Channel:
Rating is based on the company's ability to place both local and national advertising
H: Industry Laggard- inferior quality, quantity, and dispersion of sales force
HH: Average-
HHH: Above Average-
HHHH: Industry Leader- broad, talented, and motivated sales force

Brand Strength:
Tally is based on the firm and its partners' overall consumer brand strength in the target markets. This is more based on enduring strength rather than within today's user base.
H: Industry Laggard- questionable long-term brand equity
HH: Average-
HHH: Above Average-
HHHH: Industry Leader- likely to have top of mind qualities

Corporate/Competitive

Overall Positioning:
Score reflects our assessment of the firm's overall market positioning. This takes into account the type of service, the market strategy, partnering strategy, overall business model, etc. This is not necessarily a reflection of anticipated success.
H: Industry Laggard- unattractive
HH: Average-
HHH: Above Average-
HHHH: Industry Leader- Excellent or novel overall approach.

Competitive Positioning:
A measure of competitive positioning based on factors including breadth/appeal of offering, regional focus, partner's and partner strategy, etc.
H: Questionable position/offering, over crowed space
HH: Average-
HHH: Above Average-
HHHH: Excellent- Unique position

Business Model:
Point total is a measure of viability of business model. This takes into account factors including near term revenue opportunities, cost structure, partnering approach, etc. The score is not a reflection of anticipated profitability
H: Industry Laggard- questionable long-term approach
HH: Average-
HHH: Above Average-
HHHH: Industry Leader- Excellent or novel business model

Financial Backing:
Obvious. How much money is in the wallet?
H: Industry Laggard- questionable long-term financial resources
HH: Average-
HHH: Above Average-
HHHH: Industry Leader- no money concerns

Content and Services
Content Strategy and Alliances
A rating based on the firm's current partner line-up, approach to the acquisition and breadth of content, and the deals attractiveness to potential partners.
H: Limited consumer/partner appeal
HH: Average-
HHH: Above Average-
HHHH: Industry Leader- aggressive player, attractive deals

Features, Functionality, Overall Site Appeal
Rating based on a user's reaction to the site. Rating not concerned with positioning of the site.
H: Weak, or questionable consumer appeal/utility
HH: Average-
HHH: Above Average-
HHHH: Industry Leader- excellent design and functionality

Exhibit 2: Discussion of Providers
Source: the Yankee Group, 1996

Company	Content/Services	Corporate & Competitive	Technical	Marketing/Sales
Zip2	Zip2's content strategy is very attractive to providers. However, the overall success of their partners' sites is ultimately out of Zip2's control. Zip2 is probably best positioned to offer their services to top and mid-tier partners in smaller markets.	Funded via VC money and private investors, Zip2 has only average backing. However, their unique business model is quite attractive to content providers as is evidenced by the recent deals with Knight-Ridder and Landmark Communications.	Very strong. Their strategy is to be the "technology inside". They offer a wide range of technologies that their partners can "plug" and "play". Technologies include: mapping, email-to-fax-to-Web, dynamic mapping, amongst others. There are the most technology focused company we reviewed. Their challenge will be to stay ahead of the curve and continue to develop a tool box of technologies directly targeted for the local community.	In this arena, Zip2 is largely dependent on the capabilities of their partners. Marketing and sales can leverage the capabilities of the newspaper, local TV or other partners who may have extensive existing channels. Zip2 will do national sales with their own sales force. Brand strength may be questionable, relying on that of the partner. In some cases, the partner's vision may leave the brand lacking. Zip2 receives high marks for their competitive positioning as a "technology supplier to the local on-line market". They do not do content and have no editorial staff. As discussed above, however, this approach is not without significant challenges.
CitySearch	CS has four primary focus areas: arts/entertainment, community information (scores, school lunches, volunteer, info), community forums (chat, etc.), multimedia directories. CS works with small/medium size local businesses to give them an on-line site (many don't even have one). Their service is very community based and is orchestrated by their own staff. In each city they may have an editorial staff of up to 50 people plus 10-15 stringers. They don't do new stories – this is left to their local partners. They aim for strategic partnerships with local TV, broadcasting, cable, newspaper, etc. firms. Goal is to be in 30 cities by end of '97. Currently in New York, Chapel Hill, Raleigh/Durham, LA, and Pasadena. Will be in Salt Lake, San Fran, Austin in 60-120 days. Will be international as well via minority investment. Working with international media company. TYG suspects they are also talking to an international phone company. Version 2.0 of their software supports transactions. Largely targeting ticketing and reservations. Transaction revenues are not a significant part of their current business model, but will be.	Funding comes from VC money and private investors. Their overall rating is based on the strength of their partnering posture. Somewhat similar to Zip2, CitySearch is viewed as a partner (not a competitor) to the local information providers. CS does not charge a set-up fee, rather they charge a small monthly fee. Don't target banner advertising as a primary revenue source. When they go into a city, they do not do classified immediately, not wanting to alienate them. Instead they look for a partner like a newspaper or TV broadcaster.	Technology development is viewed as very important. Of their current staff of 225 people, a significant share is dedicated to IT. Their technical achievements to date include: development of first standalone Java application (so says Sun), development of their own front end to a licensed mapping system, and the development of Site-Works, a development tool (similar to Net Objects) allowing very fast development of large, custom web sites. A 15-20 page site can be developed extremely quickly for no set-up cost. Compared to Microsoft, CS's set-up offer gives more customization, more pages, and costs less. CitySearch has also developed their own search engine: simultaneous key word, temporal, geographic. Currently working on intelligent agent software.	City Search has hired their own sales force based on the expense and lack of experience of other potential sales channels. In essence, they have hired a bunch of young PC-oriented folks and equipped them with PCs and sales tools. Their business model also exploits the marketing and sales capabilities of their local content partners including firms in TV broadcasting, cable, and newspapers. The cross promotion capabilities here is the primary factor behind their high rating.

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Company	Content/Services	Corporate & Competitive	Technical	Marketing/Sales
At Hand	At Hand targets two consumer segments: the ready to buy customer, as well as category enthusiasts. To this extent they are similar to several of the other on-line yellow page offerings. However, they are focusing only on California (unlike BigBook or Big Yellow). At Hand has 3 major content components: a statewide directory, 13 thematic guides (e.g. entertainment and leisure), and mapping. At Hand has struck deals with a large number of national and local information providers whose customized content "adds value to the consumer shopping experience". They currently have roughly 50 staff members.	As a wholly own subsidiary of Pacific Telesis, At Hand has more than an adequate source of funding. The merger with SBC, however, does raise questions about its longevity. Ultimately, though, its local focus on California may position At Hand somewhat better than Big Book, NYNEX and USWest.	No significant advantages or positioning here.	At Hand will use three levels of sales support. Nationally, they'll use Petrie Interactive; regionally they'll use their own account executive group; locally, they'll use a broad array of direct response and telemarketing. Marketing efforts will be supported by outdoor placement, transit, on-line keyword sponsorship, co-promotion with sponsors, etc.
Big Book	Positioned as an enhanced directory service, Big Book's value add is its interactivity. The site encourages users to "rate" businesses through an electronic voting system. By including its user base the company hopes to build a type of community and build user loyalty. Users must register in order to vote - the site currently boasts 75,000 registered users. Content providers offer local news, content and features (such as Washington Post news for the Washington area.)	Big Book provides added personalized features which position it between the pure Yellow Page offerings and the local/city guides. Once a user finds a business, they are allowed to come back and give that business a rating through Big Book's voting mechanism. Partnering includes links to relevant information sites such as Travelocity, etc. Advertising sales are the sole revenue source so far but the company is also investigating plans to license Big Book internationally. Business are listed for free, making Big Book's offering very competitive, and Big Book offers one free web page to businesses.	Big Book's approach to new technology is aggressive with nearly all the multimedia and "extras" (e.g. address book, electronic voting) developed in-house. Approximately 50% of Big Book's overall staff are devoted to I.T. The company incorporates leading edge technologies such as VRML and 3-D mapping capabilities in attempts to differentiate.	Big Book's brand is self-reliant (not dependent on partners). It has so far built a strong brand within the Yellow Pages market, but outside that niche its brand strength is unknown. Its sales force to date is not large, but the company is in talks with major newspapers (such as The Washington Post) to build its local sales channel. Note: these sales are for ads-only since Big Book doesn't charge for listings. Big Book's marketing strategy to date has focused on quid pro quo link exchanges with major sites and content partners..
Lycos CityGuide	Lycos combines its City Guide with limited original content, local map work and comprehensive city links organized into categories (arts/entertainment, business, local flavor, etc.) The cities are enhances by the People Search and E-mail search available. Both these searches allow for mapping (ex: users can search on a person and then get business searches within a five mile radius.)	CityGuide is just one portion of the overall Lycos search portfolio. As such, CityGuide will succeed or fail in step with the overall search engine. Lycos positions itself as a city guide with business search at the back. The business model is ads-based and financial backing could be limited in the long-term. Financial strength pales in comparison to the overall strength of an RBOC.	Lycos is using technology as a differentiating factor in its overall site. They have recently launched a redesign of the Lycos site, updated the search engine and included a number of various search capabilities to work in conjunction with City Guide. Lycos hires local graphic art talent to design the city maps for their area. Most of the content is served off of others' servers since it is primarily links based.	Lycos has an aggressive marketing strategy for its overall operation. The company recently launched plans to build the overall Lycos brand through partnerships including book publishing and the licensing of its search engine. CityGuide is being marketed as part of the Lycos site overall redesign, with other marketing done through partnerships (link exchanges). Because the service is new, Lycos has yet to develop strong brand in the local city guide/Yellow

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Company	Content/Services	Corporate & Competitive	Technical	Marketing/Sales
US West	USWest Yellow Pages is largely and enhanced on-line offering positioning itself to capitalize on on-line commerce. In addition to the traditional services provided by the competitors in this space, they also offer local news and some community information, but this is not a priority.	Their business model centers around banner ads, home page development, and enhanced ad buys. While their position is certainly not unique, their backing is quite solid.	USWest's technical emphasis has concentrated on fulfillment (getting advertisers and listing on-line). They have also drawn on their Advanced Technologies group out of Boulder, Colorado. To date, this group has developed "Smart Tips" and "Instant Solutions", two technologies that facilitate use of their site. Their yellow pages effort will continue to draw on the Advanced Technologies group to develop intelligent agent and other software improvements.	USWest is the 5th largest media buyer in their 14 state region. Starting in early September, USWest started to cross promote in outdoor, radio, magazines, and TV. They expect to spend 25%-35% of total outlays on advertising and marketing.
Yahoo	Yahoo has recently ramped up its local service with an addition of the 'Get Local' link on its home page. The service is modeled after Yahoo's main directory service and ties in the extensive content partnerships for a comprehensive local service offering. Original content on Yahoo is limited, since the company relies on partner links for this.	Yahoo's entry into the space is logical given its core category/directory service. The business model is based on Yahoo's overall approach - advertising sales. Yahoo is currently one of the top-ten advertising sites on the Web. Competitive positioning ranks average based on both a strong brand, but a narrowly focused, Web-dependent business plan.	Since much of Yahoo's content is links-based, and therefore hosted on partners' sites, there is a minimal extra strain on Yahoo's servers. Any increased server usage would stem from the yellow pages and white pages search engines, but content remains minimal. Yahoo therefore does not make a major extra investment into IT to support this service. For Yahoo, brand is a more important focus than technology.	Yahoo's brand is one of the strongest on the Web, so the local content service benefits from that existing strength. Yahoo is marketed (vigorously) as a directional guide for the overall web, so today's traffic is significant. The local service in particular therefore does not join Yahoo as a 'different' offering from the company's main business and is therefore marketed as yet another logical addition to the Yahoo family. As mentioned above, Yahoo attracts significant advertising dollars ($5.6 million for the first half of 1996), and also spends significant amounts promoting itself ($1.3 million in first half of year - $1.25 of which went toward a listing on the Netscape home page). On an overall scale, however, this spending still pales in comparison to RBOC marketing/sales abilities.
Big Yellow	While their footprint is national, Big Yellow is positioned as an on-line facilitator to consumer transactions within the local franchise. News and other local information will not be supported. Local or national content which is directly applicable to consumers' choice of what, when, or why to buy may be supported.	NYNEX has probably worked more than anyone in the area of on-line yellow pages. However, experience doesn't necessarily breed success. In addition, the pending merger with Bell Atlantic results in questionable long term support of Big Yellow.	NYNEX has taken a very conservative approach to technology investment. Their heritage has evolved from the early days of proprietary tool development to one of off the shelve tools.	Big Yellow's overall rating here is fairly low for several reasons primarily the limited scope of the offering/positioning, and questionable sales capabilities (NYNEX will use their existing directory sales staff to support Big Yellow). While NYNEX can certainly build significant in-region brand, their success on a national front may be somewhat limited.

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Exhibit 3: Detailed Rating Breakdown

Source: the Yankee Group, 1996

	NYNEX	Zip2	CitySearch	USWest	At Hand	Yahoo	Lycos CityGuide	Big Book
Technical Posture	1	4	3.5	3	2	2	2.5	3.5
Infrastructure and Logistics	2	2.5	4	3	2	2	2.5	2.5
Marketing Strength	2	3.5	3.5	2.5	3	3	2.5	2
Sales Channel	2.5	3	3	2.5	2.5	3	3	2
Brand Strength	3.5	2	2	3.5	3.5	4	3.5	3
Overall Positioning	2	4	3	2	2	2	2.5	2.5
Competitive Positioning	2	3	2.5	2	2.5	2	2	3
Business Model	2	3	3	2	2	2	2	2
Financial Backing	2.5	2	2	3	3	2	2	2.5
Content Strategy and Alliances	2	3.5	3	2	2.5	2	2	3