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## Clicks Are Great But Calls Are Better

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Some technology companies have been founded in a garage. Local Internet search company Natpal was hatched in a Connecticut car dealership. That's where Wharton undergraduate student and future Natpal CEO Nate Stevens realized that Internet search wasn't exactly friendly to small businesses looking for sales leads.

While working for his father's auto dealership, Stevens was charged with buying search keywords--used to deliver small text ads on Google and Yahoo--with the goal of getting Internet sales leads. The problem was that these leads often didn't result in sales.

Based on that experience, Stevens started Natpal in 2005 with Ben Rubenstein, a 2005 University of Pennsylvania history graduate, and Kartik Hosanagar, Wharton professor of operations and information management. The company recently landed its first round of venture capital financing from Bessemer Venture Partners, a firm with offices in Larchmont, N.Y., Menlo Park, Calif., and Wellesley Hills, Mass.

Natpal's mission: Bring local businesses online and then help them get sales leads via Web searches, mainly by purchasing text keywords designed to lead to a phone inquiry. For example, a consumer searching for "root canal dentist in South Philly" might see a keyword on Google, **Microsoft's** MSN or Yahoo! that Natpal purchased for a local business. However, the click to the dentist's Web site, which also can be created by Natpal, isn't the end goal. The goal for small businesses is to generate phone calls to get sales leads. That's why Natpal tracks both clicks and calls via a proprietary algorithm.

"Clicks are great, but calls are better," says Stevens. "Small businesses don't want to be muddling around with keyword strings. Most are sole proprietors and focus only on what they do. They can connect through our network."

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There is lots of opportunity. The Kelsey Group, a Princeton, N.J.-based research firm, predicts that advertising revenue from print and online yellow pages--Natpal's most direct competition--and local search will be a \$38.9 billion market by 2011. Kelsey data show that consumers are increasingly going online to look for local information, with 19% of them using online yellow pages or search engines to find area merchants. That percentage increases for young consumers: 49% of teenagers use search engines to get local information.

Rubenstein was one of those young consumers searching for local information online, but not getting good results. "If you are new to an area, you don't have a phone book, and you aren't used to using it anyway. You go to Google."

That's why Stevens says the local search market is promising. Meanwhile, small businesses--largely ignored by Web giants--need help. "Local businesses are disenfranchised," says Stevens. "Yellow pages are expensive and significantly losing steam as consumers go online. Google and Yahoo! have been focused nationally. That leaves an opportunity for companies like Natpal."

## A Land Grab Business

Natpal doesn't have the field to itself. Startups like ReachLocal, LocalLaunch--a unit of yellow pages publisher R.H. Donnelley--and Leads.com have similar ideas. Meanwhile, companies such as Yahoo!, Google and Ask.com are bolstering their local services. And then there are the yellow page directories, which are entrenched with local merchants and could expand into Internet marketing. Even Intuit, which has a deal with Google to integrate keyword ad purchases into the small business-focused QuickBooks, could be a rival.

Rob Stavis, a partner at Bessemer Venture Partners, acknowledges the competition but expects Natpal to grow rapidly because there are millions of small businesses to target. "This is a land grab business," says Stavis. "One lesson in venture business is, when you're betting on emerging markets, you want to think a lot about competition. If a company is engaged in a marketplace without competition, that may mean there's no opportunity. There is real competition here because the opportunity is large."

Stavis added that Natpal's approach, which focuses on vertical markets, was appealing to him. The company offers a full suite to track marketing spending and monitors customer service calls. It gets paid on a monthly fee and pay-per-lead model as clicks and calls get converted to customers. The fees vary by industry and the lifetime value of a customer.

At first, Natpal targeted specific geographies--Philadelphia, New York and Washington, D.C.--because it knew them best. Then, it decided to pitch specific vertical markets that are generally overlooked but depend on repeat business.

According to Rubenstein, Natpal didn't intend to target specific business niches, but over time it became clear that was the best course. "In the early days, we took a shotgun approach and targeted anyone who would listen," he says. After a while, he and Stevens noticed there were certain verticals that worked better with Natpal. For instance, it made no sense to target restaurants since information such as ratings and reviews was readily available online from a bevy of sites.

The businesses that Natpal targets often share key characteristics. First, clients depend on repeat business--or have a high lifetime value of a customer. A dentist is a good example: Once he gets a new patient, chances are good that a customer will return every six months. Cosmetic surgery and home improvement are other areas that have high lifetime customer values. In addition, Rubenstein says, a niche has to have some search volume. For instance, a dentist in a densely populated area is likely to garner more interest online than one in a rural area.

"We have 50 verticals, including spas, dentists, lawyers, medical and home improvement," says Rubenstein, adding that within these verticals there is value in buying keywords that are off the beaten path. For instance, a search like "cosmetic surgery nose job South Philly" may yield fewer clicks but deliver more qualified sales leads to a client.

Natpal buys keywords for its clients at such sites as Google, MSN, Yahoo!, online yellow page directories and elsewhere. The primary reason: Google keywords are more expensive and may not deliver the same returns for a local business. After all, a small business doesn't need 10,000 page views a month. It needs 10 qualified sales leads.

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Generic keywords like "cosmetic surgery" are also out, notes Stevens. "Often there is more value on not-as-popular keywords because there is not as much competition. If we match them up properly, there are good conversion rates. Our goal is to make the merchant be the answer to a search."

Stavis notes that Natpal's methodical approach to expansion makes sense, especially when it comes to local information. Moving into a market before Natpal knows the landscape could be detrimental. "Natpal brings knowledge of the vertical [market] and geography. Knowing that [allows you to] deliver search results for a dentist in the same neighborhood, compared to across town. Geotargeting is a complicated problem to solve," says Stavis.

## A Defensible Business Model

Solving the local search issue requires proprietary technology if Natpal's business is going to be defensible. After all, there are many search engine marketing companies, and the local market is increasingly getting attention.

To establish a business that could take on yellow pages directories and emerging startups, Natpal brought in Hosanagar, who developed an algorithm designed to optimize keyword search campaigns. The algorithm factors in the queries typed by consumers, click rates and how often those interested parties call a phone number. Natpal's technology also tracks conversions from the Internet to a phone call and allows businesses to listen in on customer service inquiries.

"The big challenge for Natpal will be differentiating itself in the long term," says Hosanagar. "We had to design intellectual property to find keywords, determine how to bid and what to bid on. But we also had to record the phone call and offer

meaningful metrics to provide value. A small business wants to know what the return is for every dollar spent."

Rubenstein says Natpal's technology also has to be packaged in a way that entices small businesses to join its network. That means monthly contracts. Rubenstein argues that many small businesses chafe at paying annual fees to yellow pages directories with returns that are harder to track. If Natpal doesn't generate returns for a business, that business can move on. "We're confident in our platform, so we offer monthly renewals," says Rubenstein. "It has been a huge selling point for small businesses."

In the field, Natpal will most likely compete with yellow page directories for small-business marketing dollars, although both Stevens and Rubenstein say these directories aren't a big threat because they don't want to "cannibalize their existing model." The big worry, Stevens says, is other startups.

### **Market Online, Sell Offline**

While Natpal targets online marketing, its sales techniques are decidedly offline. Natpal's most popular sales channels are face-to-face meetings and telemarketing. There's a reason for that: Small businesses don't have the time or know-how to figure out Internet self service.

"We're targeting businesses that aren't online. Not many electricians or dentists take the time to develop Web sites and buy keywords. We make Web sites for them, which they may not even see," says Rubenstein. "But as long as we route calls to them, they are happy. Small businesses don't care about clicks. They want more business. There's a tracking phone number on all our Web sites. We can also see what pages a consumer viewed, the IP (Internet Protocol) address and whether [he or she] submitted a phone call or e-mail lead."

Hosanagar adds that industry conferences, personal meetings and telesales are vital to court small businesses. After all, that's the primary way yellow page directories have been dealing with small businesses for years. Natpal's "feet on the street" approach is what may ultimately differentiate the company from others, he notes.

All involved with Natpal agree that one of the larger challenges the company will face is automating parts of its sales process. Offline sales channels could become more expensive as the company expands into new markets. "Sales scalability is an issue," acknowledges Hosanagar. "A lot of local businesses need to be sold in person. We can selectively target over the phone, but we expect a large part of sales will be based on one-on-one interaction."

According to Hosanagar, Natpal will have to "automate some of the on-boarding process" somewhat, but he also adds that word of mouth goes a long way, too. Once one neighborhood electrician signs with Natpal, it's easier to pitch his or her peers on online marketing services. Natpal will also forge partnerships to sell its services. Stavis notes that Natpal's offline sales approach gives it an image as a "soup to nuts" online marketing provider. "Offline services add to Natpal's ability to improve customer attraction," he says.

The big question facing Natpal is whether it can scale its business nationwide, given that its sales efforts could be labor intensive. Can it realistically target locales across the U.S.? The company does have clients in many regions beyond the Northeast corridor, but so far its efforts have been focused on the East Coast. Natpal also plans to target new vertical markets as it expands.

"Selling to local advertisers sounds great, but it's very difficult," says Matt Booth, senior vice president and program director of interactive local media at Kelsey Group. "The issue is customer acquisition costs."

Stevens acknowledges the challenge, but he says this is why Natpal sought venture capital funding. It plans to invest in its technology platform so it is better suited to adapting to new locales and automating customer processes.

Natpal also plans to expand its management team as it launches in new vertical markets and locations. The company recently named Court Cunningham as CEO. Cunningham was the chief operating officer of Community Connect, a company that creates Web sites for ethnic groups, and prior to that, he was a senior vice president at DoubleClick, where he led the company's marketing automation efforts.

In addition to Cunningham, Natpal has recently hired a chief technology officer, John Merryman, and vice presidents of client services and sales, Milind Mehre and Vartan Hagopian, respectively.

According to Stevens, the hiring of Cunningham will allow Natpal to reach the next stage of its development. Stevens, president of Natpal, will lead the company's charge into new markets. As for looming competition, he isn't worried. Some of the most likely rivals are also likely to be partners. "You're often in bed with your nearest competitor," he notes. "It's early, and local search is a nascent space."

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