

In shadow of Internet giants, niche firms customize a local Web

March 29 2010, By Scott Duke Harris

The World Wide Web won over Wall Street in 1995, when Netscape's dazzling debut ushered in the dot-com era.

Main Street, however, has been a tougher sell. True, Web sites have long been a marketing tool for merchants, restaurants and service providers, but the medium's interactive power has made a relatively modest impact on local economies. Now a new wave of startups, as well as giants like Google and Yahoo, are trying to tap the multibillion-dollar potential of what is often called "the local Web."

The local Web is rapidly evolving amid the converging forces of online [social networking](#), location-savvy smart phones and an array of new [business models](#). The trend represents new opportunities for small and medium-size businesses -- and new challenges for stalwarts such as the Yellow Pages and newspapers. Many of the new startups are certain to fail, but [venture capitalists](#) are betting hundreds of millions that some will succeed.

"The local space is on fire," said Jennifer Dulski, a former Yahoo manager who is now the co-founder and CEO of Center'd, which uses search technology to create online guides to 50 American cities. "It's one of these nuts people have been trying to crack for a long time, and now all these elements seem to be coming together."

"There's very much a trend toward local," said Christopher Howard, who as vice president of interactive for the Bay Area News Group leads

online initiatives for the San Jose Mercury News and its sister papers. "It remains to be seen whether they are competitors or potentially partners for us."

Howard said the Mercury News and other papers in the Bay Area News Group will roll out a series of online services and products tailored to local retailers in the coming months.

The potential of the local Web was vividly demonstrated by Craigslist, with free classified ad listings that gobbled up a market once dominated by newspapers. OpenTable, an online reservation service that persuaded thousands of restaurants to install its software, is a niche success whose initial public stock offering in early 2009 provided encouragement to other local Web entrepreneurs.

Among the new crop of local Web startups, Yelp, the site that encourages consumers to post reviews of local businesses, may be the best known and most controversial. Not long after Yelp reportedly walked away from a \$500 million acquisition offer from Google, it was hit with a class-action lawsuit from businesses that allege its sales technique amounts to extortion -- a charge Yelp denies.

The startups compete for local dollars in a variety of ways. Milo, NearbyNow and Krillion offer different approaches to promote shopping in brick-and-mortar stores. Special local "deals" are being promoted by LivingSocial and Groupon, with costs reduced by group buying. Redbeacon and Thumbtack try to connect consumers with service providers ranging from electricians to personal trainers, while RentCycle aims to simplify equipment rentals. Features on Facebook, Twitter and various smart phone applications alert consumers to goods and services in physical proximity.

Traditional businesses are adapting to the local Web. A case in point is

Perfect Shine Housekeeping, a family-run business in Campbell, Calif., that since 1995 has dispatched cleaning crews around the Bay Area but didn't create a Web site until 2006. Owner Eric McDonald said he was long wedded to "the old school philosophy" of relying on his Yellow Pages display ads at a cost of about \$500 a month.

A few years ago, McDonald dropped the Yellow Pages and applied his ad budget to the online site ServiceMagic, but was frustrated that it charged \$13 for every lead it generated, regardless of whether he got the job or not. More recently, he has bid for jobs on Redbeacon, a startup that aims to automate the process of shopping for service providers, be it electricians or personal trainers.

A San Jose, Calif., resident, for example, recently posted a request for someone to replace a broken toilet with a new one (already purchased) at a specified date and time. Within 24 hours, nine bids came in, ranging from a handyman seeking \$50 to a plumber asking \$150. Redbeacon takes a 10 percent commission.

Founded by three Google veterans, Redbeacon debuted six months ago at the TechCrunch 50 startup showcase, winning top honors and a \$50,000 prize, even as skeptics questioned its ability to grow.

Redbeacon CEO Ethan Anderson said his startup has had more success attracting service providers than consumers. He's hoping that changes through a new revenue-sharing integration with BigTent, a San Francisco-based startup that provides Web services to hundreds of clubs and nonprofit groups, including many mothers' groups. Moms, Anderson said, represent a critical demographic for Redbeacon because they make so many household decisions. Redbeacon's also adding a social element through Facebook Connect, enabling friends to comment or make recommendations.

Just about every local Web startup poses a challenge to the Yellow Pages, which for generations has been the go-to source for local businesses. Keith Rabois, a director of Yelp and Milo, points out that many consumers, especially in tech hubs like Silicon Valley, routinely use [Google](#) and other search engines instead of print directories.

AT&T launched its own Web offerings years ago, enabling its 5,000 sales people to sell "multimedia" advertising packages, according to spokesman Bob Mueller. The physical Yellow Pages directories produced by AT&T and others remain thick and ubiquitous, Mueller said, while online traffic is growing at the domains Yellowpages.com and YP.com, where many listings now also include user reviews.

AT&T is also beta-testing a site called Buzz.com, which provides localized referrals and ads.

Dulski of Center'd and Howard of the Bay Area News Group both said the newspaper industry's sales teams -- "the feet on the street" -- are an asset that could lead to partnerships. Web startups, Howard said, struggle with "that last quarter-mile" before deals get done.

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