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Reply and MerchantCircle: Leads, Clicks and a Huge SMB Network

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Summary: Reply has bought MerchantCircle in a deal that will attempt to funnel MerchantCircle's 1.6 million registered SMBs through Reply's leads and Enhanced Clicks platform. The combined company brings together 25 million unique visitors a month and represents the state of the art in vertical and social marketing.

Reply has acquired MerchantCircle for \$60 million in cash and stock in a deal that bets big on winning small-business accounts via vertical and social marketing. The deal, which should be completed in the third quarter of this year, will match MerchantCircle's 1.6 million SMB members with Reply's "leads or Enhanced Clicks" platform. The two companies began working together in March 2011 on a Request for Quote lead generation product.

An initial public offering could roll out in the future, although company principals say they are not in a hurry to IPO. Reply filed an S-1 with the U.S. Securities and Exchange Commission last year. Both companies report they have been profitable for at least two years.

MerchantCircle had raised \$14.3 million since its founding in 2005 from high-profile investors including Scale Venture Partners (formerly Bank of America Venture Partners), IAC, Rustic Canyon (Chandler family) and Steamboat Ventures (Disney). Reply, which was founded in 2002, has raised \$17 million from several venture firms and individuals.

Under terms of the deal, Reply CEO Payam Zamani will run the operation, which will comprise Reply Marketplace for locally targeted traffic and Reply Media, which encompasses all the company's consumer

facing online destinations. MerchantCircle CEO Ben T. Smith IV will be president of the media division and report to Zamani.

25 Million Unique Visitors

The combination of Reply and MerchantCircle brings together 25 million unique local visitors a month to company-owned online properties. Destination sites, vertical search and content, social media and mobile applications all play a role in the combined companies' expectations for growth.

Reply has banked heavily on its stable of destination sites, which include owned and operated vertical sites such as Contractors.com and iMotors.com. It also has a growing group of local and category-specific websites, such as FastRoofingBids.com and ConnectWithLife.com.

Historically focused on autos and real estate, Reply expanded into home improvement in 2010 and added insurance and education this quarter. Reply's publisher and advertiser list includes big-name online marketing companies and well-known national brands, such as Hearst Newspapers, Local.com, CityGrid Media, Ford Motor Co., Nissan, Kia, Cars.com, Market Leader, Dominion Enterprises, GEICO, ServiceMagic and Sears Home Services.

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An explosion of mobile apps is also expected to generate traffic for Reply. The company recently acquired adHUBS, which focuses on the development of “commuter apps” that people might use during their commutes, such as games, recipes and sports. These will presumably help reach more attractive, younger demographics. As part of Reply, adHUBS will focus primarily on mobile applications that relate directly to the key vertical markets that Reply services.

MerchantCircle, which was founded in 2005, also brings a roster of destination sites to the table. These include its flagship site, which provides information on businesses, like a standard Internet Yellow Pages, but also allows consumers to engage with nearby business owners. In addition, MerchantCircle recently purchased several sites, including Bloglines.com, which provides consumers with access to a customized blog and news content. The company launched a beta of Bloglines Local to further strengthen its focus on locally targeted traffic generation.

MerchantCircle has also recently added a content studio, a Q&A platform, an appointment scheduling service and a leads widgets. These new services have

contributed to a high engagement factor among the SMBs that participate in the MerchantCircle network. Indeed, the company asserts that it has developed the largest social network of local businesses in the country.

On a monthly basis, 25 percent of the member base — 400,000 — is actively engaging with the network. Some members are said to spend two or three hours a day on the site.

Reinforcing Reply’s Marketplace Strategy

The large volume of SMB-oriented traffic resulting from the Reply/MerchantCircle combination should provide a boost to the Reply Marketplace, which connects price quote-seeking consumers to merchants via traditional leads or Enhanced Clicks. Reply’s operating hypothesis is that consumers are sometimes more willing to provide the “what” and “where” of their inquiry if they aren’t asked to provide full contact information, which is a process they consider either cumbersome and/or too revealing.

The company gets the “what” and “where” information via search boxes within ads on major online media sites, social media sites and portals — each of which participates in Reply’s revenues. It also gets the data via contextual widgets and the company’s exchange platform. An ad on a home improvement portal, for instance, might have a search box that lets a consumer search by ZIP code for a specific type of contractor services (“Metal Siding in 12026”). When Reply receives the Enhanced Click, the consumer is sent to a relevant site that can address the consumer’s stated needs.

Besides getting more leads from consumers, Reply has focused on the development of Enhanced Clicks for another key reason: They provide consumers with a better chance of getting a response to their query. In fact, no company has 100 percent coverage for leads. As a result, consumers will often complete a full lead form and not receive any response. If the Reply Marketplace determines there isn’t leads coverage prior to form completion, on the other hand, it automatically switches

MerchantCircle Services

SOURCES: BIA/KELSEY, PUBLIC INFORMATION (2011)

MERCHANTCIRCLE SERVICE	INTRODUCTION
Request for Quote	May 2011
Appointment Scheduler	November 2010
Bloglines	November 2010
MC Answers	September 2010
Local Content Studios	August 2010
Neighbors	September 2009

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the consumer to an Enhanced Click.

A third advantage of an Enhanced Clicks-driven Reply Marketplace is on the advertiser side: It enables advertisers to buy leads and Enhanced Clicks on both a geotargeted basis and through a single auction-based marketplace. As it turns out, many advertisers will bid for both leads and Enhanced Clicks depending on the level of control they want over the consumer experience.

Advertisers that want to control the consumer experience and present their own brands tend to purchase Enhanced Clicks. If they want to benefit from Reply's highly optimized lead funnel, advertisers purchase leads.

Reply has found that the mix of leads and Enhanced Clicks can be different for every vertical category, based on advertiser and user conditioning. Reply has verticals that are dominated by leads (such as autos) and other verticals where the advertisers purchase more Enhanced Clicks than leads (such as real estate). In May

2011 Reply's network generated more than 2 million Enhanced Clicks and leads across its main verticals.

Final Thoughts: Success Factors

Reply's success — and now MerchantCircle's — will ultimately be determined by several factors. These include Reply's ability to:

- Generate sufficient traffic from its publisher network.
- Get fresh and high-quality traffic and leads compared with its more traditionally oriented competition.
- Evangelize a leads program to less mature verticals that haven't traditionally been oriented toward any kind of paid leads.

Although these efforts may simplify the process of connecting buyers and sellers, they will inevitably require some changes in advertiser and user behavior. If this does not prove to be a barrier, MerchantCircle's volume and targeting should be a major help in getting Reply the volume it needs. **MKT**