



CLIENT MEMO/ February 14, 2005

Notes From The Yellow Pages Association Convention

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Las Vegas -- At last, it is as much about the well-heeled, \$15 billion Yellow Pages industry's exit strategy as its metamorphosis.

The Yellow Pages Association's annual convention in Las Vegas February 6-8 saw an industry that boasted of multiple channels ("Print-Internet-Wireless"). Taking its cues from Yahoo!, Google and AOL, industry members from the podium indicated that they were more in the "local" advertising business than the Yellow Pages business.

But the open talk of exit strategies is what lingers. With the rise of independent books breaking the virtual monopoly of the telco books, the inability of Internet Yellow Pages (IYP) to catch on in a big way, and "the next big thing" envisioned in the form of Google (and possibly wireless), publishers were mulling over the changes they'll need to make to keep the industry relevant.

Some hinted they will sell off their books to allow for more synergistic combinations and to take advantage of high Wall Street valuations. Independent publishers, who have not invested much in Internet services, seem especially likely to travel this route. Their expectation, in fact, is that Yahoo!, Google or some major newspaper publisher player will swoop in for the buy, as Hearst Corp. did late last year with White Directory. Kathy Hipple, CEO of Ambassador Publishing in New York even suggested that the Hearst deal shows that "newspaper portfolios are not complete without Yellow Pages (although we think the Hearst deal, between two private companies has limited implications for other newspaper-YP combos).

Some of the larger telco books may also be sold or spun off, given the high Wall Street valuations, in order to finance their parents' expensive forays into fiber and video. Others apparently intend to merge with, or buy, search companies such as InfoSpace, Ask Jeeves and others that might position them to continue dominating local small business advertising.

There will be a "shakeout to maybe two to three players," predicted Verizon Information Services President Kathy Harless. "I think you'll be surprised by who our partners will be."

Even though IYP represents less than three percent of industry revenues, the role of IYPs and other Internet services came up time and again. “It’s the topic on everyone’s mind,” said Terence M. O’ Toole, managing director of Goldman Sachs. “How are the Yellow Pages going to tackle online?”

This brings us to metamorphosis. On the usage side, Kelsey Group research indicates that IYPs have stalled with 24 percent of Internet users – the same level as two years ago. Meanwhile, search engine usage has shot up from 57 percent to 71 percent. On the sales side, Kelsey paints a brighter growth picture. The firm found that IYP penetration has shot up 60 percent since 2003 and that more than 20 percent of small businesses now have IYP as part of their promotions mix.

On the Yellow Pages Association podium, publishers expressed satisfaction with their progress with IYPs, even though their revenue numbers remain relatively small. “We have no concern whatsoever about the product introduction on the electronic side,” said Dennis Payne, President and CEO of SBC Yellow Pages, which is combining its Internet operations with BellSouth Real Pages, and taking over YellowPages.com. The new entity will relaunch in November, 2005.

Payne added he was “excited” about the profitability with the online business. “It’s not the level of print, but it has a very good margin,” he said. Moreover, while Google! Yahoo and InfoSpace compete against traditional YPs such as SBC, Payne noted that they also use SBC to sell for them. “We think a lot more about adding compatibility” with the dotcoms than competing against them.

George Burnett, President and CEO of Dex Media, also painted a sunny picture for IYPs. Even though Dex didn’t launch searchable inventory until 14 months ago, “We’re growing share every quarter,” he said. As for the Yellow Pages alarming drop in references, he said the data is being misread because the print product is still being looked at in a vacuum. When the industry’s print, Internet and partnership results are combined, “you’re seeing an increase in Yellow Pages references,” he said.

The ace-in-the-hole for Yellow Pages publishers, according to Burnett, is the industry’s local sales forces and the focus on in-channel, bundled sales with print. “The experience our competitors have had with self-service has been modest at best,” he observed.

Burnett added that the industry was well prepared to deal with the convergence of cable, telcos and wireless, which he predicts will be “dramatic” over the next five years. The faith of the Yellow Pages industry in convergence was reinforced in the exhibit hall by a prototype interactive television service produced by Amdocs, the industry software vendor, and Orca Media. The prototype enables TV viewers to perform directory searches, look for hot deals, view streaming informational videos and conduct simple commercial transactions.

But others on the sales side indicated that the experience of working with IYP has been sub-par to date, and that the industry isn't ready yet to confront such futurist applications. Too many IYP firms take too long to post ads, said Kathy Geiger-Schwab, Executive VP of The Berry Company, the Certified Marketing Rep firm owned by BellSouth. "It shouldn't take six weeks," she said. Moreover, the reality is that consumers "won't go beyond one or two pages of results. We need to have ratings for these." In general, Geiger-Schwab said "we need to make our product more functional, and capitalize on its content."

Norm Hagerty, managing partner and CEO of DAC Group, Canada, said that it is time for the industry to face facts: the Yellow Pages are in decline. "If you focus on market share, you are staring at ghosts," he said. "You can't tell people they don't want to advertise on TV." But he said there would be more promise in the industry if it could develop better tracking research, a point made by several other speakers.

Forrester Analyst Charlene Li was equally blunt, giving the industry six years before the superiority of online competitor solutions wipes out the entire industry. "The Yellow Pages are very behind in local search," she said. "You're going to be toast in six years unless you make some dramatic changes."

But Li said it wasn't too late to make such changes. The reality about local, as a category, she said, is that no single player could hope to dominate. This holds true for other categories. Even Google is not close to dominating its own corner of the world, she said.

Li suggested that IYPs especially consider partnering with newspapers, which she noted are "really, really behind." They bring daily promotion to the table, but "don't have a directory channel and don't have a shopping channel." These are areas, she suggested, that IYPs can help in.

Our view embraces "all of the above." The Yellow Pages industry has been brought down to earth by its inability to make its print product "fungible" online. Moreover, the rise of independent competitors such as Yellow Book and Internet portals and search engines has shattered the myth of that there is much synergy in having "one billing relationship" between telecom, wireless and Yellow Pages.

The rise of self-serve alternative ad models such as Google's paid search also casts doubt on the real value of the personal relationship between a Yellow Pages salesperson and small business. As someone said at last year's YPA show, "it comes down to: 'do you want to be in the book or not?'"

Yet YP remains the paradigm for building marketing relationships with small businesses – whether the sales person knows the names of the advertiser's kids or not. The industry's current emphasis on leveraging its universal print distribution, its proven ROI, and its deep local sales forces remain building blocks for the next generation of small business marketing.