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# SUBCOMMITTEE HEARING ON THE IMPACT OF ONLINE ADVERTISING ON SMALL FIRMS

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COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

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# SUBCOMMITTEE HEARING ON THE IMPACT OF ONLINE ADVERTISING ON SMALL FIRMS

**Wednesday, June 25, 2008**

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
*Washington, DC.*

The Subcommittee met, pursuant to call, at 10:03 a.m., in Room 1539, Longworth House Office Building, Hon. Charlie Gonzalez [chairman of the Subcommittee] Presiding.

Present: Representatives Gonzalez, Lipinski, Altmire, Westmoreland and Chabot.

## OPENING STATEMENT OF CHAIRMAN GONZALEZ

Chairman GONZALEZ. I call this hearing to order.

I would preface my opening statement by thanking certain individuals that have been instrumental in our ability to actually look into this particular subject matter, which I think looms large for every businessman and woman in the United States, big or small.

First, of course, to our Chairwoman, Nydia Velázquez, who has allowed the committee and every member, majority and minority party members, to not only express an interest in what we believe are timely issues but to allow us to address them in a hearing setting, which means everything that is being said gets recorded. And this basically will allow us a resource, which we can then move on to the issues that confront Congress and what we are going to do regarding, again, certain challenges that are being faced in today's modern business world.

Secondly, committee staff, can't say enough about them. The amount of work that they put in, in just the preparation of the memorandum, just quality work. Again, this is information that we make reference to with our clients when individuals ask us to describe the issue in general terms. It is because the hard work of the members of the committee staff that we are able to put something together.

My own staff, special thanks because I cause them so many headaches on this particular subject.

And this is only the first step, and I am hoping that we will develop something more comprehensive and that we take the ideas and the recommendations of those in the real world before we fashion any kind of regulatory relief.

Dawn Rivers Baker, who actually has an online publication, "MicroEnterprise Journal," I want to thank Dawn for alerting me to what really is perplexing to many businesses that are definitely not big, may not even be small but truly are micro businesses. And

they even have different challenges from what we refer to as small businesses.

And last but not least, to the author of the book ″The Search,″ John Battelle, for his ideas in the conversation we had the other day, but more for the fine work—the book is over 2 years old, but I still recommend it. I think it is kind of basic text if you want to try to understand where all this is going as far as the Internet.

This morning the subcommittee will examine the increasing value of online marketing to the small business community. The speed and interactivity of the Internet have helped millions of entrepreneurs identify and attract new customers. But, unfortunately, not all small firms have been able to capitalize on its power. Even today, many small businesses face significant roadblocks to optimizing their online presence.

In today's hearing, the subcommittee will hear from entrepreneurs who have launched successful Web marketing campaigns as well as from content providers who support display ads and use the pay-per-click platform. We will also listen to testimony from small business owners who have both benefited from and have been challenged by search engine technology. These witnesses will testify not only to the advantages of online advertising but also to its limitations and its demands.

More and more consumers are using the Internet to shop and research products prior to purchase. In fact, the National Retail Federation reports that over 92 percent of adults conduct Web inquiries before buying products in stores. And studies show that these shoppers are doing more than just their homework. They are buying. In 2007, online retail sales grew 16 percent to reach $116 billion. Forecasts by JupiterResearch show this trend to be on the rise with online sales expected to reach $171 million by 2011.

In keeping with Internet sales, the online advertising industry is rapidly growing as well. Indeed, Web ad revenues totaled $21 billion last year. The entire industry expanded by 45 percent annually between 2003 and 2006, and is expected to exceed $50 billion in 2011. By 2007, profits from online advertising had already eclipsed those for radio advertising.

Needless to say, Web ads present significant revenue opportunities that small businesses cannot afford to ignore. What distinguishes online marketing from more traditional means is its abilities to micro target potential customers based on browsing histories. According to WebVisible-Nielsen, an estimated 74 percent of consumers use services like Yahoo! or Google when shopping online. For small businesses hoping to identify and appeal to new clients, these systems offer a refined approach to tailoring ads and generating revenue. As people increasingly look to search engines as a jumping-off point for commerce, small firms must learn to embrace and effectively utilize this particular method of advertising.

But even with this potential, many entrepreneurs are unable to fully take advantage of these tools. In order for them to reap the rewards of search engine marketing, small businesses must first and foremost design their home pages with Web browsers and search engines in mind. While many entrepreneurs are already doing so, millions more don't have the resources to build such search-engine-friendly Web sites.

In examining the state of online advertising, it is important that we keep an eye towards the industry's future. This way, we can assure that small businesses have the kind of diversification that will allow them to get the most out of their often limited budgets. We must keep in mind that unlike their corporate counterparts, small businesses don't always have the funds to pay for ad spots on prime time television. Rather, they need to be more strategic in their approach and seek out ways to make their dollars stretch further. Online marketing is a great way for them to do this. And it is crucial that the industry remain a viable, accessible, and affordable option.

For small businesses, technology has been a remarkable field leveler. It has allowed many firms to compete on equal level basis with companies 10 times their size, but as with any technology, entrepreneurs must learn to evolve alongside the Web and industry, because in a world that increasingly revolves around e-commerce, small businesses that cannot compete on the Internet, will not compete anywhere. And this is a disadvantage our entrepreneurs cannot afford.

I look forward to today's testimony, and I thank all the witnesses for participating here today.

I now recognize Ranking Member Westmoreland for his opening statement.

**OPENING STATEMENT OF MR. WESTMORELAND**

Mr. WESTMORELAND. Thank you, Mr. Chairman.

And thank you for holding the hearing today.

And I would also like to thank all the witnesses for coming and participating.

Mr. Chairman, I think it is safe to say that the Internet has changed the way we all live our lives.

Everything from how we eat to how we dress to how we receive our medical care has evolved since the arrival of the Internet age.

Of particular significance is how the nature of business has been forever changed by this technology. The speed at which we gather large amounts of information has made us more informed customers, but even more importantly, it has changed the relationship between retailers and consumers.

This change in the commercial landscape is providing a more advantageous environment for small businesses to advertise their services to potential customers. The basic techniques of Internet advertising mirror those of the more conventional advertising. However, conventional advertising, such as listings in the Yellow Pages, is not cost-effective due to the low response rate that those ads generate. On the opposite end of the spectrum are radio, television and cable ads, which are very effective. But as all of us know that have run a campaign, they are also very expensive.

Internet advertising provides benefits to small businesses by helping them to effectively target customers on a more cost-effective basis than conventional means. This means that a small business that was once limited by geography is now able to advertise their products to a customer thousands of miles away for the same cost as advertising their products to his next door neighbor. Through the use of media forms of Internet advertising like rich

media, lead generation and keyword searches, small businesses are in a position to compete globally.

As a former small business owner, I understand the many barriers that prohibit businesses from entering the marketplace. While I am looking forward to hearing about how the utilization of these tools have helped small businesses succeed, I am also interested to hear what we in Congress should be or should not be doing to help more small firms achieve success.

Again, I welcome the distinguished witnesses, and I thank you again, Mr. Chairman, for having the hearing.

And I especially look forward to hearing from the builder over here because I spent all my adult life in the building business.

But thank you again.

Chairman GONZALEZ. Thank you, Mr. Westmoreland. Thank you for your participation and a special thanks to your staff for working so well with the majority staff.

I am going to instruct the witnesses of how we operate. You have 5 minutes basically for your testimony. Now I realize you have submitted written statements. Those are made part of the record. I know 5 minutes goes by really quickly, but please understand that you probably will be able to expand on your remarks when we go into the question and answer. Depending on how many members filter out today, I may be very fortunate and Mr. Westmoreland may be very fortunate that we will have you to ourselves because we have plenty of things to ask you about.

I first would ask you to please observe the timer. In essence, you have 5 minutes. When yellow comes on, you have 1 minute; and of course red, time is up. And then I will remind you, I think Mr. Chabot was going to be introducing the first witness, but he is not present.

Okay. They tell me that he is on his way so we are going to go ahead and kind of reverse the order and pull that on you real quick so that Mr. Chabot will have the privilege of introducing what I believe is maybe a constituent.

I know you are from the Cincinnati area, so I am just assuming that you are one of Steve's constituents.

So I am going to start at the other end with Mr. Richard Lent. And Mr. Richard Lent is founder and CEO of AgencyNet in New York. AgencyNet is a full service award-winning interactive shop that specializes on all aspects of digital marketing. The creative shop has 47 employees and an annual revenue of $6 million. Mr. Lent is chairman of the board of the Society of Digital Agencies.

Mr. Lent, if I change one more thing on you in the space of 30 seconds—that is the way we operate. But Mr. Chabot is here. And I know that Mr. Chabot is the ranking member of the entire committee, but he has taken the time to be here to introduce the first witness. So I am going to go ahead and defer to Mr. Chabot because I believe that he probably—not the fact that he is just the ranking member of the entire committee but, again, just because I know that he has other scheduling conflicts.

And at this time, the Chair will recognize Mr. Chabot for the purpose of introducing Mr. Carter.

Mr. CHABOT. I thank the gentleman from Texas for his kind remarks.

And he is a great American, by the way. I really like Mr. Gonzalez.

But in any event, I do appreciate the opportunity to introduce—Mr. Westmoreland is a great American as well.

Mr. WESTMORELAND. I was wondering.

Mr. CHABOT. But I wanted to introduce another great American, and this gentleman happens to be from my district, from Cincinnati. And I am very, very pleased to be able to welcome him here. And his name is Mr. Tim Carter.

And when Tim left the University of Cincinnati with his geology degree in hand, he declined a scholarship to graduate school, and choosing instead to indulge his entrepreneurial spirit and go into the home remodeling business. An eventual master carpenter and plumber and roof cutter, his array of knowledge taught him that there were more cost-efficient ways to handle jobs.

At the urging of his wife, Tim began writing a syndicated newspaper column called ″Ask the Builder″ that found a home online all the way back in 1995. AsktheBuilder.com, just as it sounds, that is the way it is spelled, and that is what it is, AsktheBuilder.com, was early into the online advertising fray, and it is an excellent example of how an entrepreneur with a good idea can utilize the Internet and be successful and prosper and help people all over the country in a particular area that they have substantial knowledge in.

I am sure Tim will be able to provide the subcommittee with an interesting perspective on the evolution and direction of Internet advertising. It has been very successful for him and those who have utilized his services, and I think will be very revealing to many of us this morning.

I want to thank the chairman and the ranking member, and I continue to think they are both great Americans.

Chairman GONZALEZ. Thank you very much, Mr. Chabot.

We are going to then resume in the order in which the witnesses are set up. So we will start with Mr. Carter.

## STATEMENT OF MR. TIM CARTER, FOUNDER, ASKTHEBUILDER.COM, CINCINNATI, OHIO

Mr. CARTER. Chairman Gonzalez, Ranking Member Westmoreland and Ranking Member Chabot and other members of the committee, I sincerely thank you for granting me this opportunity to address you and, perhaps more importantly, answer any and all questions you might have concerning the impact of online advertising on small businesses and here in America.

I have been a small business person my entire life. Within months of graduating from college in 1974, I was operating my one-person remodeling and building company. When I started, I had so little capital, I had to borrow some of my dad's tools and make others out of scrap lumber. But diligence, determination, and discipline have allowed me, with the help of my wife, Kathy, to build that small business into a sizable Internet publishing company that has discovered quite by accident what appears to be the true sweet spot of online advertising.

In the 13 years I have been operating AsktheBuilder.com, I have accumulated strong evidence to prove that online advertising, when presented in the correct format and in the right context, is a powerful tool that solves the millions of problems consumers have each day. Tens of thousands of the small businesses like AsktheBuilder.com are making a positive impact economically from the ability to reach customers with online ads. Their combined success helps contribute to our gross national product. Small businesses that have an online presence are an important and growing part of our economy.

The transition from a hands-on remodeler to Internet publisher has been fascinating. When I was still working in the field as a builder, I was solving problems for my customers. They had leaking roofs, peeling paint, sticking doors and countless other issues that needed attention. Because I was just a one-person company, it was only possible for me to complete perhaps 20 or 30 jobs a year.

But the Internet has changed all of this. Now I can share my nearly 35 years of accumulated home improvement knowledge via my articles and videos with millions of consumers at one time. Each day, 40,000 people on average come to AsktheBuilder.com for this help, and they get it for free.

I am able to provide this service because of the revenue I receive each day from online ads. Not only do the visitors to my Web site get my advice, but through the ads that are displayed within my content, my visitors connect with companies that provide them with the exact materials and services to repair, remodel, and build their homes. Not only do I sell my own ads, but I also serve ads that are delivered to my visitors by Google, Kontera, Taboola, and Amazon.com. It is fast and easy to create the small amounts of code to insert on my Web site so these ads appear. Any small business publisher can do what I have done. And hundreds of thousands of them are displaying these ads, even now as I address you.

I am fortunate to be a charter member of a group of small business Internet entrepreneurs. Many in this group are thriving businesses that in one way or another directly benefit from online advertising. Ravenwood Marketing, based in Boulder, Colorado, is one. This small business specializes in performance-based search engine marketing and was ranked the number one fastest-growing Denver-area private company by the Denver Business Journal in 2006. Ravenwood is a three-person small business that purchases online ads in search engines and gets paid when it delivers high-quality leads and actual sales to other small and large businesses.

The dynamic growth of this small business would not have been possible were it not for online ads. Prior to the Internet, it took days, weeks, or months to reach the same audience that can now be reached in seconds with a click of a button. This blazing productivity is indeed an advertising paradigm shift of epic proportions.

When I announced to my AsktheBuilder.com newsletter subscribers that I would be testifying today, I heard from many who were small business owners. Ms. Rachael Kahne is a community development coordinator in Nashville, Tennessee. Her pithy comment did a great job of summarizing the power of online advertising. Rachael said, ″I can certainly attest to the fact that online marketing is basically the only way to go. I work for a small busi-

ness whose bread and butter comes from online advertising. There is simply no other better more viral way to get in touch with a targeted audience. Online marketing allows a business to track and target what is working and what isn't. It is certainly one of the most cost-effective solutions out there today."

In closing, I think it is important to realize that I am not unique. If we surf the Internet right now, I could readily show you thousands of small businesses that are satisfying their visitors with great content that solves problems. Allowing this open sharing of information should be a high priority. This allows someone like me to better educate people who make informed buying decisions. When they do this, the end result is higher productivity and more commerce. These are just two of the things that have helped make America a great Nation to live, work, and raise a family.

Thank you for allowing me to share my success story. It would be my pleasure to answer any questions you may have.

[The prepared statement of Mr. Carter may be found in the Appendix on page 43.]

Chairman GONZALEZ. Thank you very much, Mr. Carter.

Our next witness is Paul Sanar. Mr. Sanar is founder and CEO of SkyFacet.com, headquartered in New York. Mr. Sanar started his online company when he was only 20 years old. SkyFacet.com was founded in 2004 which means he is still very young and he is currently expecting sales of $55 million in 2008. The firm distinguishes itself by donating 5 percent of the company's revenue to charity.

Mr. Sanar.

**STATEMENT OF MR. PAUL SANAR, FOUNDER AND CEO, SKYFACET.COM, NEW YORK, NEW YORK**

Mr. SANAR. Chairman Gonzalez, everybody else on the committee, thank you for having me here today.

Chairman GONZALEZ. You may have to get closer to it.

Mr. SANAR. My name is Paul Sanar. I started SkyFacet.com when I was 18 years of age in 2004. I am currently 23 years old. We have been featured in numerous wedding magazines, bridal shows, and we do a lot of Internet advertising. I started SkyFacet at 18 when I had a factory—I had a family factory that was about to be bankrupt because of overseas pressures of—I am sorry. I am a little bit nervous.

Okay. I first started advertising on Google in 2004, and I have learned the importance of profitable advertising using Google's AdWord system. What I admire most about Google and of Internet advertising is that it really gives all companies a level playing field. When I first started SkyFacet.com.com, I had $5 in my pocket, and today we are a $55 million company.

By now, most businesses have heard of Google and Internet advertising but most small firms don't understand the difference between profitable advertising and nonprofitable advertising. If this concept is understood by the advertiser upon creation of their advertising program, I think they are going to be a very successful company. But most small companies don't understand that. Most of them will try to make a marketing plan based solely on Google,

which can end up costing a company a lot of money if Google does not seem to work out for it. I myself had an experience with Google when I had hired somebody to do national listings on Google, which is free advertisement, not paying for a click. And I had paid $35,000 for that fee, for that advertising for 1 year. And it got my site banned by Google national listings. Forbes did an article on us. And I helped—it really helped us when people found out that we got pretty much banned by Google. And I turned the $35,000 loss into a $500,000 profit by letting people know that we were out there and that we were actually a Forbes major company or featured in Forbes, should I say.

In conclusion, I would like to thank everybody for their time and the opportunity to be here. Just remember SkyFacet.com for all your jewelry needs.

[The prepared statement of Mr. Sanar may be found in the Appendix on page 49.]

Chairman GONZALEZ. Thank you, Mr. Sanar.

I don't think there is a father here that doesn't wish their son had the success at such an early age as you have had—if you are still co-signing the notes, the student loans— for a lot of reasons.

Anyway, our next witness is Rob Snell.

Mr. Snell is co-owner of GunDogSupply.com, a company based in Starkville, Mississippi. In addition, Mr. Snell is managing partner of Snell Brothers, a consultancy that helps small businesses succeed online and is the author of the book, ″Starting a Yahoo! Business For Dummies.″ As a consultant, Mr. Snell has designed, developed, and marketed hundreds of Yahoo! stores that have generated millions of dollars in online sales.

Mr. Snell.

**STATEMENT OF MR. ROB SNELL, CO-OWNER, GUNDOGSUPPLY.COM, STARKVILLE, MISSISSIPPI**

Mr. SNELL. Chairman Gonzalez, Ranking Member Westmoreland, members of the subcommittee, good morning. Thank you for asking me to appear on this panel.

My name is Rob Snell. I am from Starkville, Mississippi, and I am here to today to talk about how search engine marketing has transformed my family's business, my clients' businesses, and to show how other small businesses can take advantage of this effective and affordable way to drive visitors to their Web sites. These days I wear quite a few hats. I am co-owner of Gun Dog Supply, our family retail business that sells supplies for hunting dogs. I am also the managing partner of Snell Brothers, and we help some of the 45,000 Yahoo! stores with their online marketing.

And like you said, a couple of years ago, I wrote my dummies book on Yahoo! Store, ″Starting a Yahoo! Business for Dummies,″ based upon experiences we have had in the past 10 or 11 years selling online. I have included information from a few of the marketing chapters at the end of my written testimony for your review. Today I am going to share some real numbers with you so you can see the impact of search marketing on a real small business in dollars and cents.

Every year our Yahoo! stores get millions of visitors from the search engines. Most of that traffic is free. A lot of the traffic is from paid search ads. Tens of thousands of those visitors convert into paying customers. This year we will sell over $10 million worth of product through several different Yahoo! stores. The Internet levels the playing field for small business folks like us.

As a consultant and a speaker, my job is to teach the little guys how to compete with the big guys. We use the Internet to leverage the strengths of the small business retailers. We have unparalleled product knowledge, enthusiasm for what we sell and what we do and we give outstanding customer service and support. Bigger retailers cannot compete when we go head to head, product to product. They sell too many things.

A little background on the company. My parents, Warner and Anne Snell, started Gun Dog Supply back in 1972 on their kitchen table in Jackson, Mississippi. They ran tiny display ads in hunting dog magazines and went full time in the business in the late 1970s. Slowly the business changed to a retail store with less emphasis on mail-order sales, but business was good.

In 1996, we had a problem: PetSmart opened across the street; 50 percent of our competitors went out of business overnight, and our sales dropped, too. We dusted off our mailing list and put together a new catalog. Unfortunately, we lost money every time we sent a catalog in the mail.

In 1997, I built a 5-page Web site. I wrote a killer Yahoo! directory listing, and we started getting tons of visitors. We had to figure out how to sell online and fast. Fortunately, we found an online store builder which is now Yahoo! Store.

For my family, selling on the Internet has literally changed our world. We went from a retail company doing $400,000 a year and struggling to make payroll to becoming a multimillion dollar retailer in a few short years. How did we do that? Ninety-five percent of our marketing is online advertising, and 95 percent of that is search marketing.

Search marketing is the one-two punch of getting free traffic and then buying paid ads. To get more free traffic, you write good content and perform search engine optimization or SCO on your Web site to rank better and get more clicks. For even more traffic, you can buy paid search ads to ensure you control your advertising message.

The secret to our initial success with the search engines back in 1997 was using all the content from our print catalog in our online catalog. Those 50 pages of text covering hundreds of products would help us sell everything from dog training collars to retriever training dummies. Originally, half of our traffic came from banners, and the other half was free traffic from search engines.

But I like search traffic better. With search engine visitors, I can tell where the traffic came from and what keywords folks are searching for, especially the buyers. This information was gold. For example, someone would buy a leather dog collar, and the source of that order would show the sale coming on a search on Yahoo! for leather dog collars. Another order would come in with a search for retriever training videos, and they would buy some training dummies or a video on training retrievers. I caught on pretty quick

that converting keywords were important. People buy the things they search for.

So I started to obsess over our keywords to improve our free search engine rankings. For example, say I wanted to rank better in the free search results for orange dog collars. First, I would choose a page on my store that is about orange dog collars. Then I would put the words ″orange dog collars″ in the title of the page and in the text on the page. Finally, I link to that page from other pages with the words ″orange dog collars″ in the linked text.

If research is good, paid search is even better. With an online store, a small retailer can instantly have access to millions of potential customers with as little as $5 deposited in a Google AdWords account. Retailers can run national ad campaigns targeted only to folks searching for what they sell. Imagine doing that with TV spots. With paid search, you can buy ads but only for keywords relevant to your product mix. And retailers with physical stores can target their ads to only run in specific geographic markets that they serve.

Search marketing is extremely efficient because you are only marketing to those interested in your products. In my experience, no other marketing method can touch search engine marketing for targeting the right prospects in the right places at the right time, which is when folks are ready to buy.

Thank you for the opportunity to appear before this committee. I look forward to answering any questions you may have.

[The prepared statement of Mr. Snell may be found in the Appendix on page 50.]

Chairman GONZALEZ. Thank you very much, Mr. Snell.

Our next witness is Randall Rothenberg. Mr. Rothenberg is president and CEO of Interactive Advertising Bureau in New York. Prior to leading the IAB, Mr. Rothenberg worked as director for intellectual capital for Booz Allen Hamilton. The Interactive Advertising Bureau is the trade association for interactive marketing in the United States.

Mr. Rothenberg.

**STATEMENT OF MR. RANDALL ROTHENBERG, PRESIDENT AND CEO, INTERACTIVE ADVERTISING BUREAU, NEW YORK, NEW YORK**

Mr. ROTHENBERG. Thank you, Chairman Gonzalez.

Thank you, Ranking Member Westmoreland.

And thank you to the members of the subcommittee for inviting me to testify on the impact of online advertising on small firms. I am very honored to be here. I am the president and chief executive officer of the Interactive Advertising Bureau, the trade association for ad-supported interactive media in the U.S. We have 350 members, companies that account for 86 percent of the interactive advertising sold in the U.S. Our members include the great names of the online and offline media world, Google, Yahoo!, AOL, MSN, New York Times, CBS, and Walt Disney among them. But 61 percent of our members are small businesses earning between nothing and $8 million a year in advertising revenue.

Last year, together, all these businesses sold $21 billion in interactive ads. To put that in perspective, as the chairman said, that means that interactive as an advertising medium rivals not only radio but outdoor and magazines. Evidence suggests that much of this advertising comes from small businesses.

Interactive advertising provides consumers with significant benefits in the form of cost-free access to content and services.

Among the things interactive advertising underwrites are quality online content, news, business, entertainment, the maps that help you get from place to place, education and information-gathering tools, competitive pricing and product comparison tools, online safety tools, such as anti-spam and anti-virus protection, social networking and professional networking environments and, very obviously, communications and other online services, including, for example, e-mail, chat, telephone services, resume services, job banks, enhanced classified services, video, photo storage, and sharing.

And then there is just pure communication through blogs. The Pew Center estimated that, in July 2006, some 12 million American adults, 8 percent of our population, were writing blogs. Some untold thousands of these are supported by advertising. The consumer benefits have also created benefits for business, with a disproportionately positive impact on small business. Thousands of businesses of all size have achieved more efficient marketing of goods and services through targeted online advertising.

According to Pew, 32 million American adults have used online classified ads for selling or buying. Online advertising has created regional markets out of local markets, and national markets out of regional markets. Items once sold in local garage sales and pawn shops are now available nationally and internationally via advertised interactive auctions, in which some 40 million Americans participate annually. eBay says more than 768,000 small businesses across the U.S. use its online marketplace as their primary or secondary marketing channel. More than 1.3 million people supplement their income by selling materials on eBay.Many of the small sites exist in large part because of online advertising networks consisting of hundreds, thousands, even tens of thousands of independently owned sites. These networks are the Internet version of the broadcast radio and television networks with which we grew up. They deliver content and ads across a network of affiliates. No one knows how many small publishers are supported by these networks. But let me give you a sample. The 24/7 Real Media network sells and places ads for 1,000 Web sites. The Blue Lithium network reaches 119 million unique U.S. users, also through 1,000 publisher sites. The AdBright, auction-based ad marketplace represents 19,000 Web publishers.

How diverse are they? We don't have a census. I would love to do one. But let me give you a sample that came in when I asked my staff for some of their favorites:

Baristanet.com is a community site started by three local women from the area of Northern New Jersey where I grew up. Its advertisers include a local hospital, Montclaire Family Dentistry and Dial Pest Control of Roseland.

Then there is womenslacrosse.com. It is the central meeting place for women who participate in the oldest American sport. It

is a family business run by Cathy Samaras of Annapolis, Maryland. Its advertisers include the Kaplan test preparation company and the Bowie Baysox Class AA Minor League baseball team.

And then there is Africansisters.com, formed in 1999 in Garland, Texas, by a group of black women to help women like themselves increase employment and build revenue. Its advertisers include the iGourmet.com Tea-of-the-Month Club, Crockpot cookery and Kmart.

In summary, I want to thank you again for considering the IAB's views on these issues. The success of the Internet has helped fuel this country's economy. It is important to ensure that this medium can continue to grow and thrive. No segment of our economy will reap greater benefits from a robust Internet advertising industry than small businesses. The Internet in no small part is the primary engine driving small business growth in the United States. And a lot of that has to do with the ability to advertise. Thank you very much.

[The prepared statement of Mr. Rothenberg may be found in the Appendix on page 58.]

Chairman GONZALEZ. Thank you, Mr. Rothenberg.

And I have already introduced Mr. Lent. I want to remind individuals, though, he is chairman of the board of the Society of Digital Agencies, which says a lot just in the very title of the society.

Mr. Lent, your testimony.

**STATEMENT OF MR. RICHARD LENT, FOUNDER AND CEO, AGENCYNET, NEW YORK, NEW YORK**

Mr. LENT. I like getting introduced twice. That was nice.

Chairman Gonzalez, Ranking Member Westmoreland and members of the subcommittee, thank you for inviting me to testify on the impact of online advertising on small firms.

As Chairman Gonzalez stated, I am the founder and chief executive officer of AgencyNet. I have 14 years of experience producing strategic digital campaigns, content and marketing initiatives for startup companies, small businesses, medium-sized businesses, and some of the world's most recognized companies. As the CEO of AgencyNet, I charter over all strategic vision and growth plans, run high-level client and partner relationships and oversee our A person executive team.

I started AgencyNet in 1994 as a single-person company managing a team of global freelancers and have since shepherded its evolution to the 50-person agency it is today with offices in New York City and Florida. As such, I have unique insight into the marketplace and its effects on businesses of all sizes in America. I have witnessed and withstood the dot-com bubble at the turn of the millennium as well as thousands upon thousands of technical innovations that have driven and changed the way consumers and brands interact and commerce is exchanged.

I have attached a copy of my full biography for additional information on my background and career if you find it interesting.

I would like to take this opportunity to articulate to the subcommittee my personal opinion on some issues relating to potential government regulations within the digital ecosystem. Being from

the agency side, I have a little bit broader perspective, and I can speak on a number of different issues. I tried to look at four in particular that I think need to be discussed.

First is search engine dominance. I assume with Yahoo!, Microsoft, Google, and their discussions ongoing, the subcommittee has a particular interest in this topic. It is my opinion that Google has achieved a dominant position in the search marketplace by creating a culture of innovation and maintaining core market intelligence. Their search engine, coupled with their simplistic and consumer-focused user experience is superior to anything else in the marketplace. Their arsenal of Web-based tools are far reaching, well beyond just search, and they are all of a high quality and consistently improving. And oftentimes, they are free to consumers and small businesses alike. They have consistently hired some of the most intellectual and forward-thinking engineers and technologists in our industry and that collective intellect has empowered them to their market-leading position. Their technology empowers companies of all sizes, especially small firms, to engage, operate, and prosper in this new marketplace.

While their potential allegiance with Yahoo! will certainly advance Google's dominance within the search arena, it does not ensure that they will utilize that advantage to control pricing structures or to gain an unfair market advantage. Until something is proven to the contrary, I would personally deem any government obstruction as premature. With today's economic state, America needs innovative and astute corporations to support a dynamic and fast-changing global economy. And to date, Google has proven to me that it will not rest on its laurels.

It is important to note that neither I nor my company have a prior working relationship with Google. My testimony is from my personal perspective and as a user of their products and knowledge of their reputation within the industry.

The second topic that I feel is important to discuss is privacy and how it relates to interactive advertising. The digital medium, while limitless in terms of interactivity, entertainment and educational value, also presents inherent privacy concerns that can be directly attributed to what makes an extraordinary communication medium in the first place, two-way data flow.

I believe the government should continue to do its part to protect the privacy of the American consumer, as it always has. Clearly there is a fine line between involved and overinvolved. I will attempt to draw the line where it negatively affects the consumer. Direct mail presents similar data concerns, and obviously credit card companies are privy to a plethora of personal information on consumers. Internet data protection should be no different:

Consumers need to be able to opt out of their personal information being stored.

Minors need to be protected and should not be marketed to.

Annoyances like spam, phishing scams and proactive display of objectionable material should be controlled and regulated.

Data should have a shelf life and should not be sold or shared without a user's consent.

That said, though, thanks to this great conduit of information, advertisers have valuable data at their disposal that, if used cor-

rectly, would surely lead to a more positive, relevant and engaging two-way communication and a better consumer experience. Passive mediums like traditional television, radio, and print do not offer that same level of sophistication. And as a byproduct, brands have little tangible evidence of their campaign's true performance directly attributable to their advertising.

The digital medium and its inherent trackability provides the insight that they need to shift their budgets to destinations where the audience actually cares about what they have to say. This understanding of the return on investment is especially relevant to small firms whose limited budgets do not allow for the cushion of fiscal mistakes.

Intelligent brands will use this data to serve advertising that is potentially germane to a consumer. Advertising by its very nature has historically been intrusive. Digital allows for relevancy in advertising and marketing that has traditionally been interruptive, irrelevant and emotionally underwhelming, and that market shift should not be stifled.

Again I would like to thank the members of the subcommittee for this opportunity to share my thoughts on the digital ecosystem and the necessity for regulation. I have also touched on Net neutrality and portability of content in my written testimony. And if I can be of further assistance, please feel free to contact me at any time. I look forward to answering any additional questions you may have.

[The prepared statement of Ms. Moore may be found in the Appendix on page 66.]

Chairman GONZALEZ. Thank you, Mr. Lent and thank you to all the witnesses.

I am going to start off with the questioning.

And please understand that this particular committee, we share some jurisdiction, obviously, with the other committees, but our prime focus is going to be small businesses.

Small businesses can accomplish many things. I indicated earlier, I have to be reminded that there are micro businesses out there which are obviously even smaller than small but nevertheless probably constitute the majority of businessmen and women out there in the business world. So we can always think in terms of small businesses in whatever context that we may be discussing. It will be very interesting.

The other thing I want to preface some of my questions with is that I think, whether you are a Republican or a Democrat, truly I think that we need to be governed by basically what governs the actions of physicians, and that is: First do no harm. And I think you probably would agree with that. In the regulatory scheme, what do we do? Should we do anything? Do we allow market forces to play out? And I am a strong believer in that. And I think my Republican colleagues would join me in that particular sentiment up until the point where we do feel there is a disadvantage and either the consumer or a business person is no longer on a level playing field or treated fairly. And that is part of the technology out there in business relationships and such.

But my first question to Mr. Carter, there is an article today, Mr. Carter, that appeared in The Washington Post, and it was very,

very interesting, about an individual, I think in New York, in his basement, and he would not give his full name, but allows you basically to download an application that blocks advertisements. I don't know if you have had a chance to read the article. And I will quote from it a little later.

But first things first, if you go to your site, obviously, you have a small business that utilizes the Internet. You have a column. You give advice. People come to you and so on. And that is supported through advertising dollars. So you really have an online business.

But also the other aspect of it would be small businesses that would like to appear on your Web site for all the obvious reasons. The credibility of your column, obviously, spills over to those that advertise on your Web site and such.

Two things, how do you promote your Web site? How do you promote your online business? And secondly, how do small business advertisers fare at your site? How do they get on? Do you have any control over who ends up appearing on your Web site? And what is that business relationship with individuals that may advertise on your site?

Mr. CARTER. Great questions, Chairman. I.

Promote AsktheBuilder.com primarily just through writing abundant content as frequently as I can. And because of the years of doing that, and because the content is higher quality, I also—I tend to rank very high on the search engines, you know, both Google, Yahoo! and even MSN. And I do about an hour a day of research on how I think that someone gets on page 1. And so that is—so I think that that is the way that I do it because I have decided it is a key part of my business. So I have taught myself my own—what many people call search engine optimization.

I do very little advertising of my own about AsktheBuilder.com. The newspapers that do run my syndicated column at the bottom of my column do publish my URL, but I consider that incestuous advertising because the subscribers to any given newspaper, once they see that URL, they know it. So I don't have a growing base from that.

With respect to small businesses that advertise on AsktheBuilder, you might be surprised to discover that most of the advertising that I sell myself is actually small businesses. I have found that when I approach these small businesses, I get a more rapid response, a more favorable response and a quicker decision. And more importantly, they understand the benefits.

As far as me controlling if they want to be on Ask the Builder, they have complete control of that. It is their buying decision. It is very easy to do. And my rate card is actually published for the entire world to see. If you and I were to go online right now, you could see right at the top there is a little advertise button, click it, and you see what it costs to get there. And it is very affordable, and it is highly effective. I have click-through rates on some of my advertising that I sell myself that are as high as 35 percent. That means that 35 percent of the people who actually see the ad, they actually click it because they know that that ad or that ad is communicating to them. I can solve your problem. I can clean your deck. I have got the right sealer, whatever the product might be.

So it is highly effective. And because of those high clicker rates, as you can imagine, the companies that are buying it are very happy.

Chairman GONZALEZ. Thank you very much.

Mr. Sanar, let me ask a question that is—you have indicated that—we were talking about organic search and such. And Mr. Carter being out there for such a long period of time that maybe certain keywords, he has identified, he has mentioned. So he may have an advantage maybe a startup business would not. And I look to you as a very young person out there. And you said something about, not to confine all of your effort on search engine or the relationship with Google. Did I hear you right? In other words, if you are a small business person, there is more than just basically a search engine organic type search-based promotion of your business. Is that right?

Mr. SANAR. Yeah. That is correct. I mean, it is not just small business. I guess all businesses should diversify their marketing plan. But especially with small businesses that are going to get impacted a lot more than a big business would. Like if his Web site went down on Google, like mine did, where I lost about $400,000, $500,000 with the national listings, I don't know what he would do, what would other—where would the people find them if they weren't just number one on Google for free?

Chairman GONZALEZ. Now when you say your site went down, my understanding of course is the way a search engine—and I will use Google as an example—is that they don't want their system manipulated. In other words, legitimate inquiries, legitimate clicks and not some that may be created, and they are not a real inquiry, they are not—there is not a consumer out there hitting on that. So I think that is legitimate for any search engine, Google or anyone else, to make sure because part of how they place someone or rank somebody is based on the number of clicks. And so the legitimacy of those clicks is really the basic DNA of what we have as far as credibility. When you say your Web site was shut down, what do you mean by that?

Mr. SANAR. Well, we were actually—we went down on our national listings. We went from like number one for diamond engagement, say, and then we went to 100 because of a third party that I had hired that said he was—he was getting more number one positions on Google for different keywords.

Chairman GONZALEZ. So, I mean, the lesson to the small business person is you know that you want prominence, you want your name out there, but there is a legitimate way of doing it and an illegitimate way of doing it. There are so many lessons out there, and I will refer to it now.

In our memorandum, on page 7, that was prepared by my staff, they point out something—I believe it is on page 7. Let me make sure. And some of the things that we are going over here, and that was in essence that 60 percent of the respondents in a survey found that they don't have the resources or expertise to grow their companies through an Internet presence. So what we are talking about here, to many small businesses, is really a very daunting task. And you know there are minefields out there, and one of them of course is who you establish a third party relationship to promote your Internet presence, which I think I had Mr. Snell, Mr.

Rothenberg and Mr. Lent, they probably have opinions on how to make sure that you have a legitimate relationship with a legitimate party.

Mr. Snell, your story is very interesting. I understand that people bid on words. You buy words. And there was an article in the Post a couple of weeks ago. And they were talking, I think the University of Phoenix, it is kind of an interesting story of how they are involved. But they were talking to someone from GM. And I think the quote was, we buy millions of words, millions. How does a small business person compete in that particular role, number one? The other thing, too, if you are pretty well established, people seem to really like you. And it is gun dog. And I am wondering, Gun Dog Supply—

Mr. SNELL. Correct.

Chairman GONZALEZ. Could I buy Gonzo's Gun Dog Supply? Could I play off of your name? Is there somehow that I can actually buy—I don't know if you have a copyrighted name, what protections do you have?

Mr. SNELL. We have trademark protections. You can infringe on my trademark and find out what happens.

Chairman GONZALEZ. I wish Steve Chabot was here because then I would say, you have good lawyers. Steve and I disagree on the role of the legal profession in society.

But regardless, so you had trademark protections and such. So let's say trade—and I am trying to make sure that I get your site down, Gun Dog Supply and such. You are pretty well protected. What about people that are just buying millions of words, thousands of words, how does that work?

Mr. SNELL. Compare GM to GunDogSupply.com okay in terms of revenues, in terms of employees, in terms of the different number of skews that we have, the different number of products that we have. I mean, we have 1,200 products, and you know, our average sale is going to be, you know, between $100 and $200, where GM—how many different kinds of things are they into? So a huge conglomerate like a GM would have millions of keywords like they have millions of customers and thousands of employees. But with a small business—usually small businesses that are successful on the Internet are so much focused and so you have a much smaller group of keywords. You know, in our business, like I said, we have 1,200 products, but I have got 14,000 unique converting keywords that I have been tracking the past 4 years. Some people collect stamps. Some people collect comic books. I collect keywords. That has the difference between us making it and not making it.

You raised the point earlier, what would a new business do? I have 4 years worth of information in my index tools, which is my statistics or analytical package. It tells me what keywords folks searched on, on what engine, and when they came to my site, and what, if anything, did they buy, so it tells me the value of each individual keyword.

With paid search, I am only buying about 10,000 of those words to send traffic to my site. But if I look in deep, deep, deep into my stats, I have got over 200,000 unique keywords that send traffic to my Web site. So, basically, what I am saying with keywords, you

want to have a very small subset of keywords that are driving most of your business, and you kind of keep those as your best keywords.

You raised a point earlier about somebody who is new, who is getting into the business. They don't know what keywords are going to convert for them. It is really easy. There are all these free keyword tools on the Internet. The search engines actually provide research tools so you can put in if you are selling, you know, pet doors, you can go put in ″pet doors″ on Google or Yahoo! search marketing, and it will give you suggestions on some phrases like ″cheap pet doors″ or ″automatic pet doors.″ And these tools are available to anybody. And there are also paid keyword tools like, WordTracker and Keyword Discovery. If you look online, you can do a search for keyword tools, all these sites will come up. So it is pretty easy to get a list of the keywords that you want to learn about.

Chairman GONZALEZ. Thank you.

I will reserve the other questions, Mr. Rothenberg and Mr. Lent, since I have exceeded my time.

There are very few of us. I will give the others a chance, and then I will come back.

Mr. Lent, remember exactly how you want to comment on keywords because I—

Mr. LENT. I have a question for you. A definition question, that you prefaced the conversation on saying we were focused on small business. I was wondering if you could define that for us.

Chairman GONZALEZ. We are talking about 50 employees or less and such. But the truth is, it is one of those things depending, the setting determines what is small business is. You know, what are your revenues per year? How many employees and such? But I really do think this committee—I mean, I know how we view small businesses. But as I said it earlier, I was reminded that the micro businesses out there and the Internet opportunities that should be there, because I think the Internet is probably something that is as accessible and affordable if we keep it in a way that they can still use it.

I mean, and I am going to get into particular questions about Amazon, eBay, search engine dominance and such and the more global stuff in a minute. But at this time, I would like to recognize the ranking member, Mr. Westmoreland, and thank him for his patience.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

First of all, I want to congratulate all you guys for that entrepreneurial spirit. It is what makes this country great, and the fact that the Internet is so new—I forgot how long it has been since Al Gore discovered it. But it is amazing how creative people have become to be able to make money on it.

Mr. Lent and Mr. Snell, I want you to pay close attention to this because you wrote the book about dummies. And this is all new to me, for my generation really, that aren't really that computer literate in how to do these things. But Mr. Lent, you are an agency, an advertising agency. Is that correct?

Mr. LENT. That is correct.

Mr. WESTMORELAND. So would any of these small business owners contact you about how to go about this advertising or what

would make Gun Dog Supply sell better or—and then, would you go purchase these keywords for them? I mean, what kind of package does your agency offer?

Mr. LENT. It is a wide net right now. There are so many options in terms of marketing online that searches is a very effective methodology but coupled with—and I think Mr. Sanar said it best, you really have to have a diverse media plan. You have to look at all the different opportunities, whether it is display advertising that we referenced or keyword search, a combination of all of those things.

I really liked what Mr. Carter said about developing new content on a regular basis to drive traffic. So as an agency, first and foremost, we will sit down and we will talk to our potential clients or existing clients about what their objectives are, and then we will put together a strategic plan to accomplish those objectives, and all of these different touch points more than likely would be a part of that overall media mix.

Mr. WESTMORELAND. Okay. Let me ask, Mr. Carter mentioned that he sells some of his own advertising, I guess.

Mr. CARTER. Yes.

Mr. WESTMORELAND. How does that correlate to you? The small business guy comes in, talks to you, you set him up, he starts catching on to this, and then starts selling his own advertising. How does that work?

Mr. LENT. There are a number of what is referred to as advertising networks that essentially represent destinations, destination Web sites. And they will own that advertising and sell it for them on their behalf as if they were a broker selling that traffic. I don't know if Mr. Carter is using a third-party advertising serving network or doing it direct. But usually, you will get a much larger audience if you bring on an agency that does that as their sole focus.

That said, there is obviously a very loyal fan base to AsktheBuilder.com, and certainly I am sure that there are unsolicited requests for sponsorship and advertising that Mr. Carter receives. And based on those requests, he can strike up individual deals with the individual advertisers.

Mr. WESTMORELAND. Okay.

Now, Mr. Carter, how do you get paid?

Mr. CARTER. That is a great question, Congressman Westmoreland.

It is really—what I am going to tell you, you might not even believe. It is so simple that I actually can't believe it happens. I am serious about this. When I started AsktheBuilder.com back in 1995, it was actually a huge Web site at the time. I had already at that point in time written 100 columns, and I had 100 other supplemental columns that went with the other 100. So I had 200 pages on my Web site, which was enormous at the time. And I started selling my own ads right away.

But the magic happened—and why we are here today gathered in this room—in 2003, when the people at Google—and I think they were the first. I am not positive on this. But one of the founders I believe Sergey Brin, he saw how successful their ads were on their own Web site. And he thought, he thought, ″you know what″—I think this is how it happened. I don't know for a fact.

"Why don't we take these same ads and put them out on hundreds of thousands of other Web sites, and if that Web site delivers us a customer or a click, we will share some of the advertising revenue with them." Because if you go to Google.com right now or Yahoo! or MSN and you are seeing that on their Web page and you click it, Google or those Web sites, they get all the money because they are doing everything.

But those ads that are on my Web site, if someone clicks one of those ads, I get paid money that day by Google. Actually, I get the money at the end of the month. It is wired into my business checking account. But that is the transaction. In other words, it is really no different—I am also a real estate broker on hire. Basically, I am just brokering the transaction. I am getting paid a brokerage fee.

Mr. WESTMORELAND. I understand that from Google.

But when you said you sell your own ads—

Mr. CARTER. Yes. Oh, how I get paid that way?

Mr. WESTMORELAND. Yeah.

Mr. CARTER. Oh sure. It is really kind of cool. I get the money up front. I make the people pay up front for the entire term of the advertising run. I do not do—I do not have any sophisticated tracking—well, I have tracking software that allows that customer to know how many times their ad is displayed and clicked. But I can't do the sophisticated work like Google and Yahoo! does where—I have this live auction happening. They just pay me the money up front. And I have been doing it since 1995. And in fact, I actually got—my first customer was Pella Windows and they actually paid me money up front before the Web site was launched; they wanted the advertising spot.

Mr. LENT. Congressman Westmoreland, just to add on, I just want to make a distinction between two different types of display advertising in Google's model and Yahoo!'s model, as well.

You pay per click, so when a consumer actually clicks on an ad or a search listing, you pay for that click. In the case where you are selling sponsorship on your site, sometimes it is a CPM methodology, a cost-per-thousand methodology. But as Mr. Carter just explained, there is a fixed fee for a duration. And what that ad shows up for is a period of time. So for the month of July, when we visit AsktheBuilder.com, you will see the ad for those windows. Whereas, in Google's case, you don't pay unless they click. I just want to make that distinction.

Mr. WESTMORELAND. Mr. Snell, just one quick question for you now. You said you have got all these collections of keywords and different things. Do you market those for other people? And I mean, could you actually—

Mr. SNELL. Yes.

Mr. WESTMORELAND. That information would be useful to other people.

Mr. SNELL. You mean my keywords?

Mr. WESTMORELAND. Yes.

Mr. SNELL. No, I am closing my notebook. I would not share that information with—because keywords, I have a friend of mine who competes with me at another space. He sells the exact same thing we do on one of our sites. It is baseball bats. And the keywords that convert for him and the keywords that convert for us are actu-

ally pretty different even though we sell similar products. Because one of the retailers is more of a like new product and certain brands and another is more of like a closeouts or a discounts. And so based on the tone of your site, different sites selling the exact same things are going to have like a slightly different keyword universe. Does that make sense?

Mr. WESTMORELAND. Yeah.

Mr. SNELL. I had a comment on the pay-per-click side. On the agencies, like most of the folks who come to us cannot afford to hire an ad agency to do, you know, a lot of fancy stuff and hopefully after we get through with them, they grow to the size that they can. But there are a lot of smaller consultants that do pay-per-click advertising, paid search advertising, and there are like three or four different models. One is the, you know, you pay for an audit. They kind of look at your account, and they help suggest keywords, that kind of thing. It is more like an advertising agency where they charge you—or you spent $10,000 on your pay-per-click, this campaign, this month, they would charge you like 15 percent of your spam like your traditional advertising agency model. A lot of folks have an hourly model; you know, 75 bucks an hour to do whatever you want. I recommend that most small retailers—and I don't know what the definition of a micro retailer would be. But most folks that I run across, they start off doing maybe $100,000 a year, and we try to get them into the million dollar club as fast as we can because at that point, they can hire consultants to come out and do stuff. Small business folks can actually get in there. These tools are really easy to use.

I mean, I bought—just as an example, I bought an ad last night in about 5 minutes that is now running on Google, right now, just to use as an example. If anybody wants to play along at home, if you search on Google on your BlackBerry right now for ″orange dog collars,″ I will be in the number one spot—I hope—unless one of my competitors decided, you know, I am going to outbid him. I ratcheted my bid up to $2. If everybody in America were to go to Google and search online and click on that, what will happen is, I set a budget of $100. So if everybody clicks on it, after I get, you know, like 50 clicks, my ad is going to shut off. There are these advertising things in pay-per-click marketing to protect me and my account.

Mr. WESTMORELAND. So you bid $2 a click.

Mr. SNELL. As a maximum. And then you think about search engine, paid search engine advertising is, it is an auction-based system. They charge me as little as they possibly can.

Mr. WESTMORELAND. Thank you.

Mr. ROTHENBERG. Thank you, Congressman.

Just to put a headline over what they have all been saying is that there now exists in the United States an ecosystem of small businesses, of micro businesses that simply did not exist 10 years ago. And to simply shape this for you, any individual can go online with the tools built into his or her laptop computer and create a Web site. That same individual, again for free, or for $10 a month or a small hosting fee, could go online and get a set of free services from numerous companies, some you have never heard of, that will support advertising on the site. Other companies will act as rep

firms, the same way they acted for rep firms for radio stations or television stations, and place ads on the site. There are thousands and thousands of interactive advertising agencies, some of them are just individuals, some of them are small shops, that will help you optimize the site.

And so what we have is a situation where you have people starting blogs in their dens, listing recipes, who are using free tools to start those blogs, using free tools to take ads. They are getting ads from national marketers on there from the Procter & Gambles, Unilevers and Perdue chickens. And they are making an income out of their hobbies. That grows, and then they can afford to hire independent consultants. That is the ecosystem. We simply don't know how many, but there are hundreds of thousands to millions of them out there based on the statistics that we look at from various sources.

Chairman GONZALEZ. Thank you very much, Mr. Westmoreland.

And if you still want to stick around, we are going to have another round.

First of all, I want to give Mr. Snell some good news. As of 2 minutes ago, you are number one in ″orange dog collar.″ My staff just e-mailed me that, using our government BlackBerry.

I now would like to recognize Mr. Altmire at this time for any questions he may have.

Mr. ALTMIRE. Thank you, Mr. Chairman.

I would like to thank the panel. Many of us have had the opportunity to talk with the folks at Google and to hear about what they do and to hear the real-world examples here in front of us of how you utilize that technology really helps put that in perspective for me. And I want to thank you.

And I have a question about that in particular, that if Google holds such a dominance in the market in the search engine capacity, and obviously it is such an important component of your business, do you have a fear of the dominance of Google moving forward with regard to search engines?

Mr. CARTER. Who are you asking that to?

Mr. ALTMIRE. Let's start with Mr. Snell.

Mr. SNELL. Google has done such a good job, it is kind of like with Elvis when he got into the record business. He did such a good job of making records that everybody wanted to buy his records. And Elvis said, ″hey, I think I am going to get into movies.″ Oh, no, Elvis is getting into movies. He is taking over. I think Google—I mean, they are like light years ahead of everybody else. The thing that—I sleep well at night knowing that there are so many people watching Google right now, I could not imagine the scrutiny that they are under from you guys, from their advertisers, you know, from their customers, you know, who run their ads on their Web sites. I mean, I don't really have a problem. I would like to see less consolidation in the industry from a—more search partners. But at the same time, it is like Google could be evil. You want to talk about, you know, maximizing their revenue; they could immediately double their revenues. Do you know any other multibillion dollar company that could press a button and go completely to a pay-per-click model, totally eliminate the organic, and just like have a killer quarter and go out of business the next quarter be-

cause everybody would go out of business and go someplace else. But it is in their business not to be evil.

Mr. LENT. Not to mention, that is not their only business line. They are into a number of different digital tools that are oftentimes free to use for small businesses and for consumers alike, and they have really created their company on a model of innovation. And innovation is what we need in this country right now.

Mr. ALTMIRE. Mr. Carter.

Mr. CARTER. That is a great question. Probably of anyone here on the panel that would have a fear or should have that fear would be me because the other members on the panel here are actually buying their traffic. And my traffic, every bit of it is for free. I have no fear whatsoever. And I would say, I had fear 5 years ago or maybe a little bit longer because I didn't totally understand the system. But as maybe you were not here when I said it before, I spent about an hour each day doing my own internal research on how the search engines, not just Google, just search engines, work. And what I have discovered—and I really do hope many small businesses are listening to this right now because I would be more than happy to help them. It is not as hard as you might think. What my research has shown me is that if you want to rank really well in the search engines, you just have to do a good job on your Web site. Think about this for a minute. Here is how simple it really probably is: If you were Google right now or Yahoo! and on your front page, when someone types in ″orange dog collars″ in the case of, you know, Mr. Smell, those top results, if they aren't really good Web pages about orange dog collars, if you do that three or four or five times, you go, you know what, this search engine is not very good. I am not using it anymore. So I think what the search engines have done is they have developed sophisticated algorithms. They actually are able to recognize those Web sites that are working hard, that are doing it the right way, that are not selfish, that are actually thinking of the common good, and they reward those Web sites with a higher presence. I think another thing that can happen is that the Web—I know this from my own log files, that I know how much time someone spends on a page before they go to another page. And if all of a sudden the search engines see that a particular Web site that people go to this page, that they are engaged, like, wow, this is a good video or this is good content or whatever, their search engines go wow, that person, whoever they are, they must really like that. That must be a good thing. I think that is how simple it is. So there should be no fear. The only fear that I think any small business should have out there should be, am I working hard enough to produce really good content that engages the people that need the help, whose problems have to be solved.

Mr. LENT. There is also consumer benefit to it in that the advertising is relevant, the advertising is relevant to their interests. We live in a world where advertising historically has been interruptive. It has been a billboard on the street or an interruptive ad; while you are watching a television program, you see a 30 second interruptive ad. It very well could be something you are interested in or it could have absolutely no interest to you at all. The technology allows for relevancy. And that is a new dynamic that has

been introduced to the new digital ecosystem, and that is valuable to the consumer.

Mr. SNELL. Could I add something really quick?

Mr. ALTMIRE. Sure.

Mr. SNELL. I don't want to put all my eggs in one basket. And we are starting to talk about Google. Let's just talk about search engines. I don't want to be dependent on search engines in general. Let's just say you guys decided that people are spending too long much of their free time and too much time at work on the Internet, so we are going to cut search engines off, and we will take a search engine vacation for a week. Okay? I don't want to go out of business. And so we have basically come up with several different ways to make sure that we are not only getting traffic from paid search and free search on Google and Yahoo! and MSN. I recommend to my clients and other retailers and the small guys, the micro guys, you build a customer list, you have an e-mail marketing campaign where you communicate both information and product specials to your existing customers both through snail mail and through e-mail. You can also sponsor Web sites. Like I have a site called BobtheJanitor.com that sells janitorial supplies.

We need to hook up. Unbeknownst to me, I am probably running ads on his site if they are contextual because like, how to unclog a toilet, I probably have janitorial supply ads running on that site.

Mr. CARTER. Let me interrupt.

Congressman, one thing that is really interesting there, is that the small—let me tell you how sophisticated that advertising really is. Small businesses can go out right now—I know they can do it at least through Google, maybe Yahoo! and some other ones. They can actually target specific sites, meaning I have in my account at Google, where I am displaying my ads, I am actually telling companies in the world: Here is the type of ad you will get. Here is where it will be. This is the positioning of the ad, and these are the type of people that are coming. I mean, that is unparalleled communication back downstream to the advertisers, so that Mr. Snell would know exactly where his ad is going to appear, and he can buy a specific spot on my Web site. That is powerful.

Mr. SNELL. And I can also buy a direct ad, right?

Mr. CARTER. Yes.

Mr. SNELL. Again, we are going to talk after this thing.

As far as tools to build Web sites, I think there is a misconception. I mean, I remember one of our manufacturers, we went out to meet them in Arizona, and they were bragging about how great their Web site was, and they spent $250,000 developing their Web site. I said, dude, I would have done that with a couple thousand bucks over the weekend. Why reinvent the wheel? Why design an internal combustion engine from the ground up when you can go across the street to the Ford dealer, and buy a product that works for you? I mean Yahoo! Store, the platform we use, is great, but it is not the only one. It is $50 a month. If you want to open up your dog supply store, we can talk maybe after this thing. But for $50 a month, you can have an e-commerce shopping cart that works. It is not $250,000. We are talking about free tools WordPress is free. Hosting is $10. The 60 percent of small business

owners in this country who say it is too hard to get on the Internet, we can't compete; that is a cop-out.

Mr. ROTHENBERG. Also, Congressman, there are many, many forms of interactive advertising. And they can all be done at the same time on the same site. There is contextual advertising, as folks are suggesting. Contextual advertising is running an ad in a context that is relevant to it, a Gun Dog Supply ad on a site for hunters. There is behavioral advertising. That is advertising that is relevant to your interests as a user. But it may not be on a relevant site. So let's say you have done some research searching for Florida vacation spots. You have done that, and you went to Florida online magazines. Then you go on to someplace else, looking for recipes, you might get a resort ad there. That is behavioral because you have exhibited the behavior. Then there are different formats. Search is only, according to IAB statistics, search is only about 40 percent of the whole. The other 60 percent is display. It is video. It is rich media.

And that is another part of the cost equation here. If you were a small business owner and you wanted to do national video advertising, 15 years ago, it was prohibitively expensive. You couldn't do it. You as a small business owner, as the owner of Gun Dog Supply, no way you could do national television advertising. Today you can do national video advertising online. It is cheap to do. You can buy a camera. You can produce it yourself with the free tools, and you can use the representation and distribution mechanisms to buy the ads and run them nationally. So it is important to point out the wealth of opportunity for small businesses now, to employ all the great tools that in the past were only available to large national or global marketers.

Mr. ALTMIRE. Great.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Altmire.

There are some observations that I am going to follow up with some questions. We really do appreciate the entrepreneurial spirit that you represent here, the enthusiasm and such.

And yet there has to be some sort of regulatory scheme, as we said, to keep that playing field level and such. Maybe we don't have to do anything. But I think we have to watch it carefully. I mean, you have heard the argument about Net neutrality and maybe those particular principles and the spirit of Net neutrality may be spilling over to other aspects of the Internet, which I think is a legitimate concern. If you want it apply it to one of the aspects of the Internet, maybe it is a good idea in the other. And I am talking about search engines and the potential for things that could happen.

I understand where we are today. The question is, where would we be tomorrow? There is a basic principle here in Washington that we adhere to, and that is that competition is a good thing. And I know, at the present time, you know, we do have some—the contemplated arrangement between Yahoo! and Google and the concerns that certain Members of Congress have expressed, some of which I share, maybe not to the degree of others. But I think it does need to be explored. We have heard this argument before, that if someone is doing such a great job and they predominate the mar-

ket, why not just allow them to continue? And maybe even reach certain contractual relationships that perpetuate that particular dominance. We had this issue with Microsoft not long ago. I still remember a legal argument being advanced that, yes, monopolies are bad, but technology is so different today. It is not the same, you know, it is not your father's Oldsmobile. That is true. It is not even around anymore.

However, the principles remain. And there is no such thing as, I believe, temporary monopolies. We have had people in this particular field in the past advance arguments that we are the leaders; technology changes so quickly that you are going to have temporary monopolies. I don't think temporary or permanent monopolies serve the American public or the business world very well.

There is a contemplated agreement between Yahoo! and Google. And in a minute, I want to get into what is organic search and then what are we talking about as far as the ads themselves. Can a business subsist, exist through just organic searches? Or are they going to eventually have to take out some sort of ads? And how is that controlled? And who dominates in that particular arena? And regarding that particular—not merger because this is not a complete merger; it is still shared services and, such and the potential there of what it might represent because I am trying to remember exactly if most searches—67, 68 percent are Google searches. I forget where Yahoo! may be, another 12 to 16 percent, whatever it is.

When you put it all together, you are probably at 78 percent or more of all searches will be either Google or a Yahoo! search. But Rob Pegoraro, in his column, fast forward May 8, in The Washington Post, ″Google Still Unchallenged.″ And someone has always said it before, and they said it a lot better, so I am just going to quote it: ″It is not that Google is some tyrannical monopolist that must be brought to justice. This company has come to dominate the markets for Web search, advertising and many other services fairly by providing quality products at a fair price which, for most Web users, is free. It has moved when others have stood still: Imagine, for instance, how limited Web mail and online mapping would be if Google hadn't reinvented each category earlier this decade. But that doesn't mean that I want it to run away with the rest of the market. It is fundamentally unhealthy for any one company, even one that claims to have ″don't be evil″ stamped on its corporate DNA, to amount to the crossroads of the Internet.″

And I am going to ask, Mr. Rothenberg and Mr. Lent, for your own opinions. I know, Mr. Lent, you have kind of had already had an opinion of, ″let's see where it all goes.″

Should Congress be concerned about the market share that will be represented as Yahoo! and Google obviously reach this agreement? Or if Microsoft is successful in acquiring Yahoo!?

Mr. Rothenberg.

Mr. ROTHENBERG. Mr. Chairman, all these companies are members of my association.

Chairman GONZALEZ. Well, in that case, I should move on to Mr. Lent.

Mr. ROTHENBERG. As you might imagine, I love all our members equally, big and small.

I do think that there are legitimate subjects for Congress and regulators to look at, and competition is one of them.

The only point that I would like to make is that the competitiveness of this industry, the dynamism of this industry is unquestioned and unquestionable. We need to make sure that anything we do promotes robust development of more content, more sites, more places that advertising can run. Thus far, from everything that we have seen, certainly our own membership statistics, certainly in the growth of interactive advertising, and certainly in the evidence on this panel, we have a system that ain't broke at all. So I would be very careful of kind of going across that bridge - from research, inspection, and exploration into regulation - without very, very careful scrutiny. The success of the people on this panel is based almost entirely on what we call the long tail of the Internet, the ability of these tens of thousands, hundreds of thousands of small sites to develop to sell advertising, to take advertising, either to sell it directly or to take it through online networks. And that is where I think this committee ought to spend as much time as possible assuring that that dynamism continue.

Chairman GONZALEZ. Mr. Lent.

Mr. LENT. Chairman Gonzalez, you asked a very pointed question. Should the committee be concerned? I think the direct answer to that question is, yes, of course. With any growth that is that substantial and then any dominance that is that substantial, of course there should be concerns.

The line for me though draws between concern and action. And I believe that there should be a high level of scrutiny on any industry, especially one that is as important as this one for the future of this country, but this level of dominance should be scrutinized.

But I have not seen anything in my 14 years and in the 8 years that I have closely been associated with following the marketplace, especially search and display, that would lead me to believe that Google is doing anything to take advantage of their market position.

So I do believe that it should be closely watched, but I don't think that—I think any action would be premature at this point. And that said, somebody will build a better mouse trap. It always happens. This is an innovation-led business. And someone, some small business will come out of nowhere with some great insight, some great intellect, and put together a better mouse trap. And that will happen. It is inevitable. It continues to happen. Whether Google will buy them or not is still up for grabs. But that will happen. And you know, very likely that level of dominance with this fast-paced industry will not exist at the level it is right now forever.

Chairman GONZALEZ. Okay.

Mr. Carter.

Mr. CARTER. Yes, Chairman. I have some insight on this. The analogy between Google, Yahoo! and Microsoft, I don't think it is too valid. And the reason why is, I distinctly remember the days when I first started using personal computers back in the mid 1980s, and what happened is that Microsoft, I believe, got their dominance because of deals they made with the makers of the personal computers. So when I got my personal computer, I didn't

have much choice. It had that on there already. The difference though between Google and Yahoo! and the other search engines right now, are your constituents, Congressman Westmoreland's constituents, everybody out there in America, they are voting themselves by their own action each day as to what works and what doesn't and what is good for them. And that is my own experience. And not only that, there are still people out there who use many of the different search engines. I have one of my own column editors in Victorville, California, who still uses Dogpile. I mean, many people in this room might not even know what Dogpile is. It is a search engine that still works. She loves it. There are people who still use AltaVista. There are other search engines out there. People are voting; consumers in America are voting each day. And they are—just like you want to get reelected, they are electing each day right now that Google, for the time being, is the winner. And I think you should let the people out there do it. And the best part is that it is free, meaning no one is compelled and no one is forced to use Google each day. So I think the consumers are talking to you and speaking to you right now through those statistics that, just like Mr. Rothenberg said, the system is not broken right now. It is going along just fine.

Mr. LENT. Also I think it is important to add that never has there been a time when consumers have had a more active role in defining the marketplace. This is a world right now where social media rules communication and conversation. Consumers have a voice. Blogs are replacing mainstream media, as you all know, on a regular basis and consumers have the ability to choose.

And, as Mr. Carter said, they have chosen.

Chairman GONZALEZ. And I am going to yield to my colleague Mr. Westmoreland.

But I am going to come back because I want to take up this concept of something being free because nothing is free. And I want to go ahead and explore that because I want to explore tracking, identifying the consumer, the consumer DNA. I think your bureau was quoted in today's article regarding an application that basically blocks all advertising, the consequences to all businesses big and small.

Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

And I think you can tell by our panel of witnesses that this would be hard to regulate. But let me say this, that you know this hearing, it has been good for me because I have seen what an unregulated industry can do, and the fact that the enormous growth that, because government has not put its little tentacles in there, has grown at an enormously fast rate and has been beneficial to many, many, many small businesses.

And according to what Mr. Lent said, and I had written down the same thing, there is going to be another Google to come along. If we go into the market right now and start regulating, what we may ensure is that Google remains the largest search engine out there because we will, Mr. Chairman, I think what we will do is keep other people from getting in it. And when so you start regulating the ones that are at the top of the class right now will automatically remain top of the class. And so I think we are really—

with all due respect to my friend, I think we are an answer looking for a problem. And right now, I just haven't seen it.

And I am sure if anybody knows, Mr. Rothenberg does because of the difference of his membership and of his organization. But I see—I see some happy campers out there that have gone into business, learn more and more about their business. And because it is an unregulated thing, they are able to do creative things to expand their business and use their own ingenuity to make things better, not just for them but for our whole economy and all of us as a whole. So I think it would be beneficial for us right now to leave the industry as it is and hope that they just continue to make more and more and more money so that they can pay more and more and more taxes. And give us the ability to do what we do best, and that is expand government. So, again, I thank you, and I really don't have any questions, just those comments.

And thank you for the time.

Mr. SNELL. Can I make comment?

Chairman GONZALEZ. Mr. Snell.

Mr. SNELL. My understanding of the Yahoo!-Google deal and all this is above my pay grade. I don't understand this acquisition and stuff. But it is kind of like it is an inventory situation, if I understand things correctly. When I do a search on Yahoo!, Yahoo! is going to check their own search marketing engine, Panama, to see if their ads and display those ads, but Yahoo! will also be able to choose to display Google's inventory as well.

I have a good analogy, for me anyway: It is like if I went to Target and I needed a t-shirt, it is like I am going to need a double extra large tall, okay. And if Target doesn't have my size, I sure hope that Wal-Mart or Rhe Gap or somebody else is going to be right there in the store. It would be so awesome to say, here you go, here is your t-shirt. And I think that is what the situation is. It is not a merger. It is like they are not taking over their search engine. I think it is just a partnership on the advertising. But like I said, it is above my pay grade. So I may not understand that correctly.

The main reason that I am interested in it is that with some of my retailers, with paid search, there is not enough inventory for me to buy. I have keywords, and there are only 3,000 clicks a month on this keyword, one specific keyword, I am not going to say what it is. I want 10,000 clicks, you know, and so I am on Yahoo!, I am on MSN. But sometimes really specific on the long tail, like ″orange dog collars″ is a good example of a pretty specific keyword. It is not that competitive. Anybody in this room could rank for it if they created a little bit of content. But what happens is when you go to Yahoo! and do a search, sometimes the ads just doesn't show up. So I see this being a good thing from an inventory perspective. Because how many $5 bills would you buy for $3? All of them. And there is a limited number that I can buy for my retailers when I am sending them traffic. And that is what the Yahoo!-Google deal is to me.

The other thing I want to say about it is it is a lot easier to do to switch to a different Web site than it is to change to a different operating system. I think that is what Tim was saying. I switched from a PC to a MacIntosh. And it is tough. Man, I switched from

Google to whoever the best search engine is, and talking about new innovators in the space—search, okay, Google has search locked up. They are great. But they have been doing search for, what, 10 years now. If you look in the social space, I mean, Google had orkut. Yahoo! had Yahoo! Groups and 360. These startups came up. MySpace was the hot thing. Now Facebook is the hot thing. I mean, video, Google had Google video. They had to buy You Tube because You Tube came out of nowhere; 18 or 24 months ago they didn't exist. Google had to buy You Tube because they did such a better job at video than Google did. These big companies are going to have to innovate or acquire. So I am not worried about—Google is going to be—there is going to be a paradigm shift coming that none of us see coming. Maybe somebody watching this has an idea of what is going on, but it is going to totally change the game. And it scares the hell out of me because I have to stay on top of this stuff all the time.

Chairman GONZALEZ. To a certain degree, I am going to agree with you.

However, the fact that is more technology based and such I don't think really escapes the whole industry or denies the industry the scrutiny that we would give regardless of the enterprise. And I have been trying to make that point since the Microsoft lawsuit years ago. I think those principles have served us well. And I know that where we are today, there isn't a problem. The issue is, you may reach a point where there is a problem, but you just don't have the competition or the players to do anything about remedying the problem, meaning competition.

I am not for regulation at this point. I think we do have to view each and every one of these, if you want to call it a merger or a partnership or whatever, and the impact on, again, on the consumer, on competition and whether you have you know antitrust and monopoly concerns and such. By the same token, I mean, we have certain individuals that would like to apply a different standard maybe to another aspect of the Internet. And I have been saying all along, we don't need a regulatory scheme in law legislatively enacted. If you don't have a problem, let's say now with the five principles of Net neutrality. And I am saying, don't legislate. And I say the same thing here when it comes, whether it is search engine, advertising, unless you have a real serious problem that is identifiable and that we want to correct.

There is one thing we wanted to point out, you know, Mr. Carter was saying about everything being free, and it just can't be free because I mean you have to support your business enterprise. Advertising dollars represent that stream of revenue that allow the consumers to have all of these ″free″ services. Now the consumers I don't believe understand that. And we are going to start running into issues of privacy and such. But we will leave privacy aside right now.

And we will talking about the article that appeared in today's Washington Post in which the bureau here is quoted. And that was where we have an individual in New York, I believe, in his basement. He wouldn't give his name or—

Mr. ROTHENBERG. Ray.

Chairman GONZALEZ. Ray ″the blocker″ or whoever it is, who has devised basically an application that would block all advertising. And I was speaking with staff earlier in Energy and Commerce. I am on the Subcommittee on Telecommunications. And we had the wonderful inventor, and I am just such a great fan of this individual, of TiVo. And so, of course, we had individuals saying, yeah, but you are driving advertising dollars away because you can basically fast forward them away. So then we had actors come and say, look, now you are getting advertisers into our art form. You know, they are placing Coca-Cola cans in different scenes and everything else. And then this particular actor—I want to share this with you. I wish I had taped it, it was so wonderful. He says, ″can you imagine Humphrey Bogart and Lauren Bacall at that last scene, when the airplane is revving up its engines, and he is saying—you know, ″you are getting on this United flight at a reduced rate today. I hope you have a return, though. I know you are staying at Casablanca Inn. I will miss you very much. Let's have one more Royal Scotch,″ whatever it is. So he made his point.

But the whole thing is, I think we have to recognize that advertising revenue is the way that businesses are able to provide many, many services. What I am wondering, though, is this thing about—this notion of being free. If I subscribe to a service that is offered by somebody, generally there are conditions which I and millions of other Americans don't read. We just say okay. Most of those conditions allow them to track me.

And I am going to ask Mr. Rothenberg, and anyone else, but Mr. Rothenberg and Mr. Lent from the industry may understand the importance of—what is this they are tracking me? And what exactly are they tracking that translates to a better way of advertising, which then means micro targeting, which then means it is maybe something available to my small business guys?

Mr. ROTHENBERG. Chairman, let me address the broader principle first because you have mentioned it a couple of times. We believe—everybody on this panel believes, the IAB and all our members believe absolutely- in the principle of consumer control. The reason this medium, interactive digital media, has grown so dramatically in traffic, in user audience and the like is because you can choose what you want, when you want it, how to get it, what you don't want. You can screen it out. So we believe in consumer control. Consumer control improves advertising.

If the advertising is no good and people choose to skip it—and this is the TiVo principle—then the pressure is on for the agencies and for the marketers to make better advertising so that people will want to watch it. So we believe in that.

There are forms of control mechanisms that can be illegitimately done and that can certainly be illegitimately marketed. Ray, in the story today, for example, is quoted as saying that advertising is the same as spyware and malware. Well, it is not. Spyware and malware are criminal things that get put on computers illegitimately. Advertising is something that, as you noted, pays for a wealth of free services.

When the Rays of the world do things that illegitimately and illegally interfere with the ability of advertisers to deliver advertisements, the law should be able to go after them.

However, when consumers are offered legitimate tools, as they are on every single major Web browser, to screen, then I think it is incumbent on us as an industry to do two things: One is, create better ads that people will want to watch, that people will want to absorb; and the second is to do a lot better job about educating the public about the trade-offs. These ads are what pay for the hundreds of millions of free e-mail accounts, that pay for all the free videos that are online, that pay for all the financial tools that allow you to analyze your investments. That is what we need to do a better job of communicating.

I think the good news in today's Washington Post story was that very few people, very, very few, are blocking ads. There does seem to be an intuitive understanding on the part of most Americans that there is a good trade-off here. And it is a good trade-off, not an unhappy trade-off. They are recognizing that these tools and services make the advertising more relevant to them. And the relevant advertising is as good as the content in informing them about how to live better lives. So I think we are in a good position. But we do need to recognize the importance of education and that, when people are illegally blocking advertising, we need to be able to go after them.

Chairman GONZALEZ. Mr. Lent.

Mr. LENT. It is a new model. We are dealing with an entire new landscape right now. Consumers ingest media differently today than they did 5 years ago than they did 10 years ago. We need to recognize that. The anecdote that you brought forward on Humphrey Bogart and Casablanca, it is funny, and you know, I think—again, anecdotally, it makes some sense. The reality of it is, it would never—the consumers would never stand for it. They wouldn't ingest that media. In today's world, that analogy does not hold true. If Paramount Pictures created that movie today and they said, you are about to board your United flight on the way to Casablanca Hotel, consumers see right through that right now. There is too much content available at their fingertips within two clicks. They are not going to stand for that kind of blatant integrated advertising. We have to step up our game dramatically as an agency to build relevancy for our brands. For our clients who come to us and want to communicate, have a two-way dialogue with their consumers, we consistently talking about avoiding the old trap of interruptive advertising. And the whole relevancy of this data, the data, the transformation of the model allows for data to give insights to the consumer.

And as Mr. Rothenberg has said, as Mr. Rothenberg said, there is content. There is advertising, and sometimes it is hard to tell which is which. And if the advertising is as strong and as valuable to the consumer than the content itself, that it is in fact advertising. And I can give you a very direct analogy to a project we created for one of our clients for Bacardi. They don't sell rum online. Obviously, they can't sell rum online. But they wanted to reach their consumers in a unique way. We know what their consumers do; they drink rum at night clubs. And at night clubs, music is the hero. So we created the most robust online music mixer and hired professional DJs from all over the world to create content that consumers then go online and create their own songs, download them

to their iPods, vote on them, send them to their friends. That is relevancy in a branded communication. There is not an ad on the site. It doesn't talk about the product. It doesn't talk about any of that. All it does is add value to the consumer that leaves behind a positive reflection on the brand. That is the new model of advertising, and the relevancy of understanding what consumers' interests are is a natural foray. This data propagates more relevancy in a conduit, in a communication conduit.

Chairman GONZALEZ. And I am not saying that collecting this information is not valuable in the terms that you just described.

The question then is about full disclosure, the consumer knowing the information that they are being tracked, and it is very interesting to the degree that they are, because I am not even aware—and I need to correct myself, and I apologize, but most of the people in this room are so young, they have never even seen Casablanca. Ingrid Bergman in that scene and not Lauren Bacall. That was another leading lady, another movie.

I will yield back to Mr. Westmoreland here. Where we started was really the concern of the small businesses because, I mean, we started talking this way. And I am wondering, okay, where do we plug in the small businesses? So last week or a couple weeks ago, I brought staff in. I said, you know, let's Google and let's Yahoo! books and San Antonio, Texas. I want to see if my little bookstore is still surviving out there. I don't visit it often enough. But I try to place my orders there and such. And I am just wondering if y'all could kind of guide me through what is our—I was able to find. This is the Google search, and obviously, it is ″books San Antonio, Texas.″ And then what I ended up with—there are 10 pages of listings. I didn't go past page 1. And then you can also give me your opinion how many people go past page 1. And what I wanted to compare was what I would—what I see organically and what appears. So I am just assuming, I don't—it says local business results for books near San Antonio. And then they list A through J and even have a map. All right. And then off to the right, they have sponsored links, books at Amazon.com and then Barnes & Noble, obviously the big guys and such. Then it starts with some listings, books in San Antonio, Texas, in the Yellow Pages and such. What is paid for and what is not paid for on this page?

Mr. LENT. You are looking at three different pieces of content there on that page.

Chairman GONZALEZ. You can see this? You are young. All right.

Mr. LENT. We talked about the fact that Google doesn't just search. There are a lot of different components in their digital arsenal, one of which is their mapping technology. And that is what you are seeing at the top left corner of the page. That is a Google map. And those results are essentially the modern day Yellow Page results set for a particular area. In this case, you put in San Antonio, Texas, but you could just as easily put in your zip code. And you see the results of local businesses that fit that criteria. That is a standardized Yellow Page model.

Chairman GONZALEZ. No one pays extra for this? It just pops up?

Mr. LENT. That is right. I think there is the ability for them to monetize that channel, and you can buy sponsorship within the Google maps platform. I can't see from here whether any of those

particular ads—or whether those listings are ads or not. Underneath, you are looking at organic. That is organic. Those are free. That is how Mr. Carter has built his business, as he said. And that right side, the right column, those are monetized links, those are sponsored links. That is where your Google AdWords will come into play.

Chairman GONZALEZ. Okay. Then Yahoo! has a variation of it again. A small map. They only have three listings for books near San Antonio. And then, of course, over here, sponsored results rather than links. And Amazon and then San Antonio books. And Amazon.com again is listed. And again, that would basically be the same format.

Mr. LENT. Yeah. Same format.

Chairman GONZALEZ. And if you are a small business—and this is to Mr. Carter and Mr. Sanar and Mr. Snell, you guys know that I am probably not going to go past page 1, right? There are 11 pages on Yahoo! or 10 with Google and such. But your experience would be, on the organics, you want to be somewhere in this first page.

Mr. SNELL. You want to be number one; 90 percent of the folks that are clicking on organic click on the first page, and about half the clicks are on the first or second position, and it drops off precipitously after that. You are talking about a local search there with a local by including a zip code.

Chairman GONZALEZ. San Antonio.

Mr. SNELL. Right. If you were just looking for dog training books or something that would be more specific and there probably wouldn't be a store for it, it wouldn't have the local component. And one thing to add about the local side of things, that is like a subset of search. It is Yellow Pages-like in that it is a listing of businesses, but you have to pay to have—you have to have a commercial phone number. One of the problems that I have got with my Yahoo! Store owners is there are a lot times they are not buying Yellow Pages ads. They are not in that database. So these national retailers, I don't even know if Gun Dog Supply is for local search. And the results from local search are not ordered by—like in the Yellow Pages, if you pay more, you get a bigger ad, and you pay for position in the physical Yellow Pages. In local search, I think that is done algorithmically based upon like the proximity of that zip code and based upon the keywords occurring in the name of the business and even keywords on the Web site.

With search engine optimizations, you need to be on the front page. And I was talking about keywords earlier. I have got 200,000 keywords. I have got 14,000 keywords that actually, when folks search for them, they end up buying something more than not. A lot of people get obsessed for ranking number one for only one or two keywords. You were talking about long tail earlier. That is basically really obscure specific searches that result in having—there are not that many people who have a Web site that have orange dog collars on it. So that would be an example of like—of a term that we can rank really well for, and I am not competing with hundreds of millions of other Web sites.

Chairman GONZALEZ. Mr. Westmoreland, do you have any questions?

Let me ask you one last thing because I am always wondering exactly.

If it is the free application I am getting, if it is my Gmail account, if it is anything that is basically offered for free but I am agreeing that they can track my Internet activity, whatever that means, what are they exactly tracking? Are they tracking when I go to the Internet and my searches? Are they tracking something else?

Mr. ROTHENBERG. They are not tracking you. I think the word ″tracking″ or the phrase ″behavioral targeting″ sends the wrong signals. It indicates that they know you, Mr. Gonzalez, where you live, who you are. People do have that information. Credit card companies have that information.

Chairman GONZALEZ. Sure.

Mr. ROTHENBERG. Your utilities have that information. So that information has been used in direct marketing for decades and decades and decades. That is not the information that is tracked in interactive. What happens is anonymous nonidentifying markers are placed that indicate what your interests are, in ways that allow relevant advertising to be mechanically, automatically delivered against your interests. You know, you showed the search page. I am in the market for a car right now. So I went online out in the east end of Long Island where our house is, and I plugged in ″Ford hybrids.″ And I noticed that in the paid search side of it, in addition to having some national ad, you know, Ford had a paid ad in there, there were a number of local dealers. The local dealers were there because, in my computer, based on my ISP, there is an identification of the geographical area I am in. So I have actually been able to identify dealers and go to their sites based on relevant advertising, in this case geographically relevant, that has been placed.

I think that the terminology has done us ill. You know, tracking and targeting give the sense of a deer in the gun sights. And that is not what is being used here. What is being used are anonymous technological markers that indicate relevance to you based on your activities.

Another thing that is very important to note is that much of this tracking activity is essential to the operations, not just of the interactive media but of all media. For example, I note some of the proposals that have been floating around to regulate some of this activity would regulate tracking of user activities. Well, tracking of user activity is the main way that Web sites use to set advertising prices. It is the only way they have to measure their audiences to know how many people are coming in. That is done through those markers, through those cookies. Another thing that is essential to the management of interactive media is the ability to count the advertising impressions. I mean, did you actually see the ad that I sent to you?

Did you see it? Well, the only way to count those deliveries is through the same tracking mechanisms. So it is very important to understand that so-called tracking is what we use for assessing audience size, to set prices, what we use to assess the accurate delivery of ads to know how to charge our customers and also to be able

to deliver things that are completely, as much as possible, relevant to your interests.

Chairman GONZALEZ. It would seem to me, the more information that we have and the particular taste and behavior of a consumer, the greater chances it would be that a small business might be able to provide that particular service or product with more specificity just because we have this consumer DNA that we built up. But you said that they don't really know that it is Charlie Gonzalez. But the truth is—I will just call it a user ID number. They have got to know who I am. So I am all these little component parts. Every search that I have ever—they have got to be compiling this profile on me. And so they can trace it back to a particular user. I mean, it wouldn't make any sense otherwise. So they do know who I am. I mean, it is not a quantum leap here to figure that, based on all the activities of all these free services, because I have got a lot of people tracking and—I know people don't like the word—following my activities. They are compiling this profile. And so when people say, no, this is anonymous cyberspace, right, I think people still have that concern, Mr. Rothenberg, that they do know who you are. And they are looking into all of your activities. And I am saying that a consumer can agree to that. And we will be looking at that and exploring it. If you looked at the story this morning, I think Mr. Markey had his own comments on it. I think we need to carefully explore it because of the potential consequences, unintended or otherwise.

Mr. ROTHENBERG. But let's be careful to separate out what is possible, because everything that you are identifying is certainly possible, to what actually goes on as a matter of consistent practice. As a matter of consistent practice, the only way someone is going to know who you, Mr. Gonzalez, are, is if you subscribe to something, if you give your name and your address. But that is different from you just going around surfing on sites, looking at San Antonio bookstores and vacation spots, restaurants, books to buy. They know a lot about some of your preferences. And based on that, advertising will be able to be delivered. But that is a mechanized process that doesn't get at your name or your address or your Social Security number unless somebody actively tries to put one and one together to make three.

Chairman GONZALEZ. And we have different components of the Internet that track. I mean, ISP, search engines, applicators, all of them. I mean, everyone that is out there tracks pretty much. I mean, that is the way their business model is formulated. And I know we have been here a long time.

I know, Mr. Carter, I think you have a comment.

Mr. CARTER. I think I can summarize and speak to some of your points, Chairman Gonzalez.

I maintain that there are only two reasons why people get on the Internet. If you boil down to the lowest common denominator, you come up with two of them. One is pleasure; the other one is pain or problems. In that context that you are talking about with respect to tracking, tagging, following, whatever, think in your own personal life, and everybody actually in this room, if you can go back in time just 10 years ago, I would venture to say that your life was less complicated. You spent more time doing certain

things. And what has happened is that we have got this compression of information that is ever-increasing. So your life is busier. Everyone's life is busier. And what happens is, you want and need solutions to problems faster because that is—your life is increasing, just everything is getting faster. So, I maintain, and I see it on Ask the Builder, that that tracking or that setting of cookies actually is a beneficial thing. Because it allows the—whether it is Yahoo! or Google, whomever, even my own ads that I throw up to throw a solution at you for the problem you are on the Internet today, whether it is you are buying an airline ticket, whether your roof is leaking, whether you may have just found out that you have been diagnosed with cancer. You need help, and you need it now. So that type of technology is actually beneficial.

So I ask you, as a legislature, and you, Congressman Westmoreland, and other members of the committee, that if you decide to go down that pathway, go down it very slowly because there has been good and bad with everything I think that we have had here in America. But at this current time, just think about this one last thing: Who would have ever imagined that a guy like me that used to eat lunch on drywall buckets—seriously, I used to sit on a drywall bucket and eat lunch—can compete equally with The Chicago Tribune, The Washington Post, The New York Times? I am a syndicated columnist. But I have an equal profile on the Internet, maybe in certain respects higher than some of those publications that have been around for years, that have millions of dollars of infrastructure. So if you start to tweak this too much or too rapidly or too fast, you could actually make everything go backwards. And that would be a very bad thing for consumers. And I beg you, before you do that, to really get in touch with your constituents and ask them personally, have some type of town meetings.

I am an elected official myself actually. I mean, I know how that works. And get in touch with them. Find out how they really use the Internet and how it has impacted their life. Because those people that are buying those things, they are what have made everybody on this panel successful. So please talk to them as well.

Chairman GONZALEZ. I would just like to add one thing.

I, first of all, agree wholeheartedly with everything you said. There is one thing that hasn't been brought up. Consumers do have the right to opt out. They can shut of the cookies on their machine. Now, granted you may just read a legal document and just say ″I agree″ without going through the process. But that is a decision you made. If you have a concern that your private data is out there and that is something that you want to curtail, you have the ability to do that. You may have to do a little research. You may have to find out what the process is for you to opt out, you may have to do a quick Google search and find out how to shut off your cookies, but that is within your power. You are capable of doing that. And based on that fact alone, the value supersedes the damage for me.

Mr. ROTHENBERG. Actually, also just to reinforce, there is a fair amount of research already out there that says, even with the paltry amount of consumer education, that something on the order of 40 percent of consumers clear out their cookie caches each week. So already people know how to control their privacy or their iden-

tity online. So I think that education is a far better path to follow, certainly at this point, than regulation.

But, generally speaking, in fact specifically speaking, I think the education that this committee is bringing to this process and also to the benefits that interactive media and advertising bring to small businesses, that is really the education that needs to be out there. So we are very pleased that you held this hearing.

Mr. SNELL. Can I add one thing?

Chairman GONZALEZ. Sure, Mr. Snell.

Mr. SNELL. You guys asked us, what do we want Congress to do, and what do we want Congress not to do? And one thing that we haven't talked about, you talked about 60 percent of the folks, you know, small business folks surveyed said it is hard to get on the Internet. I think you guys can help with, like the SBA having an e-commerce czar or somebody who knocks on the door, you know, metaphorically, and says, hey, it is real easy to get on the Internet. Talk to any of these guys on the panel or just surf around on the Internet. But most of the small businesses that are in your districts are probably not folks who could open up a Yahoo! Store. I would imagine that they are not like catalog retailers. And this is where a different kind of search marketing would apply. In the example that you gave on the bookstore, if I had a small bookstore, you know, in San Antonio—and forget the San Antonio part of your query, let's just say you searched in—you were at home in San Antonio and you searched for books. Amazon will probably come up first.

But if you were a small business, you could buy a targeted ad that would only run in San Antonio. So we talk about how search can get some of us national reach, but it can also get local businesses generic reach on these really broad keywords that there is no way a San Antonio bookstore could ever rank on the first page of Google for books. And we have done it with our copy shop. I have got one copy shop in Starkville, Mississippi. I will never rank for color copies on Google, but I can buy color copies for 10 cents a click and be on the first page of Google in Starkville, Mississippi. And I think you guys need to push that.

Chairman GONZALEZ. I want to thank all of you.

I know Mr. Westmoreland joins me in just thanking you for the time, the effort and the expense of coming and enlightening us.

Let me end, of course, with the last—beginning and the end of any hearing that we have here. Our concern is small business, micro businesses in America. We have some representatives of those businesses here. And we commend and applaud you. And I think it is a question of education. Legislate only when totally necessary. I am not sure that is where we are. I know that on Net neutrality, there may be some legislation out there. But we surely don't have legislation elsewhere that is impacting common practices out there that seem to be working as long as we don't have any abuses and such at the present time.

Small businesses have to be part of what is going on out there, and the concern being is, as long as we still have some sort of a model that allows their entrance into this market and taking advantage of what is there, that is what is important.

I think, Mr. Snell, your suggestion is well taken on, what is the Small Business Administration doing and way beyond that, what can this committee do to enhance and assist small businesses? As far as technology moving on, it can be used for a good purpose, and we can have good people. It is in their hands.

But it reminds me of when I was in college, and I took a course. It was science for nonscience majors. The only thing I remember is that it started off—I can't remember if it is a Buddhist saying or not and that is, just like technology, science, that the keys that unlock the gates to paradise also unlock the gates to hell. And that is what technology and science is all about. In the proper hands, it can be a really good thing. If you do have misuse and you have certain concentrations of power, bad things can happen.

And I think we have to be ever watchful. But in the meantime, you know, we have you out there. And I take it that you will always have the concerns of small businesses at heart, you know in your own business ventures or personally what you are doing in your hometowns.

And I want to thank everyone.

And if I forget this, I will get in trouble. I ask unanimous consent that members will have 5 days to submit a statement and supporting materials for the record.

And without objection, so ordered.

And this hearing is now adjourned.

[Whereupon, at 12:10 p.m., the subcommittee was adjourned.]

CHARLES A. GONZALEZ, Texas
Chairman

LYNN A. WESTMORELAND, Georgia
Ranking Minority Member

Congress of the United States
U.S. House of Representatives
Committee on Small Business
Subcommittee on Regulations, Health Care and Trade
2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
Of the Honorable Charles A. Gonzalez, Chairman
United States House of Representatives, Committee on Small Business
Subcommittee on Regulations, Health Care and Trade:
Hearing on the Impact of Online Advertising on Small Firms
Wednesday, June 25, 2008

This morning, the Subcommittee will examine the increasing value of online marketing to the small businesses community. The speed and interactivity of the Internet have helped millions of entrepreneurs identify and attract new customers. But unfortunately, not all small firms have been able to capitalize on its power. Even today, many small businesses face significant roadblocks to optimizing their online presence.

In today's hearing, the Subcommittee will hear from entrepreneurs who have launched successful web marketing campaigns, as well as from content providers who support display ads and use the pay-per-click platform.

We will also listen to testimony from small business owners who have both benefited from, and been challenged by, search engine technology. These witnesses will testify not only to the advantages of online advertising, but also to its limitations and demands.

More and more, consumers are using the Internet to shop and research products prior to purchase. In fact, the National Retail Federation reports that over 92 percent of adults conduct web inquiries before buying products in stores. And studies show that these shoppers are doing more than just their homework—they are buying, too. In 2007, online retail sales grew 16% to reach $116 billion. Forecasts by JupiterResearch show this trend to be on the rise—with online sales expected to reach $171 billion by 2011.

In keeping with internet sales, the online advertising industry is rapidly growing as well. Indeed, web ad revenues totaled $21 billion last year. The entire industry expanded by 45% annually between 2003 and 2006, and is expected to exceed $50 billion in 2011. By 2007, profits from online advertising had already eclipsed those for radio. Needless to say, web ads present significant revenue opportunities that small businesses cannot afford to ignore.

What distinguishes online marketing from more traditional means is its ability to micro-target potential customers based on browsing histories. According to Webvisible-Nielsen, an estimated 74 percent of consumers use services like Yahoo! or Google when shopping online. For small businesses hoping to identify and appeal to new clients, these systems offer a refined approach to tailoring ads and generating revenue. As people increasingly look to search engines as a jumping off point for commerce, small firms must learn to embrace and effectively utilize this method of advertising.

But even with this potential, many entrepreneurs are unable to fully take advantage of these tools -- In order for them to reap the rewards of search engine marketing, small businesses must first and foremost design their homepages with web browsers and search engines in mind. While many entrepreneurs are already doing so, millions more don't have the resources to build search engine-friendly websites.

In examining the state of online advertising, it is important that we keep an eye towards the industry's future. This way, we can ensure that small businesses have the kind of diversification that will allow them to get the most out of their often limited budgets. We must keep in mind that, unlike their corporate counterparts, small businesses don't always have the funds to pay for ad spots on prime time television. Rather, they need to be more strategic in their approach, and seek out ways to make their dollars stretch further. Online marketing is a great way for them to do this, and it is crucial that the industry remain a viable, accessible and affordable option.

For small businesses, technology has been a remarkable field leveler. It has allowed many firms to compete on an equal basis with companies ten times their size. But, as with any technology, entrepreneurs must learn to evolve alongside the web ad industry. Because in a world that increasingly revolves around e-commerce, small businesses that cannot compete on the internet cannot compete elsewhere. And this is a disadvantage our entrepreneurs cannot afford.

I look forward to today's testimony and thank all the witnesses for participating. I now recognize Ranking Member Westmoreland for his opening statement.

**U.S. House of Representatives**

# SMALL BUSINESS COMMITTEE

**Subcommittee on Regulation, Health Care and Trade**

Wednesday, June 25, 2008

## Opening Statement of Ranking Member Lynn A. Westmoreland

***The Impact of Online Advertising on Small Firms***

Thank you, Mr. Chairman, for holding this hearing today. I would also like to thank all of the witnesses for their participation.

Mr. Chairman, I think it is safe to say that the Internet has changed the way we all live our lives. Everything from how we eat, to how we dress, to how we receive our medical care has evolved since the arrival of the Internet age. Of particular significance is how the nature of business has been forever changed by this technology.

The speed at which we gather large amounts of information has made us more informed consumers, but even more importantly, it has changed the relationship between retailers and consumers. This change in the commercial landscape has provided a more advantageous environment for small businesses to advertise their services to potential customers.

The basic techniques of Internet advertising mirror those of more conventional advertising. However, conventional advertising, such as listings in the Yellow Pages, is not cost-efficient due to the low response rate those ads generate. On the opposite end of the spectrum are radio, television, and cable ads, which are very effective. But as all of our campaign directors know, they are also very expensive. Internet advertising provides benefits to small businesses by helping them to effectively target customers on a more cost-effective basis than conventional means.

This means that a small business that was once limited by geography is now able to advertise their products to a customer thousands of miles away for the same cost as advertising their products to its next door neighbor.

Through the use of many forms of Internet advertising like, rich media, lead generation, and keyword searches, small businesses are in a position to compete globally. As a former small business owner, I understand the many barriers that prohibit businesses from entering the marketplace.

While I am looking forward to hearing about how the utilization of these tools have helped small businesses succeed, I am also interested to hear what we in Congress should or should not be doing to help more small firms achieve success.

I welcome these distinguished witnesses, and thank you all for your willingness to testify.

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Testimony of Tim Carter - AsktheBuilder.com
to the
U.S. House of Representatives Committee on Small Business
Subcommittee on Regulations, Health Care and Trade

***"The Impact of Online Advertising on Small Firms"***

June 25, 2008

I sincerely appreciate the opportunity to submit this testimony to the members of Congress. It is my hope that my comments will aid you in making an informed decision about this very important topic.

There is not a doubt in my mind that advertising on the Internet is a fantastic thing for small business people here in the United States of America as well as the entire developed world. I say this for several reasons; my own small business has thrived as online advertising has become more refined, I know personally scores of small businesses that are highly successful because of online advertising and in the last few days I reached out to my own newsletter subscribers to poll them about the impact that online ads are having in their businesses.

## Two Common Denominators

It is my feeling that before you enter into a fruitful discussion about online advertising, one needs to be in agreement as to why people are on the Internet in the first place. I feel I have a unique perspective on this situation since AsktheBuilder.com has been in existence since late 1995. If you were surfing the Internet back then, you know those were the early days of this fabulous medium.

I believe if you boil down Internet activity to the lowest common denominator, you come up with two of them, and they both begin with the letter "P" - Pleasure and Problems. There are many websites that offer pleasure, and my own mother used to visit one of these sites daily to play harmless checkers.

But if the visitors to AsktheBuilder.com are a valid statistical sample of the average Internet user, I feel the vast majority of people are getting online each day to solve problems. These problems can be complicated or simple, and the time frame to solve them can be minutes or months. For example, if your toilet is overflowing at 11:00 p.m., you need a plumber now. But if you are in need of plane tickets for a vacation in six months, you may casually seek some pricing information to help craft a budget for the trip. There are millions of problems each day, and online advertising offers solutions to them.

## Solving Problems

AsktheBuilder.com was a dream come true. For years I wanted to educate consumers how to ensure the money they invested in their homes was well spent. From 1974 until 1993 I was a hands-on builder/remodeler who tried each day to do my best work using time-tested methods and materials. I always wanted to write a book for consumers to share my accumulated knowledge.

In 1993 I was selected as one of the top 50 Remodelers in the USA by *Remodeling* magazine, and received my award in a ceremony here in Washington DC just two blocks from the White House. I used that award to launch a syndicated newspaper column that now runs in nearly 100 papers across the USA.

But I quickly discovered that it was far better to be a publisher than a writer. When I saw the Internet for the first time, I immediately saw I could become a publisher for only a dollar a day. That was the cost in 1995 to host a website on a server. Imagine being able to reach hundreds of millions of people in a fraction of a second for just a dollar a day. ***Small business people like me had never before had such power or possibilities.***

Within months of launching AsktheBuilder.com, I quickly became aware of how acute problems of consumers were, especially those people who owned homes. I started to get emails each day from people who needed help. They either needed excellent products to install and/or they needed a person to help solve the problem. Currently I receive well over 100 cries for help each and every day from consumers who are having problems.

## Context is Everything

We all know that statements make the most sense when they are repeated in context. If a quote of yours has ever been taken out of context, you know how much trouble it can cause.

The beauty of online advertising is that it is often contextual. This simply means that the ads you or anyone might see often directly relate to the problem you currently have. I offer as an example a column from AsktheBuilder.com. If your are reading an article about roof leaks, you will undoubtedly see on that page ads for roofers and specific products that will help stop the leak.

In other words, contextual ads can and do solve problems. I know this for a fact as each day thousands of people who visit AsktheBuilder.com use an ad they see at my website to help them solve a problem. More importantly, in the 13 years I have been operating my website I have never received one complaint from a visitor that an ad seen at my

website was misleading or not helpful.

The same people who voted you into office are having the same positive experience each day on thousands of other websites where content is supported and bolstered by relevant, helpful advertising. In fact, I'll bet that you have responded to an online ad that aided you in solving a problem you might have been researching online.

## Instant Gratification

Upon receiving the invitation to appear in front of this Committee, I decided to flex what little power I have on the Internet. I am very fortunate to have a large responsive following of small business owners who subscribe to my weekly online newsletter at AsktheBuilder.com. When I received the formal invitation to appear in front of this Committee just days ago, I reached out to my subscribers asking them to tell me how online advertising has impacted their businesses.

Within an hour of sending out the newsletter, responses started pouring in. Allow me to share some of the most interesting. I heard not only from small business owners but from regular consumers as well.

Joe Wilson, a freelance writer from Athens, GA, wrote, ".....This is to say that we don't use any other form of advertising, at least consciously.....If it weren't for the online ads that cross my screen, I wouldn't have found the publisher for my most recent book."

A Community Development Coordinator from Nashville, TN, Ms. Rachael Kahne wrote, ".....I work for a small business whose bread and butter comes from online advertising. There's simply no other better, more viral way to get in touch with a targeted audience. Online marketing allows a business to track and target what is working, and what isn't. It's certainly one of the most cost effective solutions out there today."

Shirley, who didn't tell me where she lived, said, ".....Of course online ads are a win/win. The vendor makes income from the vast access of online and the user can either view the add or block them altogether....."

Ira Eisenstein runs a home-inspection business in New Jersey and told me, "Tim,.....I run a home inspection business, and I have made a deliberate decision NOT TO obtain my work through real estate agents because of the inherent conflict of interest that creates." He added to that, "....If I did not have the opportunity to use online advertising, I would have no business, as 95% of these people go on the internet, and search for their home inspector. From the other point of view, the customers who find me because I have online ads would be unable to find an independent home inspector if none of us could advertise online. That would put both my customers and me at a big disadvantage. The cost of replacing online advertising with other media would be prohibitive."

Laura responded with, "Hi Tim, I am a small business owner and have benefited from online advertising. The pay-per-click model gives me strong leads, and let's me know exactly how my advertising budget was spent. It is quite similar to advertising in, say, a local magazine. Online viewers expect instant gratification – and they get it with well-placed online advertisements....."

Graham Green who lives 50 miles from the nearest shop and public telephone in rural New Zealand can't vote for you, but his response is really worth considering. I want you to read his entire email to me because it truly speaks to the essence, power and impact of online advertising. Graham wrote:

"Dear Tim,

I am one of the millions of people that you are not going to make any money out of. Sorry; I live in rural New Zealand and if it wasn't for web sites like yours my life would be substantially impoverished. You are responsible for teaching me skills that I need to get by and showing me what products are available to accomplish a job.

The World Wide Web is easily the most individually empowering development of the last 100 years. For the first time a person can find out what other people who bought a product or service really think of it.

Comparing prices, soliciting opinion, discussing quality - all have become so simple.

In my opinion anyone against internet advertising is un-American.

Here's an example: Today I taught myself enough electronics to make a voltage regulator so that I can repair a broken machine. Using only web sites I have learnt the principles of DC voltage regulation, selected an appropriate IC and two resistors (total retail value $3) and ordered the components. This certainly saves me money, but also means that I don't have to scrap an electrical appliance which has to be a tiny bit of good news for the world.

It comes down to this - people who want to sell things that aren't crap are happy to spend effort helping you buy them but they couldn't do that in a newspaper ad.

Sure, the net is full of crap but it is less crappy as each year goes by. The market is adapting to the new technology and the net is regulating itself.

All the Best and a big thank you for your site."

Finally, as I was writing this testimony Marie Murray of our fellow citizens from the top of the globe in Sitka, Alaska wrote:

"Hi Tim, I actually talked to you in person after doing research on how to handle the clear cedar on our house. We tried what local painters had told us to do for a less then successful result after mildew had blackened our house and weathering had really done a number on several sides ...Then we got products you had recommended by finding a log dealer in Oregon who handled the Defy and the oxygen bleach, sent it to us on the barge since shipping is such an issue with us...we are closing in on the end. We are very happy, and people tell us our house looks like new siding and it does.

This would not have been possible if we had not found YOU on the web by searching different web sites. WE ARE HAPPY CONSUMERS, WE LIVE ON AN ISLAND IN ALASKA AND WOULD NOT HAVE BEEN ABLE TO HAVE THIS HAPPY ENDING WITH OUR BEAUTIFUL HOUSE UNLESS WE WOULD HAVE BEEN ABLE TO GET YOUR ADVERTISING ON THE WEB AND ADVICE....THANK YOU A MILLION TIMES FOR YOUR CARING PERSONAL CUSTOMER SERVICE THAT IS ALL BUT DEAD IN THESE TIMES."

## Empowering Small Business

If you are a student of business history, you will quickly discover that prior to the Internet it was very hard for a small business to grow. It took years of work and lots of capital to spread the word far and wide about the products a small business might offer. This was true if a business had just a local customer base or had products and services to sell all over the USA or the world.

But online advertising has changed all of that. It has never been easier nor cheaper for small businesses to target, acquire and satisfy (solve a problem for) consumers. The examples above that I offer are a small bit of evidence. Perhaps the most astonishing fact is that a small business can control the price it pays for the ad, control the daily advertising budget, control where and when the ad will appear and do all of this in minutes from the comfort and security of any personal computer whether in an office or on the beach.

But remember that I am a small business that is also thriving on the other side of the advertising fence. **The online ads that appear on AsktheBuilder.com allow me to publish thousands of my past columns and hundreds of my short videos for free.** This allows millions of people, some of whom are your constituents, to have unparalleled access to content like never before. I am not alone, as there are tens of thousands of small Internet publishers like me who use online advertising as the fuel that powers their revenue engines. When you add all of us small businesses up, no doubt we make a significant impact and help contribute to our National Economy.

## Summary and Conclusion

There are many other examples I and others can offer about how online advertising has a positive impact on small business, but I feel you have a clear picture already. Perhaps the most compelling reason to encourage online advertising and allow it to further develop is to recognize that it is one of the few things in this world that is truly a win-win-win opportunity.

Consumers benefit by seeing ads that can actually solve their current problem at that moment in time, the advertiser benefits by getting the attention of a ready, willing and able customer and finally the website that is hosting the ad benefits from making the connection between the consumer and the advertiser.

Thank you again for taking the time to consider my opinions in this very important issue.

Tim Carter
Founder - AsktheBuilder.com

Good morning, my name is Paul Sanar and I am the 23 year old CEO & Founder of SkyFacet.com, a successful online diamond retailer. We have been featured in Forbes, Modern Bride Magazine, For The Bride Magazine, Chicago Bride Magazine and in countless bridal fashion shows. I started SkyFacet.com in 2004 when I was 18 years old and I am proud to say that we are currently expecting sales of 55 million dollars for 2008. I was asked by Bill Maguire, who found my company through a Forbes article, to speak about my past experience with Google. I first started advertising on Google in December of 2004 and have learned the importance of running a profitable advertising campaign using the Google AdWords system, the search engine's advertising platform.

What I admire most about Google AdWords is that it gives all advertisers a level playing field from small companies to large enterprises like SkyFacet.com. The minimum ad spend on Google AdWords is $5 which means all business have access to advertise on the internet.

By now, most business's have heard of Google AdWords and realize that it is a very powerful advertising tool. Unfortunately, most small firms don't understand that Google AdWords will not guarantee sales but if used correctly, can attract more potential customers. If this concept is understood by the advertiser upon creation of their AdWords campaign, that company has the opportunity to become highly successful and profitable.

Unfortunately, a lot of e-commerce retailers don't effectively diversify their marketing plans. The perfect example of this would be an article Forbes published named "Condemned To Google Hell" where according to writer Andy Greenberg "Paul Sanar, the 21-year-old New Yorker depended solely on the search engine to keep traffic flowing to Skyfacet.com, his online diamond business, Sanar says he sold $3 million dollars worth of jewelry a year. Then, he says, Google turned its back on Skyfacet.com, condemning the site to Internet obscurity."
I explained to Mr.Greenberg that I lost 500 thousand dollars because my site went into the Google supplemental index which penalizes websites that try to game the Google algorithm. However, what he failed to mention, which I had made explicitly clear, was that my marketing plan was not based solely on Google advertising. Mr.Greenberg misquoted me in order to sell his story. Despite the inaccuracy of his statements, I believe that any press is great press as is evident from the more than $400,000 profit SkyFacet com gained as a result of that article. That Forbes article gave the Sky Facet brand legitimacy which Google does not currently offer to any advertiser big or small. Google can easily help advertisers build confidence among consumers if they simply added a rating system of their advertisers and actually displayed the average rating score on the ad similar to what Bizrate com and EBay do for there retailers.

In conclusion, I would like to thank you for your time and the opportunity to speak about my experiences and when shopping for jewelry remember SkyFacet.com for quality and service of a higher level.

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## *U.S. House of Representatives Committee on Small Business Subcommittee on Regulations, Health Care and Trade*

# "The Impact of Online Advertising on Small Firms."

Wednesday, June 25, 2008 -- 10:00 a.m., Room 1539, Longworth House Office Building.

ORAL PRESENTATION (5 minutes)

**Rob Snell,**
co-owner Gun Dog Supply,
Managing Partner, Snell Brothers
Author, "Starting a Yahoo! Business For Dummies" (Wiley Publishing, 2006)

**ROB SNELL:** Good morning. Thank you for asking me to appear on this panel. I'm here today to talk about how search engine marketing has transformed my family's business, my clients' businesses, and to show how other small businesses can take advantage of this effective and affordable way to drive visitors to their Web sites.

My name is Rob Snell. I'm from Starkville, Mississippi. These days I wear quite a few hats. I am a co-owner of Gun Dog Supply, our family retail business that sells supplies for hunting dogs I'm also the managing partner of Snell Brothers, the consulting company my brother, Steve Snell, and I started that helps Yahoo! Store owners with their online marketing. A couple of years ago I wrote a book on Yahoo! Store: "Starting a Yahoo! Business For Dummies." I've included information from a few of the marketing chapters at the end of my written testimony for your review.

Today, I'm going to share real numbers with you, so you can see the impact of search marketing on a real small business in dollars and cents. Every year our Yahoo! Stores get millions of visitors from the search engines. Tens of thousands of those visitors convert into paying customers. This year we will sell over $10 million dollars through several different Yahoo! Stores.

The Internet levels the playing field for small business folks like us. As a consultant and speaker, my job is to teach the little guys how to compete with the big guys. We use the Internet to leverage the strengths of small business: unparalleled product knowledge, enthusiasm for what we sell and do, and outstanding customer service and support. Bigger retailers cannot compete when we go head to head, product to product. They sell too many things!

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## Background

My parents, Warner & Anne Snell, started **GUN DOG SUPPLY**, back in 1972 on their kitchen table in Jackson, MS. They ran tiny display ads in hunting dog magazines and went full time with the business in late 1970s. Slowly, the business changed to a retail store with less emphasis on mail order sales.

In 1996, Petsmart opened across the street. 50% of our competitors went out of business overnight. Our sales dropped, too. We dusted off our mailing list and put together a new catalog. Unfortunately, our list was stale, and we lost money on every single catalog sent.

In 1997, I built a 5-page Web site. I wrote a killer Yahoo! directory listing, and we started getting tons of visitors from Yahoo! We had to figure out how to sell online and fast. Fortunately, we found the online store builder which is now Yahoo! Store.

For my family, selling on the Internet has literally changed our world. We went from a retail company doing $400,000 a year and struggling to pay the bills to a multi-million dollar retailer in a few short years.

## Search Marketing = Free Search + Paid Search

Search marketing is the one-two punch of free search and paid search together. By performing search engine optimization on your Web site, you rank better and get more free traffic. Buying paid search ads insures you control your advertising message, and you're not at the mercy of shifting search engine ranking algorithms.

Almost 40 percent of the traffic from the Big Four search engines (Google, Yahoo!, MSN/Live, and Ask) comes from paid search ads. I believe you should buy paid search ads when you already rank well for your keyword terms in the free search results. Why? When do you normally get *two* chances to make an advertising impression with a prospect who is ready to buy? It's like buying an ad in the newspaper that runs right next to your feature story. You can't control what they write about you in the paper, but the ad is all yours!

Using all the content from our print catalog for our online catalog was the secret to our initial success with the search engines. Those 50 pages of text covering hundreds of products would help us sell our dog training collars, Garmin Astro GPS, Tri-tronics collars and retriever dummies.

Originally, half of our traffic came from banner advertising and half was free traffic from search engines. My Yahoo! Store statistics would tell me not only *where* the traffic came from, but *what* keywords folks were searching for. This information was gold!

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For example, someone would buy a leather dog collar and the source of the order would show the sale coming from a search on Yahoo for "leather dog collars." Another order would come in with a search for "retriever training supplies" and they would buy some training dummies, and/or a book or video on training retrievers.

I caught on pretty quick that keywords were important. People were buying the things they were searching for, so I started to obsess over our keywords and their search engine rankings.

By 2003, the search engines started selling text ads based on keyword searches. The free ride was over. I opened an account with Google Adwords and started buying ads on different keywords. I also had a Goto.com account which later became Overture and is now Yahoo! Search Marketing.

Paid search is good, too! With an online store, a small retailer can instantly have access to millions of potential customers. With as little as a $5 deposit in a Google Adwords account, a small business owner can buy targeted advertising and get instant traffic to his/her Web site.

Retailers can run national ad campaigns targeted only to folks searching for what they sell. You can buy ads but only for keyword searches relevant to your product mix. Local retailers can also target their ads to run only in the specific geographic markets they serve.

Selling on the Internet via an online catalog is much cheaper than sending catalogs through the mail. Advertising on the Internet is more cost effective than any other medium we've tried.

Search marketing is extremely efficient because you are ONLY marketing to those interested in your products. It is the least obtrusive form of advertising as the customer is literally asking for your ads when they perform a search. No other marketing method can touch search engine marketing for targeting the right prospects in the right places at the right time – when folks are ready to buy.

Thank you for the opportunity to appear before this committee. I look forward to answering any questions you may have.

-- **Rob Snell**,
co-owner Gun Dog Supply,
Managing Partner, Snell Brothers, and
Author, "Starting a Yahoo! Business For Dummies." (Wiley Publishing, 2006)

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## Free Search & Paid Search Resources

Yahoo! Search Marketing's Resource:
http://searchmarketing.yahoo.com/rc/srch/?mkt=us

Google AdWords Learning Center at
http://www.google.com/adwords/learningcenter.

*Starting a Yahoo! Business For Dummies.* By Rob Snell (Wiley Publishing, 2006)

*Google AdWords:* (2008 Edition), by Andrew Goodman (Page-Zero).

Matt Cutts is a senior engineer at Google in charge of search quality. Read his unofficial, but extremely relevant search blog at http://www.mattcutts.com/blog

Brett Tabke's WebmasterWorld.com

Aaron Wall's SEOBook.com

Danny Sullivan's SearchEngineLand.com

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From "Starting a Yahoo! Business For Dummies." (Wiley, 2006)

## Chapter 17: Driving Traffic That Converts

***Search engine optimization* (SEO) is the art and science of making changes to your Web site to rank better for relevant keywords in the search engine results pages (SERPs).** Most effective SEO is done in two ways: by implementing the current best practices and by testing new methods, tracking your results, and then keeping what improves your rankings.

The two basic building blocks of search engine optimization are text and links.

*Text* refers to the words on the page — visible text you can see and a search engine spider can read. If you can see it on your screen and highlight text with your mouse and cut and paste it in a text editor like Notepad, then it's visible text.

A *link* is a hyperlink pointing to the page from other pages on your site or from other sites. I go into a lot more detail about SEO in Chapter 19, but here's what you need to know:

- **Text:** You want to have keyword-rich text on each of your pages using your most relevant keywords in well-written product descriptions and other useful content such as product reviews, articles, FAQs, and more. These keywords also appear in various HTML elements in places like your title tag, meta keywords and description tags, inside header tags, body text, and links on your site.

- **Links:** You also need links pointing to each page. The links can come from your site (internal links from your other pages or navigational text links), or the links can come from other people's Web sites linking to you. Good examples of other folks linking to you are directory listings, resource pages, reciprocal link exchanges with similar sites, suppliers and manufacturers linking to their retailers, product review sites, and even people linking to you from their blogs.

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**Chapter 18: Buying Your Way to the Top**

The instantaneous gratification of pay-per-click ads can be tempting. Here's how paying to get listed in the top results beats hoping to be listed in the free results:

- **With paid search, you're totally in control.** You choose the keywords, write the ads, and pick which pages get promoted. With SEO, the search engines (and sometimes the spammers) are in control of the rankings.

- **With paid search, your ads appear almost immediately.** You don't have to wait weeks or months for your site to appear in paid-search ads like you do in the free search results.

- **With paid search, you're not at the mercy of search-engine spiders and ranking algorithms to determine the most relevant page.** Just get out your wallet and buy your way to the top, because (like in the real world) the highest bidder gets the best real estate.

- **With paid search, you choose what keyword phrases you rank well for by how much you're willing to pay.** Free search-engine rankings for keywords sometimes seem almost random, even though you optimize for your best words. For example, my #1 referring keyword phrase from Google on my dog-supply site is *Dog Boots*, but we sell only two kinds of dog boots and have around 1,500 other kinds of products. Go figure.

- **With paid search, you can test keyword phrases that you don't rank well for in the free results.** That way, you can see whether you want to optimize for those words, too. Sometimes very competitive or expensive keywords don't convert like you think they should.

- **With paid search, you also write the ads so that you determine what users see.** You choose the link text (title) and the little snippet of text (description) that appear on the search results pages. With the free listings, you have little or no control over what the search engines display.

- **With paid search, you also choose what pages folks land on for each keyword.** Instead of hoping that your best landing pages rank for your best

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keywords, you get to pick where folks go on your Web store. You can also change your landing pages as often as you want to maximize their effectiveness. When your pages rank really well for your best keywords in the free search results, you're almost afraid to touch the pages.

Unfortunately, paid search has a dark side as well:

- **Paid-search advertising is expensive and consumes a lot of time.** Babysitting your ad campaigns takes a lot of time and mental energy. If you don't closely monitor your campaigns, a good campaign can go down the tubes fast.

- **Customers trust the free, natural, organic results.** Free results are seen as independent and more authoritative than ads. More sophisticated surfers seem to avoid clicking ads.

- **Competitors can be foolish and bid insane amounts, thus temporarily making your search-ad campaign ineffective or unprofitable.** Competitors can also click your ads. Click fraud can be costly and frustrating.

- **More retailers lose money than make money on pay-per-click ad campaigns (in my experience).** This loss is probably due more to egobidding, mismanagement, or neglect than from evil-doers.

- **Keywords just keep getting more and more expensive!** The average cost per click just keeps going up. Two or three years ago, most traffic was free. You can still get thousands of people per day to your Web site at no cost-per-click with good old-fashioned SEO. There's nothing like free traffic from search engines. Develop some good unique content, get a ton of links, and that's pretty much it.

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Rob Snell is Managing Partner of Snell Brothers, a consulting firm specializing in search marketing for Yahoo! Stores and a co-owner of Gun Dog Supply. Rob has extensive Yahoo! Store experience with both family-owned stores and consulting clients. The Snell Brothers have designed, developed, marketed and/or maintained hundreds of Yahoo Stores that have generated millions and millions of dollars in online sales.

Rob has a B.A. in Graphic Design from Mississippi State University and is the author of *Starting a Yahoo! Business For Dummies* (Wiley Computer Publishing).

Rob Snell loves e-commerce and all things Yahoo! Store. He is totally obsessed with search marketing and increasing his stores' conversion rates. He is a small business owner, online retailer, search marketing / e-commerce consultant, and Yahoo! Store developer. He's been online since 1990 and opened his first online store in 1997 when his brother stumbled across Viaweb (now Yahoo! Store).

Rob now consults with Yahoo! Store retailers on improving their e-commerce sites and maximizing their search-marketing campaigns and is a guest speaker and lecturer on search marketing and e-commerce for small business. He posts somewhat regularly in his Yahoo! Store blog at ystore.blogs.com, and guest posts from time to time in the Yahoo! Store Blog at ystoreblog.com.

TESTIMONY BEFORE THE
SUBCOMMITTEE ON REGULATIONS, HEALTHCARE AND TRADE
HEARING ON "THE IMPACT OF ONLINE ADVERTISING ON SMALL FIRMS"
SMALL BUSINESS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
WEDNESDAY, JUNE 25, 2008
BY
RANDALL ROTHENBERG
PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE
INTERACTIVE ADVERTISING BUREAU

Chairman Gonzalez, Ranking Member Westmoreland, and members of the Subcommittee – thank you very much for inviting me to testify on the impact of online advertising on small firms. I am the President and Chief Executive Officer of the Interactive Advertising Bureau (IAB), the trade association for ad-supported interactive media in the United States. IAB's more than 350 members account for about 86 percent of the interactive advertising sold in the U.S. Our members include the great names of the online and offline media world – Google, Yahoo, AOL, MSN, The New York Times, Time Inc., CBS, and Walt Disney among them. However, the majority of our members, 61 percent, are small businesses, earning less than $1 million annually in advertising revenue, and employing fewer than 50 people.

## I. SCOPE OF INTERACTIVE ADVERTISING

Last year, together, these publishers sold more than $21 billion in interactive ads, according to research conducted for IAB by the consulting firm Price Waterhouse Coopers. To put that in perspective, that means that interactive, as an advertising medium, now is larger than outdoor, magazines, and radio.

Evidence suggests that much of this ad spending is coming from small businesses. Research by the consulting firm Booz & Co. for the IAB, the Association of National Advertisers, and the American Association of Advertising Agencies shows that 40 percent of IAB members' revenues comes from local businesses. Analyses by the trade publication Advertising Age shows that in 2007, the top 100 advertisers in the United States allocated 67 percent of their ad spending to television – nearly twice what they allocated to interactive advertising.

This will undoubtedly change, with marketers large and small continuing to devote more of their advertising budgets to interactive media. Several respected industry analysts, such as the Veronis Suhler Stevenson private equity firm, project that by the year 2011, interactive ad spending will reach $62 billion annually, surpassing newspapers to become the largest advertising medium in this country.

Why is growth so robust? From an advertiser's perspective, there are probably two primary reasons. First, interactive is a medium that can do it all. Marketers have described the process of attracting and retaining consumers with an image they call "the purchase funnel." At the top of this funnel is the need to generate awareness, for which purpose marketers traditionally turned to mass media like broadcast television and national magazines. After awareness, they want consumers to consider their product, and then to try the product. These typically would involve more specialized media – an automotive magazine, say, or a coupon offering 25 percent off this week only. Then, to generate loyalty among people who have purchased their products, marketers will turn to direct mail, loyalty programs, and customer-relationship management system.

In interactive, one medium, one distribution channel, can fulfill these multiple needs. If an ad makes a consumer aware of something in which he or she is interested, with one click the consumer can literally reach into that ad to learn more about the product or service. Another click will allow him or her to download a brochure. Another click might elicit a trial coupon.

Equally important is the range of creative opportunities available to advertisers in interactive media. To me, the most miraculous aspect of the interactive medium is that it can combine all media, at costs a fraction of those incurred when using offline media. Virtually any Web site can offer its advertisers digital video, audio podcasts, vivid display advertising, or direct-marketing loyalty programs – and it can distribute them around the block, or across the country. Thus, video advertising is now accessible to advertisers who cannot afford broadcast television; and photographically gorgeous displays ads are now obtainable by marketers who could never afford to advertise in national magazines.

This ability to engage with consumers at every step of the purchase funnel is a major factor in advertisers' attraction to the digital media. Neil Ashe, the CEO of IAB member company CNET, calls interactive "the 'yes' medium." Can it generate awareness? Yes. Can it promote preference? Yes. Can it induce trial? Yes.

The second reason for advertisers' attraction to interactive is their ability to measure their return on investment. Perhaps the most famous criticism of conventional advertising was levied a century ago by Philadelphia department store magnate John Wanamaker, who said: "I know I waste half the money I spend on advertising, the problem is, I don't know which half." Yet because interactive media promote ongoing, two-way engagement among consumers, their media, and the advertising, it generates data on consumer interests, needs, and consumption patterns that makes advertising effectiveness far easier to measure. Because of interactive media, marketing can now be a full participant in the productivity revolution that has swept other areas of American business, and has allowed us to maintain our competitive position in the world economy.

The most important reason for the growth of interactive media and advertising is consumers. They like it – and they like it because, when done right, it is relevant to them. Consider **paid search advertising,** one of the most revolutionary tools in the history of

marketing. Paid search advertising is like a Yellow Pages ad with a door in it. It's delivered next to the results of searches you have made, so it's directly relevant to your expressed interests. If you happen to be "in market" for a car, and you've just searched for "Ford hybrids," what could be more pertinent than ads to the right of your search results from dealers near you that carry these vehicles?

Another marketing tool – equally revolutionary – is **search engine optimization (SEO)**. This is the process of designing Web sites' visuals and language to improve their position in search results, and thus the traffic that comes from those search results. For established marketers, SEO spending generally has come from public relations budgets, as has company Web site development itself. Many free tools and guides exist to help marketers with SEO. A search on MSN elicited more than 37 million results. Together, paid search and SEO is revolutionizing marketing for businesses large and small.

Another ground-breaking marketing tool is **contextual advertising**. It's always existed, of course; an ad for a local dry-cleaner in a local newspaper is contextual. But because there are few barriers to entry in interactive media, context and location can be refined to degrees of specificity undreamed of – and economically impossible – in offline media. Thus, there has been a proliferation of sites tailored to all manner of peoples' passions, with ads similarly aimed at their interests.

Interactive tools also allow advertisers to deliver advertising directed to a consumer's expressed interests. That's called **behavioral advertising.** If you've been researching Florida vacation spots, for example, you will receive relevant ads for resorts, airfare discounts, or restaurants, even after you've moved to sites not directly related to travel. Behavioral advertising, contextual advertising, and search advertising all are central to enhanced relevancy of interactive advertising.

## II. CONSUMER BENEFITS OF INTERNET ADVERTISING

Interactive advertising provides consumers with significant benefits in the form of cost-free access to content and services. Interactive advertising underwrites:

- *Quality online content (news, business, entertainment, maps).* The majority of news-publishing firms have abandoned paid subscriptions and moved to business models whereby online advertising allows them to provide free content to millions of readers, unbounded by geographical constraints. However, online culture of "free" often outshines the reality that sustainable free content for the user has never been—and cannot be—really free. Content and service products are costly and time consuming to create and maintain, and if not subsidized by subscriptions, require alternative forms of monetization, the chief of which at present is advertising revenue. The centrality of this value exchange is fundamental to the success of today's internet.

- *Education and information-gathering tools*, including search engines, have unquestionably democratized the availability and accessibility of educational content. Hundreds of millions of consumers perform billions of searches through search engines annually. The largest search engines on the Internet are free to users and supported almost exclusively by advertising.

- *Communications and other online services* (for example, e-mail, chat and telephone services; resume services and job banks; enhanced classified services; video and photo storage and sharing) depend on advertising for their revenue. The example of video sharing illustrates this point: In November 2007, 138 million Americans (over 75 percent of U.S. Internet users) watched almost 9.5 billion videos online, all for free, because of advertising. Email is another example that highlights this exchange: There are an estimated one billion users of free, ad-supported email services in the world today. Then there's self-expression: There are more than 112 million blogs worldwide, providing every Internet user a free outlet to voice their opinion and create useful content for others; in the U.S., as of July 2006, some 12 million American adults – about eight percent of the American population – were publishing their own blogs, which were being read by 57 million others, according to the Pew Internet & American Life Project..

- *Social networking and professional networking environments*. Free social networking and online-networking sites alone had more than 86.6 million users as of December 2007, according to Nielsen Online. Most of these sites are ad-supported.

- *Online safety tools*, such as anti-spam and antivirus protection.

- *Competitive pricing and product comparison tools*.

## III. SMALL BUSINESS BENEFITS OF ONLINE ADVERTISING

As I suggested before, the 20 to 30 percent year-on-year growth that the interactive advertising has been experiencing for the past several years has been fueled by the recognition that consumers are spending more and more of their time with digital media. The consumer benefits have also created benefits for business, with a disproportionately positive impact on small businesses.

Thousands of businesses of all sizes have achieved more efficient marketing of goods and services through targeted online advertising. According to Pew, 32 million American adults have used online classified ads for selling or buying. Online advertising has created regional markets out of local markets, and national markets out of regional markets. Items once sold in local garage sales and pawn shops are now available nationally and internationally via advertised interactive auctions, in which some 40 million Americans participate annually. eBay, the best known auction site, says more

than 768,000 small businesses across the U.S. use this online marketplace as their primary or secondary marketing channel. More than 1.3 million people supplement their income by selling materials on eBay.

Around this enormous market of small, consumer-facing companies and business-to-business providers has grown a vast ecosystem of small service providers. A Web search on "search engine optimization agencies" garners 586,000 responses. "Web hosting services" elicits 21 million possibilities – 312,000 of them in Long Island, where I live.

There are also the small interactive publishers – the men and women across the U.S. who have turned their passions into ad-supported content sites for niche audiences. In its testimony at the Federal Trade Commission's November 2007 "town hall," IAB highlighted the experience of one such site, askthebuilder.com in Cincinnati, Ohio. It was founded and remains solely owned and operated by Tim Carter, a former contractor, who more than quadrupled his earnings in his first year publishing an advertising-supported web site. We are proud to join Mr. Carter on the panel today.

These small sites exist in large part because of **online advertising networks** consisting of hundreds, thousands, even tens of thousands of independently-owned sites. These networks are the internet version of the broadcast radio and television networks with which we grew up; they have technological infrastructures that can get contextual and behavioral advertising and ad revenue to these small sites, wherever they are located, just as the offline networks guided ad revenue to local affiliates. There is, however, one crucial difference: Instead of delivering the same programming – and for the most part the same ads from the same giant marketers -- at the same time across groups of local affiliates, online networks allow myriad voices to flourish, serving myriad interests and needs, in the tiniest nooks and crannies of our culture.

These small publishers represented by online networks are often called "the long tail" of the Internet. Along with the advertising innovations I noted earlier, this "long tail" represents a remarkable change in the business environment: These thousands of small sites and the marketing services that infuse them enable small businesses of all sorts to flourish anywhere and everywhere.

Statisticians have long known that some markets were characterized by "long tail" economics. As explained in Wikipedia, the distribution and inventory costs of some businesses allow them to realize significant profits out of selling small volumes of hard-to-find items to many customers, instead of only selling large volumes of a reduced number of popular items. The group of persons that buy the hard-to-find or "non-hit" items is the customer demographic called the Long Tail.

As you might imagine, running such a business is hard. First, you have to find your long tail market. Second, you have to communicate to it. Third, you have to deliver goods to it. This could be expensive and lonely in a country as large as ours, where national television is prohibitively expensive, direct mail a costly and risky venture, and specialty magazines usually quite limited in their reach.

Enter the Internet – where anyone with an enthusiasm can create a Web site, offer niche content, and carry segmented ads, with the applications already available on their laptop computers or online.

The tools and services I mentioned earlier – search engines, contextual advertising, behavioral advertising, multiple creative formats, and online networks -- are the enablers that have made this long tail of small publishing businesses a boon to an equally long tail of consumer-facing marketing businesses. As Wired magazine editor Chris Anderson describes it, "New efficiencies in distribution, manufacturing, and marketing [are] changing the definition of what [is] commercially viable across the board... The story of the Long Tail is really about the economics of abundance -- what happens when the bottlenecks that stand between supply and demand in our culture start to disappear, and everything becomes available to everyone."

This is not fanciful Silicon Valley theory; it is established, invigorating fact. Take the landscape of small publishers and their audiences. No one knows how many there are in the U.S., but here's a sample gathered by the ThinkPanmure equity research firm. The 24/7 Real Media network sells and places ads for 1,000 Web sites. The Blue Lithium Network, owned by Yahoo, reaches 119 million unique U.S. users through 1,000 publisher sites. Burst Media has 4,200 ad-supported sites in its network. Tacoda, a network acquired last year by AOL, delivers behavioral ads to half the U.S. population, across 4,500 sites. The Adbrite auction-based ad marketplace represents 19,000 Web publishers.

In contrast, the National Association of Broadcasters last year numbered 1170 television stations – the majority affiliated with one-size-fits-all broadcast networks. The long tail Web publishers, with the businesses they help support through the advertising they carry, represent the real diversity of America.

Importantly, the online networks not only enable small businesses to communicate to niche communities through small sites; they allow large brand marketers to reach narrow communities as well, contributing to an unprecedented democratization of the media landscape.

How diverse are these publishers? We don't have a census of the whole, so anecdote evidence will have to suffice. I asked my IAB team and some of the networks among our membership for examples of their favorite small, ad-supported publishers. Interestingly, many of them are mothers who are using interactive tools and services to develop home-based businesses around their passions. Here are a few examples:

- **Baristanet.com** is a community site started by three local women for the area of northern New Jersey where I grew up. Its advertisers include a local hospital, Montclair Family Dentistry, and Dial Pest Control of Roseland.

- **Dooce.com** is a blog started by a stay-at-home mother in Salt Lake City, who was the valedictorian of the Class of 1993 at Bartlett High School in Memphis, Tennessee. She carries ads from the Disney Vacation Club and Verizon.
- **Bakeorbreak.com** is run by a woman in northeast Mississippi, who subtitles her Web publication "Adventures of an Amateur Baker." It's filled with recipes, sells cookbooks, and carries ads for M&M's, Perdue chicken, and Bertolli olive oil. Some of those ads are sold by Martha Stewart Living Omnimedia, an example of the growing symbiosis between small and large publishers on the Web.
- Here are three political sites that cover the spectrum of opinion. Many of you know **Dailykos.com,** the famous liberal political blog; look closely, and you'll see that it's supported by ads, many of them placed by the Google Adsense network, from PBS, the online t-shirt maker Café Press, and others. **Latino Issues**, by contrast, is a conservative Latino blog, with some ads also sold by Google. Its advertisers include the dating service LatinoAmericanCupid.com. And **Confederate Yankee** is an ad-supported site, via the Pajama Network, that's a hybrid of conservative and liberal, Northeast and Southeast sentiments and values: Advertisers include Omaha Steaks and FTD, the floral company.
- **Womenslacrosse.com** is the central meeting place for women who participate in the oldest American sport. It's a family business run by founder and CEO Cathy Samaras of Annapolis, Maryland, and its advertisers include the Kaplan test preparation company, and the Bowie Baysox Class AA minor league baseball team.
- **Scienceblogs.com** is a collection of 90 ad-supported science sites covering fields from neurophilosophy to quantum mechanics to tetrapod zoology. Its offices are in LA, Washington, New York, London, Munich, and Shanghai, but its bloggers come from all over: Iowa, Colorado, Massachusetts, New Jersey, and Virginia, among other places. Its advertisers include PerkinElmer and Dow Chemical.
- **AfricanSisters.com** was formed in 1999 in Garland, Texas by a group of black women to help women of color build businesses, increase employment and build revenue. Its advertisers include the iGourmet.com "tea-of-the-month club," Crockpot cookery, and Kmart.

This is just a tiny sample of the breadth of the diversity of publishers. I suggest trying this exercise yourself: Go on to your favorite search engine, and plug in any phrase that might describe a passion, a hobby, an interest group, or a constituency. As you surf through the results, you will find many examples of ad-supported interactive publishers and small retailers serving these microscopic communities. They are in every state; they are probably in all 435 Congressional districts, and they exist because advertising supports free Web design, distribution, and marketing services.

## IV. THE IMPORTANCE OF NOT OVER REGULATING THE INTERNET

This rich, diverse, and competitive marketplace is the backdrop against which Congress should weigh any policy questions with respect to this marketplace.

I believe it's vital that our Government's leaders understand the importance of this interactive marketing and media ecosystem to small business development across the United States. A small but vocal coterie of forces opposed generally to marketing, advertising, and open media markets is attempting to advocate to limit the technology responsible for this internet advertising revolution.

Although these advocacy groups have provided no evidence of public harm, their efforts have begun resulting in regulatory proposals which, if enacted, would severely hinder the ability of small publishers to support themselves with advertising sales, and impair the ability of small businesses to use interactive advertising to market themselves.

The most unfortunate aspect of these proposals is that they are utterly unnecessary. The IAB and its members vigorously support the principle of consumer control over their media consumption. Indeed, consumer control is one of the fundamental reasons interactive media have grown so quickly in popularity. And consumers have all the tools they need to control all forms of data collection in online media and advertising.

Every Internet user already has a robust opt out tool at their disposal: Through their Web browsers, they are able to block cookies before they are downloaded. Moreover, web browser filters allow the user to choose their desired level of blocking, whereby they can block all cookies, block only third-party cookies, or be notified each and every time before a cookie is placed (thereby making a case-by-case decision) Existing consumer controls located in the browser are particularly effective in this arena. One recent study showed that as many as 42 percent of Internet users cleaned out their cookies weekly. This type of tool along with tools that will be developed in the future provide the best means of consumer control over the totality of their Internet experience.

Thank you for considering the views of IAB on these issues. The success of the Internet has helped fuel this country's economy and it is important to ensure that this medium can continue to grow and thrive. No segment of our economy will reap greater benefits from a robust internet advertising industry than small businesses.

TESTIMONY BEFORE THE
SUBCOMMITTEE ON REGULATIONS, HEALTHCARE AND TRADE
HEARING ON "THE IMPACT OF ONLINE ADVERTISING ON SMALL FIRMS"
SMALL BUSINESS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
WEDNESDAY, JUNE 25, 2008
BY
RICHARD LENT
CHIEF EXECUTIVE OFFICER
AGENCYNET INTERACTIVE

Chairman Gonzalez, Ranking Member Westmoreland, and members of the Subcommittee – thank you very much for inviting me to testify on the impact of online advertising on small firms. I am the Founder and Chief Executive Officer of AgencyNet Interactive, Inc. I have 14 years of experience producing strategic Digital campaigns, content, and marketing initiatives for start-up companies, small businesses, medium-sized business, and some of the world's most recognized corporations. As the CEO of AgencyNet, I chart our overall strategic vision and growth plans, run high level client and partner relationships, and oversee our 8 person Executive team.

I started AgencyNet in 1994 as a single person company managing a team of global freelancers and since shepherded its' evolution to the 50 person agency with offices in New York City and Florida that it is today. As such, I have a unique insight into the marketplace and its' effects on businesses of all sizes in America. I have also witnessed and withstood the 'Dot.com bubble' at the turn of the millennium, as well as the thousands upon thousands of technical and communication driven innovations that have changed the way consumers and brands interact and commerce is exchanged.

I have attached a copy of my full Biography for additional information on my background and career.

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I'd like to take this opportunity to articulate to the Subcommittee my personal opinion on some issues relating to potential government regulations within the Digital ecosystem:

1. Search engine dominance:
   I assume with the Yahoo, Microsoft, and Google discussions ongoing the Subcommittee has a particular interest in this topic. It is my opinion that Google has achieved a dominant position in the Search marketplace by creating a culture of innovation and maintaining core market intelligence. Their search engine, coupled with their simplistic and consumer-focused user experience is superior to anything in the marketplace. Their arsenal of web-based tools are far reaching (well beyond Search) and are of a high quality, consistently improving, and often times free to consumers. They have consistently hired some of the most intellectual and forward thinking engineers and technologists in the industry and that collective intellect has empowered them to their market-leading position. Their technology empowers companies of all sizes, especially small firms to engage, operate and prosper in this marketplace.

   While their potential allegiance with Yahoo will surely advance Google's dominance within the Search arena, it does not ensure that they will utilize that advantage to control pricing structures or gain an unfair market advantage. Until something is proven to the contrary, I would personally deem any governmental obstruction as premature. With today's economic state, America needs innovative and astute corporations to support a dynamic and fast changing global economy and to date, Google has proven to me that it will not rest on its laurels.

   It is important to note that neither I, nor my company, have a prior working relationship with Google. My testimony is from a personal perspective as a user of their products and knowledge of their reputation within the industry.

2. Privacy:
   The Digital medium, while limitless in terms of interactivity, entertainment / educational value, presents inherent privacy concerns that can be directly attributed to what makes it an extraordinary communication platform in the first place: two-way data flow.

   I believe the government should continue to do its part to protect the privacy of the American consumer as it always has. Clearly, there is a fine line between involved and over involved. I will

attempt to draw the line where it negatively affects the consumer:

- Direct mail presents similar data concerns and obviously credit card companies are privy to a plethora of personal information on consumers - Internet data protection should be no different.
- Consumers need to be able to opt-out of their personal information being stored.
- Minors need to be protected and should not be marketed to.
- Annoyances like spam, phishing scams and the proactive display of objectionable materials should be controlled and regulated.
- Data should have a shelf-life and should not be sold or shared without consent.

That said, thanks to this great conduit of information, advertisers have valuable data at their disposal that, if used correctly, would surely lead to a more positive, relevant and engaging two-way communication consumer experience. Passive mediums like traditional television, radio and print do not offer that same level of sophistication and, as a byproduct; brands had little tangible evidence of their campaign's true performance directly attributable to their advertising. The Digital medium and its inherent trackability will provide the insight they need to shift budgets to destinations where the audience actually cares about what they have to say. This understanding of the return on investment is especially relevant to small firms whose limited budgets do not allow for the cushion of fiscal mistakes.

Intelligent brands will use this data to serve advertising that is potentially germane to a consumer. Advertising *by its very nature* has historically been intrusive. Digital allows for relevancy in advertising and marketing that has traditionally been interruptive, irrelevant and emotionally underwhelming. That market shift should not be stifled.

3. Net neutrality:
   Consumers pay for access to the internet and the marketplace determines a destination's viability. If a brand was able to pay a backbone provider to increase throughput to their site so it

loads faster than the competition, it would absolutely stifle innovation and be detrimental to small and start-up businesses.

4. Portability of content:
   With innovation comes complexity. New technology is empowering the development of novel communication platforms such as widgets, social media / content sharing sites, and mobile.

   Within these channels, many of the challenges remain the same regarding the privacy and protection of consumers and personal data, *particularly concerning minors,* but some new challenges arise. Most notably, open platforms and platform consistency. While open development platforms are essential to driving innovation and subsequent consumer value, I don't believe the marketplace needs regulation to sort itself out. Judging by Apple's recent announcement that they will be opening up the iPhone to development via their software developers kit (SDK), it is probable that consumers will continue to have a substantial impact on the marketplace as a whole. This open platform will undoubtedly lead to a slew of new technology start-ups that will capitalize on this fast growing platform.

   Lastly, Mobile platforms need consistency across devices. Software like Adobe's Flash Lite can help to overcome some of these issues but true innovation will commence when the device manufacturers collaborate on standards for developers to produce content across platform and device. However as in most maturing industries, a trade group or association will rise to the challenge and champion collaboration among parties.

Again, I would like to thank the members of the Subcommittee for this opportunity to share my thoughts on the digital ecosystem and the necessity for regulation. If I can be of further assistance, please feel free to contact me. I look forward to answering your questions.

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