



Hyperlocal is fastest growing segment of the advertising industry, Kelsey reports

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Recently, BIA/Kelsey released projections for online local advertising that is expected to reach \$42.5 billion by 2015. This is a pretty impressive number and, no doubt, a head-turner across the industry. Local advertising represents one of the fastest growing segments in the online advertising industry with many companies emerging to tackle some of the challenging issues and, of course, chase a piece of the projected \$42.5 billion pie.

Many companies over the years have attempted to tackle the online local marketplace. With such a fragmented market, getting enough scale in each individual market to support the business model was not easy. Even obvious players, like the various yellow page companies that have dominated the local scene for decades, have had a hard time making the transition to the digital world. Search (i.e. Google) has been an obvious channel for local businesses, but unless users search for specific terms like “Santa Barbara Pizza” or “Santa Monica Bike Shop” there is simply not enough scale to make an impact. In order for the local market to truly scale, the industry needs to focus on simplifying access for mom and pop businesses, innovating new technology to drive geographic accuracy and proving that online ads get people out of their seats and into stores to spend money.

One of the main issues in local online advertising is the lack of geographic accuracy at the neighborhood level. Online geolocation data providers offer accurate IP targeting to the city or DMA level, but few options exist online for local businesses to reach customers in their neighborhood. Without any kind of reliable zip code data in the online world, small neighborhood businesses are limited in their online options. A local bike shop or restaurant in Bellevue Washington may only have a customer radius of a few miles, so reaching users in the entire metropolitan Seattle area is not effective. Even a large box retailer like Target knows that 85% of their sales come from within a 14 minute drive time from their stores. With few online options available to reach customers in their community, local businesses have stuck with what they know best — local publications, word of mouth and the Yellow Pages.

Local publishers like City Search, Yelp and MetroMix provide excellent market level content and reviews for entire DMAs (Los Angeles, New York, Seattle), but lack scale or ability to target users in individual neighborhoods. The Patch hyperlocal news channel has launched in over 800 towns ranging from 15,000-100,000 people, but the validity of the model is still questionable considering the cost to produce and support highly localized content. Large publishers like MSN, Yahoo and Google all have impressive registration databases and offer some local solutions for advertisers, but traditionally marketers have questioned the validity of self-registration data when

millions of users live in zip codes “12345” or “90210.” Social sites like Facebook and Craig’s List provide a great platform for local advertising, but both only provide a small portion of the overall pie. As more companies focus on the local online marketplace, better targeting, technology and access will emerge to support local business.

The sheer scale and fragmented nature of the local online marketplace have left many entrepreneurs to focus on social, search, behavioral targeting and other low hanging solutions to support the industry. Without the ability to geolocate users in a particular neighborhood, there has been little reason for businesses to focus on developing the support systems necessary for local businesses to build creative, and launch and manage campaigns. Local mom and pop businesses like restaurants, craftsmen, shops and services are not generally technically savvy and/or lack the funds to hire an agency to manage the process. Even large agencies struggle with the complexities of digital advertising.

It is difficult to quantify the total sum of local advertising, but many claim it is likely that more than half of all advertising is at the local level. With over 85% of all goods purchased within 10 miles of the home, it is easy to understand why there is an increasing interest among local business owners in the online marketplace. An average of 28% of a consumer’s time is spent online, so naturally local businesses would like their ads to follow.

One thing is clear from the Kelsey Group projection, local online advertising is a fast growing business with lots of opportunity for growth and innovation. The companies that can deliver more accurate targeting and campaign management solutions will certainly have an opportunity to take a large piece of the \$42 billion pie.