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Is There a Future for LookSmart?

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Former search giant LookSmart has reissued investor guidance numbers for the last quarter of 2004. Posting lower revenues than expected, the beleaguered firm admitted it overestimated potential revenues by about \$2million and underestimated quarterly losses by about \$700,000.

The erroneous projections, originally issued in late October stem from poor management of sales assets and LookSmart's failure to find a way to combat the continued growth of Google and Overture in the PPC market. Shares in LookSmart fell 22% in after-hours trading opening this morning at \$1.42, a 36 cent per share decline.

The greatest recent contribution LookSmart has made to the search sector is to let other companies know how not to do things.

Formed back at the dawn of the commercial Internet in October 1996, LookSmart was one of the originals. It established its first foothold in the sector by providing listings to AltaVista and HotBot starting in 1998. Within a year, it was distributing listings to MSN.com, a highly lucrative deal that ended in late 2003. For SEOs, getting a site into LookSmart was critical to seeing good placements at MSN and, as LookSmart was a human-edited entity at the time, helped a great deal with strong Google listings.

LookSmart was flying high going into the new millennium. As one of the most influential places to be listed, LookSmart had become extremely important, a fact that was not lost on their sales, marketing and accounting departments.

Towards the beginning of 2000, LookSmart started charging \$199 for its new Express Submission Service. A few months later it phased out free listings, replacing them with a \$49 submission fee that increased to \$79 and then to \$99 over the span of a few months. Shortly thereafter, the fees for their Express Submission service jumped to \$299/year. While the fees were not charged retroactively, the sudden, frequent increases made it very difficult for SEOs to guarantee their submission fees for clients, thus lowering LookSmart's credibility in the sector. Even with a \$99 basic submission fee or a \$299 Express Submission fee, LookSmart was still important enough to recommend clients pay for the listing. With distribution of listings to AltaVista, HotBot (which were still very popular at the time) and to MSN, it looked like LookSmart was on the road to long-term success with a business model that provided enough revenues for stability and smart expansion of their services. Like their corporate name, the search tool looked smart at the time. This is about the point things started to go horribly wrong...

Without any warning to the SEO/SEM community, LookSmart made one of the dumbest moves in search engine history. Months after the sector adjusted to their habit of raising their rates, LookSmart announced they were moving towards a pay-per-click model and would thereafter charge sites \$0.15/click. Sites that had already paid to be listed were granted \$15 worth of free-clicks per month, promised over 18-months; hardly a bargain considering \$15 represented only 100 clicks. SEOs who had recommended their clients spend \$299 now had to explain to those clients that more money would be expected in order to keep their LookSmart listings alive. Keeping a listing at LookSmart alive meant

retaining strong MSN listings, therefore placing the client over a barrel. This wasn't the end to the sudden and unannounced price increases but it did mark the beginning of the end for LookSmart as an important search tool in the eyes of the SEO community.

The only positive outcome from these moves was a sudden solidarity amongst SEO practitioners in the massive rebellion that followed the announcement. Servers hosting SEO related forums lit up like Christmas Trees as angry SEOs tried to figure out what to do about LookSmart. It took about five minutes for most of us working the web at the time to make the ultimate decision; LookSmart had to go.

Since then, LookSmart has stumbled from one mistake to another misquote. They were entirely unprepared to lose MSN as their biggest client in December 2003 and now only supply directory and paid results for two smaller search tools, Lycos and Excite. Share prices, which peaked at \$69.62 on March 10, 2000, have fallen to the \$1.50 range they are at today.

Earlier today, CEO David Hills announced a corporate restructuring in the hopes of stopping the slide. A leaner LookSmart will be focusing on sales and improving their search products. Deborah Richman has been named the Sr. Vice-President of Consumer Products and Bryan Everett has been named Sr. Vice-President of Sales.