

ServiceMagic: Tale of a Dot-Com Survivor

When ServiceMagic launched in December 1998, it was one of a growing number of dot-com start-ups aimed at using online request-for-proposal technology to connect businesses and consumers in the US\$162 billion home-services space. While many of those other companies have endured financial hardships and layoffs or have shut down altogether, ServiceMagic is celebrating a string of recent successes. The company is profitable, continues to rapidly grow the number of service requests it processes each month, and is now part of Web services giant InterActiveCorp (IAC), which will give the company more financial resources and marketing muscle to further accelerate its growth.

IAC, which also owns Lending Tree and Citysearch, two former ServiceMagic competitors, completed its acquisition of the company earlier this month. Terms of the cash transaction were not disclosed. ServiceMagic will remain a separate brand within IAC's Local & Media Services Group, which includes Citysearch, Entertainment Publications Inc., Evite and TripAdvisor Inc.

ServiceMagic Co-Founder and Co-Chief Executive Officer Rodney Rice attributes ServiceMagic's success to his company's focus on creating an effective solution for both homeowners and service businesses.

ServiceMagic's online merchant-matching system connects consumers with pre-screened and customer-rated service professionals in the home-improvement, real estate and lending categories. The service is free to consumers; businesses pay a lead-generation fee (ranging from a few dollars to several hundred dollars, depending on the service) for only those bids they pursue.

"The value proposition for consumers is very, very strong, as is evident by our repeat-use and word-of-mouth growth," Rice says. Of the three million people who visit the site each month, approximately 100,000 submit job leads. In July, ServiceMagic reported an 84 percent increase in consumer service requests during the quarter ended June 30, 2004, compared to the same period in 2003. During the quarter, the company reported processing more than 500,000 consumer service requests worth more than US\$1.75 billion in consumer spending.

The company's survival is also a result of "the enormous amount of capital ServiceMagic put behind building out our network," Rice says. "A lot of other businesses tried to short circuit that process and didn't focus on the brute force effort it takes to aggregate a million-plus very fragmented small businesses."

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At a Glance: ServiceMagic.com

URL	www.servicemagic.com
Headquarters	Golden, Colorado
Company Leadership	Michael Beaudoin, Co-Founder and Co-CEO Rodney Rice, Co-Founder and Co-CEO
Company Overview	Launched in December 1998, ServiceMagic was acquired by InterActiveCorp (IAC) in July 2004 and remains an independent brand within IAC's Local & Media Services Group.
Traffic/Users	Of the 3 million people who visit the site each month, approximately 100,000 submit job leads. To date, ServiceMagic has processed more than 3.3 million consumer requests, representing an estimated US\$11.5 billion in consumer
Financials	ServiceMagic has raised more than US\$48 million in capital and increased revenue 100% on a year-over-year basis since 2000. It earned US\$20 million in revenue and achieved profitability in 2003.

Source: The Kelsey Group (2004)

ServiceMagic's Opportunities Expand Under IAC

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To date, about 25,000 home-services professionals have joined ServiceMagic. The company, which employs about 90 sales people, uses a combination of premise and telephone sales, Rice says.

ServiceMagic added online merchant-matching services for the real estate and lending categories in 2002 and 2003, respectively. These two services are now powered by IAC's Lending Tree, which owns RealEstate.com. The 20,000 real estate agents and 200 banks and brokers that had signed up with ServiceMagic before the acquisition are now part of the Lending Tree and RealEstate.com networks.

ServiceMagic's online merchant-matching service for the home-improvement category will also be integrated into RealEstate.com. Says Rice: "Folks who move do more in the first six months after they move than in the next five years in terms of home improvement, so Lending Tree's RealEstate.com is going to become a very important venue for our home-services offering."

ServiceMagic will also begin working with Citysearch to integrate their two service offerings. "Although not all of this has been thought out yet in detail, we will incorporate ServiceMagic's content and merchant base into Citysearch," says Citysearch CEO Briggs Ferguson. "That was a large driver for the acquisition. ServiceMagic has 25,000 merchants in the home-services space, which

is extremely valuable to consumers. They also have about 150,000 merchant ratings, which we think are of high quality."

ServiceMagic, which earned US\$20 million in revenue and achieved profitability in 2003, currently employs more than 200 people. Rice says the company plans to add about 100 more employees within the next year, mostly in sales and operations roles. "As a private company, we had to manage our growth in a very resource-constrained environment," Rice says. "We will be able to grow faster now that we are part of IAC."

The Bottom Line: ServiceMagic is a remarkable story, having survived in a category that attracted so many players in the dot-com heyday, and left so many ravaged when the speculative Internet collapsed. What sustained the company was a realistic sense that it was in the business of getting rich slowly (relatively speaking), something its owners appear to have achieved.

ServiceMagic will be a stronger company as part of IAC, where it can expand its value proposition to merchants and consumers by offering a broader array of service offerings, and benefiting from cross-selling and cross-marketing with other IAC services. Alone, ServiceMagic was a small piece of a very complex Internet local media market. As part of IAC, it has an opportunity to be a much bigger player in the emerging interactive local media marketplace. **LMJ**

During the quarter ending June 30, 2004, ServiceMagic reported the following service needs as the most popular among its users:

1. Find a real estate agent to buy a home
2. Find a mortgage lender
3. Hire a pro to clean house interior
4. Hire a pro to build or install an above-ground swimming pool
5. Hire a pro to build or install a concrete swimming pool
6. Hire a lawn-care service
7. Hire a pro to build or replace a deck or porch
8. Hire a handyman
9. Hire a pro to build or install a fiberglass swimming pool
10. Hire a pro to install a wood fence

Source: ServiceMagic (2004)