Interview with Colin Pape, ShopCity.com

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Here's your program.

Michael Cyger: Hey everyone, my name is Michael Cyger. I'm the publisher of DomainSherpa.com, the Domain Name Authority, and the place where you can learn how to become a successful domain name entrepreneur directly from the expert themselves.

You know what we do here – we bring on a successful domain name investor or entrepreneur, ask them to share how they became successful, and then we motivate you to do the same in your area of expertise. Then you can come on the show, and give back to others about what you learned and how you became successful.

The big question for this show is: How do you leverage thousands of domain names to create the largest buy-local network in the world?

Joining me to answer this question is Colin Pape. Colin is co-founder and president of ShopCity.com, a network of ecommerce shopping websites that help businesses sell products and services to their local communities.

Colin, welcome to the show.

Colin Pape: Thanks for having me Mike. It's a pleasure to be here.

Michael: Colin let's start the show with some information on ShopCity.com. I'm not sure if I captured the essence of ShopCity in my introduction. How do you describe ShopCity to merchants and or shoppers in a local area?

Colin: Sure it is basically a local community marketplace. We enable businesses to promote, market and sell online. We give them the tools to reach their local customer base and we have done it through a series of domains that represent each individual community that we serve. So ShopBoston.com, ShopNewYork.com, each community in the network gets their own domain which enables us to do offline marketing and take

advantage of partnerships that we wouldn't be able to access with a single domain.

Michael: Got it. So I am going to dig into all that there is that you described because I want to know how you actually build out individual company sites on the ShopBoston.com website and how you tie them together and how you are able to take advantage of marketing buys that you wouldn't is you just opened a single geo domain for example. But let me start off by saying that I love the concept of supporting businesses that support their local community. The local businesses are the lifeline of most small towns and larger cities shop Main Street, shop independent. We really need communities to focus on this more or small businesses in everybody's city are will cease to exist. So I fully support you in the mantra that you have for your business. So you built ShopCity through a network of domain names. How many domain names in total does ShopCity own today?

Colin: ShopCity has about 8,000 domains. I personally have a number of other non-ShopCity domains but in total there are 8,000. Most of them are in communities specific. Some of them are related to a specific campaign in terms and more globally focused domains like ShopGlobally.com.

Michael: I'm going to ask you about your personal domains also but let me ask you a few more questions about ShopCity. The 8,000 domain names that are in ShopCity's portfolio do they all have the word Shop and then the city name then the .com top level domain?

Colin: Yes that is correct. We do a number of them probably in the low hundreds that are .ca domains as well. A lot of overlap of community names between Canada and the US. So in those circumstances the .com goes to the US and .ca goes to Canada and then in other cases we are using ShopCity and then first.com if there are multiple communities that have the same name. The .com goes to the larger community and then the smaller community (like Anderson for instance we just realized that there 10 or 12 Andersons) so we have got to come up with a variation. We are working on a geo targeted system that will enable us to use one domain to represent multiple communities. But basically it would be ShopCity.com and there are probably under 100 shop city firsts of domains as well.

Michael: And you mentioned that most of them were .com but that you have some .ca also. Why is that?

Colin: Yes like Edmonton for instance is a community that is in the US and then there is a Canadian one as well so. It is basically a way to cover both those communities. .Ca is very well respected and recognized in Canada. It is pretty much the equivalent of .com. There is really no bias one way or the other, both very official. So in the event that we have two communities we will put a .ca in Canada. And it is still a very brandable name. I think as far as gTLD goes it is probably one of the nicer ones. It's got a nice ring – ca. It is similar to .com, nice and sharp.

Michael: I just had Adam Dicker on the show and you mentioned that you had watched his show and he is up in Canada of course, and he has a large .ca portfolio as well and very popular up in Canada. You are actually based in Canada. Is that correct?

Colin: Yes I am in Canada right now, the company itself. We have got Canadian and US companies and a couple of our co-founders are from the Bay area and New Jersey. So it is kind of an international company. But I myself right now am north of Toronto in a community called Midland. It is a little town where I grew up. It has 16,000 people. It is a recreational town. Everyone comes here to go sailing in the summer and snowmobiling in the winter. So it has been a great place to grow up and live. My brother Nathan, who is two years younger than me, he is currently living out in Paulo Alto so we have done a bit of a swap this year. He was a little sick of the snow.

Michael: So aside from your brother down in the Bay area are all of the employees up in the Canada area for ShopCity?

Colin: They are kind of spread and a lot of people are really working remotely. I think we are pretty good with our use of technology to communicate and bring people together virtually so we do have people who are working from all over the place. Jim for instance is from north of the Bay area. He is up around Napa in a fairly small community as well. He grew up

in San Jose. And then Francis, one of our other founders, he is in another small community Riverdale in New Jersey.

Michael: How many employees do you have in total?

Colin: We are at 18 employees right now.

Michael: So give me a feel for across all 8,000 domain names, 8,000 ShopCity domain names, and how many unique visitors do you receive per month? And how many total page views?

Colin: Page views I'm going to have to look at that. I think it is probably around 2,000,000. Uniques visitors right now we are around 500,000. It is really kind of early days for us still. I saw the intro: successful domainer. I think we are just getting started. And so we are active right now in 30 communities where we have a city manager, or a partner - somebody with feet on the street. And we have got tons and tons of growth ahead of us. And we have been scaling quite a bit in the past year but we are really just getting started.

Michael: So just to clarify, you have about 500,000 unique visitors per month and you are displaying about 2,000,000 page views?

Colin: Yes I think that is correct. I'd have to look at the page views.

Michael: Roughly is good just to get an idea. And what is the revenue of ShopCity?

Colin: Our revenue right now, this will be the first year where we are over $1,000,000. This company was boot strapped and kind of run alongside a web development and hosting company. Our revenue is up by 600% this year over last year. And we are basically just handling inbound demand. We don't have immediate sales yet. We haven't really begun outbound sales. We've just been kind of handling the people who found out about us coming through partners and they started selling us in their communities.

Michael: So you are looking for a V.P. of Sales if anybody is watching.

Colin: Yes definitely, we are in the market.

Michael: Excellent and with revenue passing $1,000,000 are you profitable as a company yet?

Colin: We are just getting there. We have a total expense rate of just under $100,000 a month for the past couple of years. When you start booting up a company that is serving large partners, working with companies like Buffalo News with is owned by Berkshire Hathaway and New York Times, you have got to have all this support staff and everything in place and so we have had to basically invest in all of those different functions to secure the partnerships and to maintain a strong relationship with our early customers that enables us to get more customers. There has been a considerable expense but just in the past six months it has really started going the other way. And kind of just recently we've been very close to breaking in which is great.

Michael: And so with only 18 employees, you alluded to this earlier, you run 30 communities and you can actually take live up to 8,000 communities. Is that correct? A community for each domain name that you own?

Colin: That is right, yes. The people in the community, the 18, that is basically our core staff and then in those markets there is actually a local partner. It is similar to a licensing model where they essentially come in, it is generally a media company, it could be a city government, it could be an entrepreneur and they basically license the rights to do that individual city and we do a rev share. So there is an upfront licensing fee and then we split the gross revenue that comes in. Payments are handled by our system and then we pay to the local city managers as well as any affiliate sales representatives once a month.

Michael: Interesting. You know in my research when I was looking through your city I saw a franchise model for a certain price you will bring on basically a franchisee in a certain city. I didn't realize it could actually be a city government. So that is fantastic. So we are going to dig into how you built ShopCity but before we do that I want to ask you a few personal

questions. In my research, I've discovered that you're a domain name investor. How many domain names do you personally own in what TLDs?

Colin: it is probably about 1,000 or so now. Most of them are .com. I have got a couple that are .cas, that couple that are .orgs but I would say that probably 95% are .com.

Michael: Any category killer .coms like shopping.com or anything like that?

Colin: That would be a nice one to own. Truthfully a lot of them are more, and this is we talked about you having the kind of things that apply to people now and not only things that were possible back in the late '90s – 2000s. A lot of the domains that I own they are for business concepts that have come out recently so I am definitely always watching the news. Checking to see what the new technologies are new business concepts that are coming about. I would say a lot of them are focused along those lines like we expect in the next few years a lot of them will become more well known and valuable. A lot of them are for business names as well so I'll just say this will be a great company name and I'll register it. It's got a nice short great sounding name.

Michael: Prior to ShopCity you founded another company called Axiom Digital Services. What did you do at Axiom?

Colin: You know that was really how I got started. Originally I was into cars like I think probably a lot of younger guys when I was 18 I had a hopped up Acura Integra. I got into auto parts and performance accessories and started a company with my friend Dave and we called the company DC Dynamics. That was the first ename I registered - DC Dynamics. I no longer own it. I sold it. But that was in '97. And so I ended up building a website for that company. And then my parents had a retail paint store for 28 years and that was really how I got into the whole support businesses. I grew up in an entrepreneurial environment with my parents owning a small business. And so I built a website for them. And then just word of mouth all these businesses were coming to me asking me to build their website. So I ended up going to college for computer science but actually didn't finish because I had so much business coming in and Axiom basically we owned our own servers (this was back in the early 2000s, late '90s) and so it was before

everything was as easy and accessible as it is today. In 2003/2004 I actually had a T1 in my bedroom. I had seven or eight servers on a rack there and I grew up very close to the technology, but basically doing small business web development. And then we got more into internet marketing and we did a campaign for a company called SonicRelief.com. We had a pretty good spin with Google. We made about $150,000 a month on Google. So we started that way, internet marketing, SCM and then in 2008 we ended up selling off those divisions and focused on ShopCity.

Michael: Who did you sell those divisions to?

Colin: Another local development company. I was just looking for somebody to kind of take on these customers and I came across somebody who had similar values and somebody who I could transfer those off to. So we sold the customers. I think we had at the time 250 or so customers. It wasn't huge but it was a decent size.

Michael: Did you get proceeds from the sale of Axiom that you then used towards ShopCity?

Colin: Yes we did but really at that time we were already transitioning out of this internet marketing contract that we had. It was pretty substantial. So a lot of our revenues we derived from that which we maintained and it was really just a small business customers that we sold off.

Michael: Colon let's figure out how you built ShopCity from 2008 when you transitioned out of Axiom and into your 500,000 visitors per month that you have today. Clearly you were up in Canada, you were building small business websites. Your parents ran a small business. You understood the need for small businesses to get on the internet. Was that your original inspiration for ShopCity?

Colin: Yes and ShopCity goes way back. I would say if there is anything out of my kind of experience it is persistence. I've actually the ShopCity model since April 2000 when I was 20 years old. We were doing these small business websites. We had at the time probably 30 – 40 customers and we thought it would really be cool to have one place that you could go to find all

of these Mom and Pop shops. And so we thought what would be the best name the community would get behind - something that was very community oriented and very explicit in describing exactly what the site was about. We thought ShopCity.com is perfect so we registered that. We launched the site. My roommate Ryan and I were doing the sales and the marketing. I was doing most of the development and basically we went out and spent $500 on cord plaster signs, two foot by one foot, spent a weekend driving around in the middle of the night with a ladder and put them up on street posts everywhere. We put of them up over the weekend and soon everyone knew. They said what is that? And then we had businesses that wanted to sign up. So we started signing them.

Michael: I love the gorilla marketing. So I live in a small town as well and whenever people start putting up signs inevitably somebody is going to start writing to the local small town newspaper and say what the heck is going on with all these signs? I thought we had a great community here. The whole world is falling apart. The sky is falling. Did you get any backlash from that gorilla marketing tactic?

Colin: We didn't. And that is actually the key to the domain name. If it was something like Yelp which we talked about as going public it just announced I think you'd get some flack but for us everyone was saying this is a great idea, this is what our small businesses need, this is fantastic. We did presentations for the city government, the chamber of commerce, the Rotary Club, and we got everybody on board. And they actually stayed up for quite some time. And we still use that model and we've done it in communities where they have very stringent bylaws and because of the names they will actually let them stay. We had one instance, it was a resort community and there was one road that goes up to a ski hill that is very popular. It is owned by Intrawest. It is a $2,000,000,000 development. Tons of traffic and literally every post we had a ShopCollinwood.com sign. The bylaw came to us and they said those signs along that road maybe take those ones down or make it so it is every fourth or fifth post. Road ones and the rest of the community we think it is great and we really support you guys and they stayed up for close to a year. So it is a very scalable model as far as the costs go. And then we also leverage business storefronts. We have got signs in some cases, you know I'll pull into a community and say oh wow they still have one of the

original signs from 2000 so this is 11 years ago. It cost us $3.00 to get those signs. So it is a model that works.

Michael: In my small town here just outside of Seattle we have about 23,000 people and you walk between the different stores and you can see a buy local or a shop local sign. So your marketing just goes a step further instead of being a generic shop local you are saying shop the city name. So you are getting that additional benefit.

Colin: Yes and .com. That is the thing. It is a call to action. We are taking advantage of real world traffic. It is a way to overcome the fragmentation of the marketplace and to drive people to an online destination that you can monetize. So that was really the key to us. That is why the domains are so absolutely critical to the model.

Michael: So it is interesting because I was doing some research before the show and one of the reasons that I asked you on the show was because you popped onto my radar because you are actually filing a complaint with the US Federal Trade Commission alleging unfair practices by Google (which I am going to come to later in the show) but what I found most interesting was when I started doing some research I started looking into what (in referencing my search engine optimization background) I started to think shop the city name plus the .com has certain benefits. You know because you are getting the city name into the domain name itself. And why would you choose to buy 8,000 domain names and pay $80,000 in registration fees when you own ShopCity.com and you can just tack on Midland.ShopCity.com or Seattle.ShopCity.com or ShopCity.com/Midland? So I think you just answered it. Let me throw that out. When you actually get the shop and city name into the URL itself it is not confusing for people, they understand it, the quickest way to describe what you do and people want to support their local community. Was there another reason why you chose that over sub-domains or directories?

Colin: it is really just the marketing. We tell people this is not a technology company. This is a sales and marketing company powered by technology. And so for us the message is very critical. Sub-domains they are really not brandable. There would be a lot of traffic leakage. And people do want

something that is very focused on their community. And it enables us to get partnerships with city governments like Corona, California is a great ShopCorona.com. They were the first city government that we partnered up with and they actually came to us. They had been running a Shop Corona campaign for a number of years and had been trying to buy the domain name from Jim who said hey no sorry this is part of my model and I won't sell it. But we just happened to connect with them at the right time where we were building up the platform. And they said oh you have a platform and it is powered as well why don't we just do a partnership instead? We will do the marketing on your behalf so we actually have a city government sending mailers in the water bills and we get coverage in their email newsletter. And so it opens up all these doors and it is really kind of the initial key and strategy to market the property.

Michael: I love it. Most people, most domainers come at it from a perspective of technology and find the best domain like ShopCity or Shop.com and I think that your perspective of looking at it from a regular person perspective and from a marketing, and off line marketing perspective are tremendously important. So I wanted to make that point for the audience. So let's go back in time to 2008. What was the first thing you did to get ShopCity up and running? Did you own ShopCity.com and some other .ca names and then you needed to bring in the other domains as we talked about before the show? Or did you actually decide here is a great idea, I'm going to run forward with it and buy as many domains as I can?

Colin: It first started with Shop Midland. So, that one was really purpose driven. I mean it expanded into a couple of the neighboring communities, we saw that the model would work. So we started thinking how do we build up a platform and so basically ran that as a side business. Just kind of kept an eye on the marketplace for quite a few years and just kept seeing everyone stumble. All these great new local sites would come out and they would go nowhere. So we realized really early on that it is about off line marketing. It is about building a feet on the streets sales force and people are just starting to really acknowledge that. I'll send you a couple of links after the show. It is funny in just the past two, three weeks a couple very prominent investors have said oh this location based service bubble is maybe not all it's cracked up to be. How do you get the merchants onboard?

So we basically started doing that. And as I was mentioning before the show we can secure basically domains near our community and then started going outside of it. And we started trying to get into US domains we kept bumping into this company iVantage. So he basically had locked up the market in the US so we just kind of resigned ourselves well we will do Canada and we will do Australia and everywhere else. That's cool. We will see how everything goes. And then in 2007 we were looking at attending a Kelsey Seeger conference in Silicon Valley and we were looking through the attendee list and we saw that iVantage was going to be there. So Nathan and I and my brother went out and ended up meeting Jim, who was the owner of that company, found out that he was doing something very similar. Looking to kind of get this out there but it is a very daunting task. It is a huge challenge and opportunity. So we ended up talking and had a great time. We are very like minded. He is a fantastic guy. One of the best guys I have ever met.

Michael: What is his last name?

Colin: Terry, Jim Terry. Very sharp guy. He is really domain focused actually. He is more of a domainer, even had some really great domains and actually with the original US ShopCity domains he started a drop script. It was back in 2000 – 2001. He was doing it before Frank Shilling. He found out when the drops were occurring. He built a script that basically looked for anything that had shop in the front and developed its way and made a great portfolio. He built it up as well by buying a bunch on the secondary marketplace. So he has done that. So we met and we thought that there was some synergies and we started working at how this could come together. And basically it took quite awhile to really kind of come to terms how we would do this. We could have a joint company and we would come together under one banner and so we did that with other individuals as well.

Prentice Chang who is from New Jersey he actually had done it originally for us. He did it in the late '90s. He built a user generated content platform. He is a very, very smart guy. He is a programmer at IBM. But he just didn't get the uptake that he was anticipating so he kind of let it go and got back later into it in 2005/2006. And Jim and he had already been in touch. They were both running individual platforms but saw that there were some synergies as well.

They were regularly communicating so basically Jim kind of brought us all together under one company and we figured how it would work. And basically in 2008, the company was actually our company when it was originally shopdirectories.com, ShopCity was owned. It was a very early registration that goes back to 1995-1996 (March 2006 I believe) and so we bought that and that was really kind of the genesis for everything coming together. So we got up in 2008. We paid a pretty good chunk of money for it.

Michael: Do you remember what you paid?

Colin: $25,000.

Michael: For ShopCity.com?

Colin: Yes. I was the most expensive domain that we had purchased at the time but thought that it was a great investment, a great name. It describes it perfectly.

Michael: So right now the company ShopCity.com Inc, I believe it is incorporated in the United States? It was actually a partnership between yourself and Jim and Prentice?

Colin: Yes.

Michael: So you started with the technology to Shop Midland and you grew the technology, is it safe to say that you provided the technology and then Jim and Prentice provided the additional domain portfolio and that is how you all came together?

Colin: Yes they each had their own platforms as well and that is why it really took quite some time. You have a lot invested in your platform, you don't really want to give that up. But basically it kind of got to the point where our platform was so evolved that they just realized that it makes a lot more sense to get these economies to scale and bring them together under one roof and make it happen that way. It wasn't until August of 2009, it took a couple of years of Jim and I would do Wednesday night phone calls for about three hours every Wednesday night from 9:00 p.m. until midnight kind of

hashing out all the details of how this would go. And eventually we ended up making things work.

Michael: When you had just Shop Midland itself, was that mainly run by yourself and some contractors? I'm trying to get at how much revenue you were able to generate from just one site that was well executed that then gave you the idea that scaling it would provide a significant business.

Colin: Yes it was myself and I had various salespeople essentially. I was kind of the technical guy making things happen. We ended up in the first three years we got it up to (and it is a subscription model) so it is residual income and that is really why we thought this is a very powerful model. I built it up into over $100,000 a year. It was about $55,000 in revenue. And we thought this has a lot of potential. Midland is a community of 16,000 people. We haven't even come close to topping the potential even still. Originally when Ryan and I first started doing it we thought I wonder how many businesses there are in Midland. We guessed about 300. We started driving around and just kind of doing a rough count and we got to 300 within about half an hour. And since then we have got 2,500 businesses in Midland on ShopMidland.com. That was really one of the genesis' of the double project of realizing there is a lot in a community that you probably don't know about. And so there is a ton of revenue potential. Shop Midland is well over that now. And it is basically with one salesperson.

Michael: So walk me through the business model of ShopCity.com.

Colin: Basically it's a premium subscription model for merchants. So we provide them with the business control panel where they can promote, publish and sell online. So they can sell through an ecommerce store front, they can run daily deals, they can sell coupons, and they can publish photos and videos and files and run email newsletters. So we basically built this integrated platform and this kind of came out of the web development company. We started building dynamic sites in 2002 – 2003 and had common requests. I want to be able to do this. So we are building all these back ends all the time. It just got kind of daunting to manage. And so we realized if we can build this one back end into the shop directories platform then we can actually power all these other sites. So we've actually basically built this

platform that enables them not to just publish on our destination but there are a series of widgets so you can embed a shopping cart or a bank counter. Any of the features that we have on your own custom domain and then you can also syndicate your content onto Facebook and Twitter. So we want to be basically your one stop publishing hub where you can create your day base of offers and then syndicate it out and so businesses basically pay to get different levels of service and then they also pay to get different levels of exposures. So it starts at nothing. Claim your profile, get on board, start using the basic tools and then it is $47-$97 a month for the two premium packages and then in some communities we are running a managed package where we or the local city manager will run the marketing campaign for the business and generally they are getting that for about $300 a month.

Michael: So basically the top self-serve option is about $100 a month. So if I can a store in Midland and I wanted all the bells and whistles it's about $1,200 a year to do that?

Colin: Yes and we do offer email packages as well. And actually we sell the majority of our annual packages so it is $495 a year or $995 a year or $2,995 a year.

Michael: Got it. With 18 people working at your company you can't go to every single city (sorry my video just locked up again and I apologize for that) in the United States and get feet on the street for every one of those. So you started a franchise type model. How does that work?

Colin: We do operate a number of corporate markets but basically we want it to be an authentically local experience and product so we are basically becoming the technology provider on the backend. We have the brand so we do own that as well. But it is the brand, it is the technology and it is the support. So basically there is an upfront licensing fee. You get exclusive rights to your community and then we do a revenue share. And the upfront fee depends on the size of the community. And we have financing available as well. But it generally starts at around $20,000 upfront fee and it can go up to $1,500,000 if it is a larger city.

Michael: So Seattle.com might be in the $1,500,000 range and Bainbridge Island, where I live just across Puget Sound has 23,000 people that might be in the $20,000 range?

Colin: That's right. About $25,000.

Michael: So if I pay my $20,000 - $25,000 a year to get exclusive rights to ShopBainbridgeIsland.com (which I checked and you actually own) how much do I keep that sells through the website?

Colin: It is just a one-time licensing fee and the rest is a revenue shares. Generally we are doing a 70/30 split. So the city manager gets 70% and we get 30% and we basically do all of these support and the retention as well. We phone call to the subscribers so we keep them engaged in paying. We have a really high retention rate - over 90%. A lot of the directories are like 50% or lower so there is a huge difference there.

Michael: So if I become the city manager and I sign up a business I don't even have to do the renewals. You call them up and get the renewals.

Colin: That is right.

Michael: That is fantastic.

Colin: It is residual revenue model. We have definitely been seeing some great success with it on local levels and we think that we kind of got a good model as far as sales marketing and everything. We have been doing this for eleven years. So figuring out all these little intricacies and how everything kind of ties together we have got it set up so that it is like a chamber of commerce program and basically we provide every stakeholder in the community with an interest in the system. We can have different revenue splits, you can send out sales associates that have our riffle application and go ahead and community build, profile names for the businesses, set them up with an online store. So it is a pretty extensive model. We have people coming to us all the time saying why should I pay? Why don't I just set up a…very you know there is a lot more to that than it seems and a lot of the time you will end up getting bogged down on the technical details and the

customer support details so it is tough to get into the sales and marketing mode. We basically have a turnkey system and all you really do is sales and marketing, which is the fun part. You are going into the community. You are meeting businesses. You are helping them bring in their products and services online and it is something that is quite fun.

Michael: Sure turnkey system. And you provide them with arguably the best brands in the local community.

Colin: Yes it is kind of the full package.

Michael: So how are you growing your business right now?

Colin: So we have a bunch of different strategies that are in place. We are working with some pretty large media companies that have properties across the country. So that is kind of our primary focus. So getting in with a company that has 400 newspapers and having them scale it through their existing sales force. And then we have this website ShopCity.com, you can find out information. Entrepreneurs can come through, register and get information and get set up. We do training. We do everything basically to get them up and running and so we are targeting them through a bunch of different channels. We are going through people who are franchise brokers. And people who are looking for business opportunities. And then people are just kind of stumbling upon us. They are typing in the domain names and just checking to see what it is. A lot of people have this idea already and so when they type in the domain they see oh it's taken, oh this is something that I can do myself. So then they will start coming through. It's really for us for the past year we have just been ball playing people. We don't want to over extend ourselves. We want to make sure that we are providing a level of support for our initial partners so that we have the model that we can showcase to everybody else.

Michael: Right now you have got 30 communities built out. Over the past year have you seen better success with city managers, you know the people that run the local brands, being the actual city themselves, the chamber of commerce whose sole purpose it is to drive more business revenue for the

local businesses or with entrepreneurs who want to buy a franchise and start up their own business?

Colin: It really kind of varies. And we do a bit of a combination of everything. Like Corona the official city manager is the city of Corona. We hired corporately a representative there and he was the business developer there for the chamber of commerce. And we got the chamber on board as well. So it is basically a hybrid approach. Really the city manager is the one who kind of does the initial negotiations. In Palo Alto it is the local newspaper and they have been around for 30 years and they got the city on board, they got the chamber on board and so we are working with all the city organizations to promote this initiative. Many are already running ShopCity campaigns. That is really kind of key to it all. There is a Shop San Jose campaign going on from the city government and the same from the chamber. So we can plug in there where the domains kind of play a key role. We have got some independent entrepreneurs that have been really hustling it and seeing some great success. It really kind of varies on the level of passion that is involved. Sometimes people with more resources they don't have the passion so they won't be as successful overall. So it really kind of depends.

Michael: Yes, but people love their cities. There are a lot of loyal people in cities. So having those types of people be your face to the city merchants and shoppers is a great idea. So let me ask you this: You mentioned that you do marketing, you do some partnerships through local papers, I would think that with small businesses under so much pressure with newspapers going out of print, it seems like every month, with chamber of commerce organizations struggling to show benefits to potential members that selling another product like ShopCity would be (how should I put this) looked upon as negative. That it would actually take money from the small budget that small business owners have already and putting it into a directory listing. How have you countered that type of feeling?

Colin: It is actually the exact opposite. They end up looking at this as kind of the product that helped them compete. Who they are most worried about is Amazon.com, they are worried about people selling from overseas through Google Ad Words and Big Box retailers. And so we kind of bring them together under a co-op campaign where they essentially get shared traffic. It's

like a mall. And the cost compared to other marketing avenues is very minimal and so they actually view this as their gateway to the web. And the first product that a lot of them have used to sell online is to really take advantage and generate revenue we have a daily yield platform like Groupon but it is self-serve so they can market to their own. A data base of email subscribers and the revenue share is much more in their favor at 5% to 15%. So they look at this as wow this is a great tool and the chambers of commerce and the newspapers they are being disrupted by Google, by Facebook, by Groupon and they actually need a comparable internet product. And so there is revenue for them, for the chamber of commerce, for the newspaper and so they are looking at this as actually the product is saving them this mass disruption that is going on. That is why it has to be a pretty high quality product and also their names because they get hit all the time with hey you want to resell our product? And most of the time it's like yes it's alright we have already got products and we don't need to. But it's the domain matches the campaign and the product does everything that their customers want and there is revenue. So it is a pretty easy thing to say yes to. Like every city that needs entered we do have a chamber of commerce at least on board and in most of them it is the chamber and the economic development department which very few people are able to achieve.

Michael: That makes perfect sense. Instead of being a competitor to them and instead of partnering with them you are actually functionally supporting them and giving them a majority of the revenue. You are the minority revenue split in the arrangement which is fine because if you scale out to 8,000 communities you are going to be set from a company perspective.

Colin: Yes collectively a lot of revenue there.

Michael: So I went to ShopBainbridgeIsland.com and I saw a bunch of stores in my local community already. Is it safe to assume that all 8,000 or so communities with domain names you own are up and running already?

Colin: Yes. We basically pre-populated the sites with a national data base and so we tried to scrub it…Our program is about local independent merchants and so we have tried to scrub the Wal Marts, Big Box stores but nobody has a data base of independent merchants. We probably have the

most extensive one at this point. We have got 40,000 each profiles and we scrub most of the large Box stores and chains. So we pre-populated everything initially and this we will meet on our own when we get into the Google subject but this kind of duck tails into it. But originally a lot of our strategy was hey this is great, let's populate it, we will start getting SEO traffic, customers will come in, they will claim their profile and that will be kind of how things will get going. But Google had some other plans there.

Michael: They did and we will get into that. Let me ask you a couple more questions first though. So you put in what millions, tens of millions of business listings originally across the United States, North America, and Australia?

Colin: Yes there is over 10,000,000.

Michael: And so clearly your idea is that you want merchants to take ownership of their profile, add to the user generated content, create unique content that won't be duplicated any place else but you are a far cry from over 10,000,000 listings being actively managed right now. And it pains be to see local businesses in my downtown area going out of business and it happens just because of the economy. How do you get those businesses that have gone out of business out of your directory and keep your directory up to date?

Colin: That is a huge challenge. And it is something that we basically leave to the data provider for the most part. And nobody has really cracked that problem. It's probably one of the biggest challenges in the local space. You are constantly getting new businesses and you have got businesses that are going under. And so that is why you need a local presence, somebody to actually observe oh there is a new business I'll add them in or those guys have gone under I'll pull them out. Eventually we feel that we will have the highest quality data base but that is a persistent challenge for pretty much anybody, and one of the main reasons why nobody has cracked local yet.

Michael: Another thing that I think about from a search engine optimization standpoint, if I have a bunch of websites that are on similar topics and I want to cross link them. Like let's say that I own Shop Seattle and Shop

Bainbridge Island I'd want to link them together to share some of the benefits of the shopping and the local communities but if I were doing that I might want to put them on different servers, on different IP addresses so that Google, or Bing, doesn't think that it is all one company. You can get some additional benefit by sharing some link juice in-between them. Is that something that you think about as an organization from a technology standpoint as well?

Colin: Yes and that is part of our issue with Google is essentially really why it does an anti competitive gesture by saying a company cannot have multiple domains. There is a video of Mack Hunts on the internet where he is saying yes you know if you have two or three that is okay but as soon as you get more than that no that's really a no go. Well why is that? And I heard Adam's story and I was wondering how he was generating traffic. I may have missed that part but if he is relying on SEO and he has got these domains that are linked together it is something that you do have to be cognizant of and prepared for because Google can basically come along and shut you down. And so what we had to do to please the people at Google is no cross linking, we have actually disabled errobot.txt, all of our inactive sites, out of 8,000 sites we have got 7,970 of them that are blocked to Google, and then we have actually gone so far as to block again through a meta tag the indexing of unclaimed business profiles because Google has gone so far as to say that it is duplicate content if you have a business directory. And it is one of those things where you may need to fly below the radar but as soon as you get into any type of scale they have got it as a challenge to their Google place, as Google local product, and they come up with these arbitrary regulations to stop you from doing it. So that is basically what we ran into with them. We went above and beyond just so that we could be beyond reproach and we are kind of challenging them on that. Hopefully to the benefit of everybody.

Michael: Let me back up a second and put some context in here. November 11, 2011 your company filed a complaint with the U.S. Federal Trade Commission alleging unfair practices by Google. What did you notice happening that caused you to say hey what's going on here? This might be unfair.

Colin: We basically ran into it as soon as we launched our network. Google had penalized a whole slew of our domains. It was basically all of our prominent US cities so they wouldn't even rank if you typed in shoppaloalto or shopnewyork, all one word with no spaces in-between them, it is pretty close to the domain name. It's hard to get much closer. And Google basically at some point in late 2009 penalized these sites. They left up our Canadian sites and a bunch of the US sites but for the most part is was all the larger ones. And so we have been dealing with this issue and we have been trying to figure it out through the traditional channels. You have got Google Web Master Tools and they have something they call the Reconsideration Request and we have tried using Google Web Master Forum to get feedback. And we were unsuccessful. We were pleading with them basically saying hey look we have got a partnership with the city government, this site shopcorona.com had the official city database of registered businesses. Every single one is claimed and owned by the business. This is the highest quality of content in Corona. How can you say that this does not meet your quality guidelines?

And so we ended up kind of going through this whole issue and it really stems from the roots of the company. I firmly believe that if that would not have happened things would have gone even further than they are right now. We are growing very quickly but with that issue to deal with it would have been much quicker. So that was kind of bumping along. And then the FDC announced that Google acknowledged that the FDC was looking into their practices on June 24 which was very interesting because right around that time all of the sudden boom all of our sites go out of the Google penalty box and they start showing up again. Our traffic just absolutely surged through the roof. It was unbelievable. It was clearly over a course of about three days traffic went up expidentially. So we were like wow this is very interesting timing.

Michael: So on shoppaloalto.com or shopcorona.com for example: you were high and then you were penalized and then you were pushed down to say the fourth or fifth page and then when there is an FDC complaint filed then you popped back up?

Colin: Well, yes basically. And really when we were high it was really only the first couple of months of running things and then kind of right after that,

you know? The whole kind of initial launch of shopcorona.com for instance with this city government and our ability to monetize that to six figures that was with Google penalty. That was with you could shop Corona, which many people were because we were marketing inside the community, was on page six or seven. Then it just surged all of the sudden and were showing up under all these search terms (which we always figured we would). We cut a pretty strong SEO strategy which is basically get inbound lanes from the city government, the chamber of commerce…

Michael: One of the highest authority points on the web, sure.

Colin: Exactly, they are directly associated. Most of the search terms that we are targeting they are geographically focused, and so Corona Plumbers. The top website associated or domain associated with Corona would be the city government. You get that kind of authority coming in and we have another kind of strategy of just like Facebook and Twitter you have the icons and everything and you have got link backs and businesses they are linking back to it because they support it. That was our SEO strategy. So all of the sudden this June 24th thing happened, traffic goes through the roof, all the sites are showing up where they should be and we were saying yes, finally, it looks like Google has come to their senses. Maybe it was because of this FDC thing but whatever.

And then on July 14th we get up and we are like wow, traffic is way down. What is going on here? And they at that point penalized all of our domains including the ones in Canada, the smaller ones in the US and it was just like wow. It was very interesting because we saw how much direct traffic we were getting, it was quite substantial. But it was definitely a noticeable hit. So we started trying to get to the bottom of it, trying to figure what was going on and just basically hit a brick wall. And realized we were going to have to take this up a notch. So we reached out to this lawyer Gary Reback. I had seen an article written on him and how he was one of the leading instigators behind this FDC investigation and he was the one who instigated the investigation against Microsoft which led to the anti-trust regulations. And so we thought hey if there is anybody out there who is going to be able to do something it's Gary. So he is out of Menlo Park. I was heading to Menlo Park and Palo Alto anyway, so we set up a meeting and told him what had happened. He was just

blown away. He said this blatant anticompetitive behavior. This is absolutely ridiculous. We have got the newspaper that…the chamber behind us saying what is going on? And he thought we had a really strong case and basically began working with us. He has been instrumental in helping us file this FDC complaint.

Michael: At what point does a private company become beholding to others in the way that you think that Google should be beholding to you? In other words if I run DomainSherpa and I don't want to feature a domain entrepreneur on my show, at what point can they contact the Federal Trade Commission and say hey Mike Cyger over there at DomainSherpa is being anticompetitive because he is not promoting me?

Colin: Yes and it has been a huge dilemma because I am a Libertarian and I definitely do not support government intervention in a lot of things. And I think a lot of thing should be left to the free market. But one of the things that the original government did was preserve freedom of the marketplace and ensure that when companies did develop a monopoly, which does happen, that they did not prevent competition, arm consumers and decrease innovation. So Google has this argument where they keep saying that we are doing it for the consumers. We are the ones innovating but they crossed a threshold. Basically they have got anywhere between 65% - 70% and 90% of the search market. It is definitely a monopoly. And they have established that product for that platform on the basis of 'we provide an algorithmically generated index of content'. There is no manual intervention. And we are totally just letting the market decide. And yes there are people who are really trying to abuse the system and we'll stop them but anybody who is operating above board should be fine.

And with us what happened, when all of this kind of came together in July, at the end of July specifically we had an article written about us in the San Jose Mercury News and Google actually made it that they had immediately penalized us. It was the first time that they had admitted that they had done something like that. They said it was because they had received complaints against our site, which we know is total BS because we have phone number prominently everywhere. I can tell you in the eleven years we have received maybe ten complaints and those complaints have been damn this is a great

concept why don't you have more active businesses? That is the extent of our complaints. So it just didn't really ring true, so it is a touchy thing. This is on and off position and the fact that they basically claim they built their business on being free and open and now they are starting to racket that back now that they have cemented their position in internet search.

Michael: So let me ask you this Colin: What do you hope will be the outcome of this complaint?

Colin: Basically we are doing it for a number of reasons. I saw the way Google operated quite some time ago, like in 2003 and they just unceremoniously shut down an Ad Sense account I had. It wasn't a big deal. It wasn't a huge amount of money but I tried contacting them. And I think anybody who has tried to deal with Google knows you cannot get in touch with them. It is like impossible. We tried doing that sitting on the phone for three hours until their system hung up on us. There is no direct email. They don't really care. They are in such a huge position of power and dominance…us little guys it doesn't matter to them. They say it is they can't scale it up. When you are doing $10,000,000 a day in gross profit, I'm sorry you can afford customer support representatives. It's that simple.

And so that has been their argument the whole time. Oh we can't serve the marketplace, it's too big. Yes lots of companies figure out ways to do it. If you wanted to you would as well. We are basically trying to preserve access to the marketplace. We are definitely not the only company that has run into this. We've just been invited to join an advisory board with an organization called FairSearch.org. There are a number of companies that are in that organization and that are working to preserve freedom of the marketplace. That is really what drives Gary. He is a very passionate guy. He wrote a book called Free The Market. We are not doing this because we are trying to get a hand up from Google or anything. There is no law suit. It's simply: okay that's fine if you are running your own business and everything like that but when you start pushing other people out and putting your own product in but then say that is just how it is – it is anticompetitive. We are trying to basically defend the other publishers, of which there are many, many (particularly in the local space they have really made some huge overtures in the past year or two in particular to push their own product) and so we are trying to preserve

that and kind of the integrity of the original Google model. And for us we are trying to protect ourselves and our partners. Unfortunately we found that Google did not respond to us saying hey look we are operating totally above board, we have no cross linking, we are not doing paid links, we are doing nothing wrong and the only thing that they respond to is negative press and that FDC complaint. So unfortunately they basically forced us to do that.

As far as getting the government involved even, the press will not respond to unless you have someone who is official. We were talking to a lot of members of the press and they were saying that's great, come back to us when you have and FDC complaint and then we will write a story. So it is one of those things we have been forced into it but we are going to at this point now see it through to the end because we feel it is very important.

Michael: It is and it is very interesting and I hope that you get the outcome that you want. And we are going to keep following with what happens with this FDC complaint and with the growth. Let me ask you this: I interviewed Rich Swerdlow a couple of weeks ago. Rich owns condo.com, houses.com, he recently bought property and properties.com - clearly the category-killer domain names of real estate. I started thinking … could someone go out and purchase a slew of domain names, a portfolio of domain names like City-Condos.com, like MiamiCondos.com, LACondos.com and SeattleCondos.com, similar to what your portfolio does with the ShopCity.com would you recommend that to other entrepreneurs?

Colin: I'd say it's interesting. A lot of it hinges on Google. It depends, if you are looking for SEO traffic to tell you the truth you are better to go with one domain. It's unfortunate but Google seems to have this arbitrary guideline that they want you running on a single domain. And that was basically what they recommended to us in the Web Master Forums. They said well why don't you run something - why don't you - well because it is the marketing of it and it just won't work. And in that case I think you have to be very aware of it and for us we always thought if you start getting too verticalized then it becomes prohibited to market it in the community, which is really for us why we are running these individual domains. And we thought we had to have something broad enough we can market it everywhere locally. So I think it depend on what the model is. And Google unfortunately has a

huge hate on for lead generation businesses. We know quite a few people who are in the lead generation space and have been just trashed from Google. They want to own the relationship with the end consumer and the end merchant.

So if you are the man in the middle you are providing a very valuable service, you are helping people get online, you are doing the optimization, you are kind of connecting dots. Google seems to not respect that. So it really depends on what your traffic acquisition strategy is. There are ways of definitely making it work and we are hoping that as our platform becomes more entrenched we will be able to work with a lot of those people. And hey if you want to be an affiliate focusing on the condor and the housing vertical in that city we have a white label program as well where you can set up just that category on your domain and powered by our system and we can kind of do joint traffic and monetization. But at this point it's touchy. It is all based on Google and that is why we feel this is very important.

Google went from determining the quality of the web page to determining the quality of the business model. And that is a pretty touchy thing when you are competing against these business models.

Michael: Let me ask you this: In addition to Google Local and Google being a competitor of yours who else would you say are your competitors in the market?

Colin: There are tons and tons of them. It goes all the way from any type of advertising, print whatever it is, to focusing just on the online space. Yelp is huge and as we briefly chatted about they are going public. So it is going to be interesting. We are going to get some inside information on Yelp. But something like that I find very interesting that I saw in one of the articles that I read today was that Yelp only has 500,000 claimed data based profiles. We are already a tenth of that, or close to it, just in our initial efforts because we are more merchant focused. They are very consumer focused so they are getting a lot of the consumer traffic but the merchants themselves aren't really participating. And we found that they don't really like Yelp because of their initial kind of extortion model where they would charge you to not have

bad reviews. So Yelp, Groupon and then you have got directories kind of all over the place.

Michael: CitySearch.com, UrbanSpoon.com, all of those sort of directories. So they all have pretty much the same goal is to bring on businesses. Have them provide the content and then maybe charge them some sort of directory fee or annual fee. But what is different with your model is you are trying to partner with the local cities, the chamber of commerce's and doing the revenue share with them whereas Yelp and Urban Spoon aren't doing that.

Colin: That's right and for us we just always felt we need to be very merchant focused. And if we are merchant focused and we can get the content into the system then you have something to market to consumers. So we are really focused on giving them the tools they need and the support they need. We give them printable customized posters that they can put up in their store fronts. All these different things to really help them take advantage of the internet. And we do a lot of hand holding. And we answer the phone. And things that Google doesn't want to do and a lot of these other guys don't want to do. They want to have this self-serve platform that it is just set it and forget it. And basically over the past 15 years it has been proven that that will not happen at that scale of local businesses. So that is really how we differentiate ourselves.

But we really ultimately see as our competition is Amazon.com and it is Wal-Mart. Those are the guys that we are competing with, with our local merchant partners. That is who we set as kind of the companies to beat. So we are trying to make our experience more user friendly than Amazon. We are trying to educate people on the benefits of supporting your local businesses as opposed to Big Box shopping and keeping your money where your house is and trying to solve the real estate problem at the same time.

Michael: You have domains probably scattered around multiple registrars. I want to ask you a question about managing your domain name portfolio. Do you keep them all at one registrar so that you have more organization around them and you can renew them in big chunks? How do you manage the great number of domain names that you have throughout your portfolio?

Colin: That is definitely a challenge. And Jim is really the main guru and the one who is doing a lot of that management. We consolidated for the most part our domains at Fabulous who we were originally working with. We really like their property protection and their focus on bulk registrations. And then we have been using Go Daddy because they have got we find kind of the best management system. We are doing bulk updates and all that kind of stuff. So we are basically split, maybe not 50/50 but half between Fabulous and half with Go Daddy. Originally I think we were using MyRegistrar.com (something registrar.com) possibly.

Michael: I have learned a tremendous amount here Colin. And I thank you for coming on the show. If anyone watching the show has a follow-up question, please post it in the comments below and we'll ask Colin to come back and answer as many as he can. Colin, if people want to follow you to find out what you are working on at ShopCity or find out if you are speaking at a conference, find out the latest that is going on with the FDC complaint, are you on Twitter or do you have a blog?

Colin: Yes definitely you can check out ShopCity.com. We have got a blog on there. We are on Twitter @/ShopCity, Facebook/ShopCity and then we have another kind of division as well. It is ShopLocally.com. And we are actually very active on Twitter with that Twitter/ShopLocally and Facebook/ShopLocally.

Michael: How does Shop Locally differ from ShopCity.com?

Colin: It's basically the aggregator for all the local contents. It was always kind of part of our strategy but it was the inline with the Google situation we really wanted to have that separate channel and we also wanted something that we could direct people to a national p.r. And so we aggregate all that local content, it comes up. And there is a news feed that is similar to Facebook where you can see all the business updates. You can search the marketplace and buy gift certificates and daily deals from all the different communities and it uses geo target. It's like ebased and you text where you are.

Michael: Fantastic. I want to recommend to everyone watching, listening or reading the transcript of this show, the guests that come on the show make a sizable commitment of time and share their hard-learned lessons. Please take a moment to thank Colin through a tweet, an email, maybe a comment on their blog, or if you see them at a conference, let them know you appreciated watching their show and learning from them.
Colin Pape, president of ShopCity.com, I want to thank you for taking time, coming on today's show, and being a Domain Sherpa for other entrepreneurs and investors.

Colin: Thank you. You are going an incredible job. This is a huge resource and I think the industry is very fortunate to have access to this kind of inside information, So keep up the great work and thanks for the opportunity.

Michael: Thank you very much. Thank you all for watching. We will see you next time.

Watch the full video at:
http://www.domainsherpa.com/colin-pape-shopcity-interview