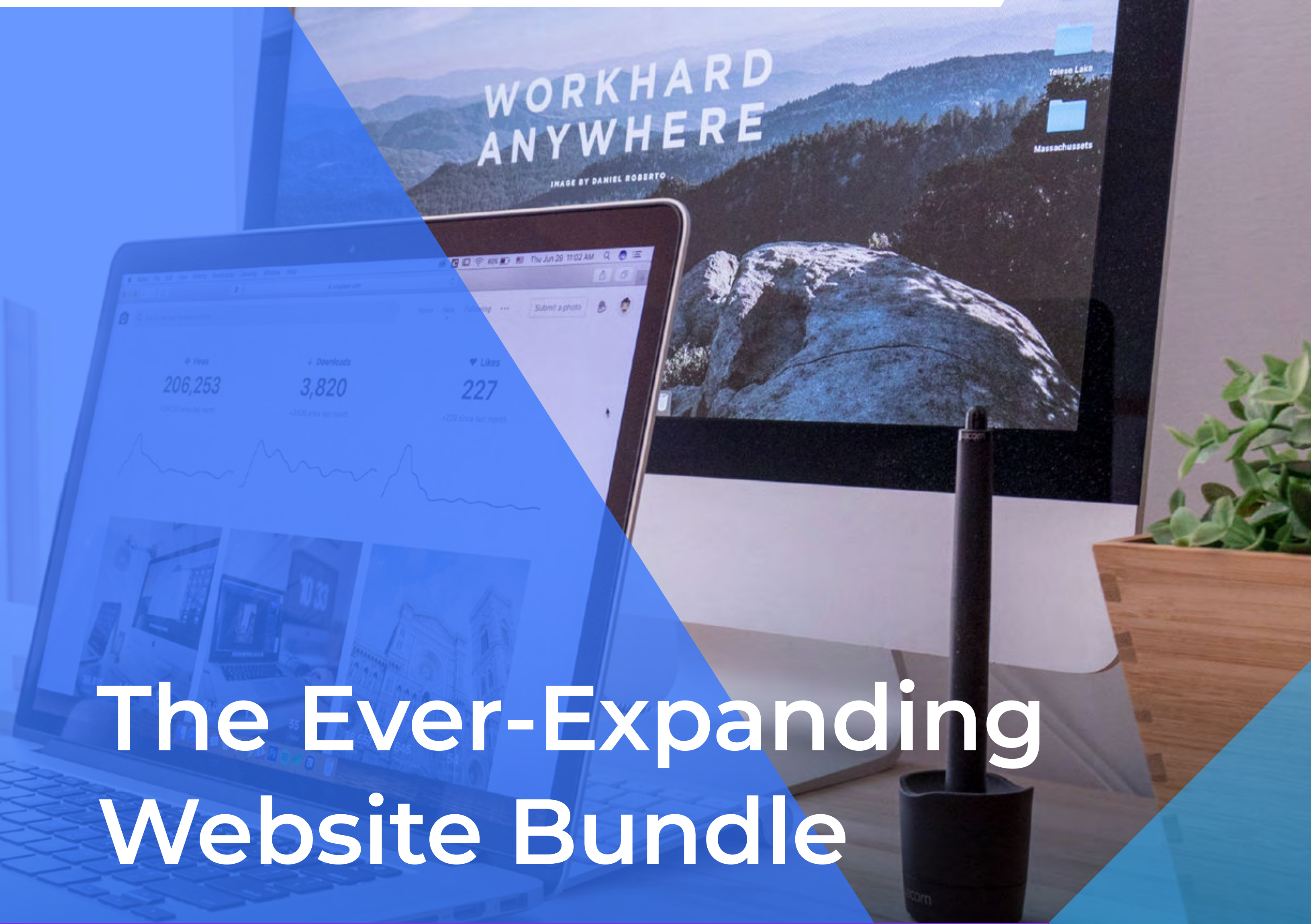
Localogy PRO Perspectives



The Ever-Expanding Website Bundle

The New Gateway Drug for SMB Online Services

A Localogy *Pro-Perspectives* Report

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Introduction: Raising the Stakes

After all these years, the base ingredient to local media, marketing and commerce continues to be websites. There are exceptions, such as social media and listings-based presence (e.g., Yelp). But for the most part, websites have become table stakes in SMB marketing, carrying high perceived ROI.

By “perceived,” we mean that websites formalize online presence with something tangible to point to… and to list on the sides of their trucks, signage, and business cards. The above alternatives accomplish this, but there’s something about the “www” that galvanizes a sense of digital presence in SMBs’ minds.

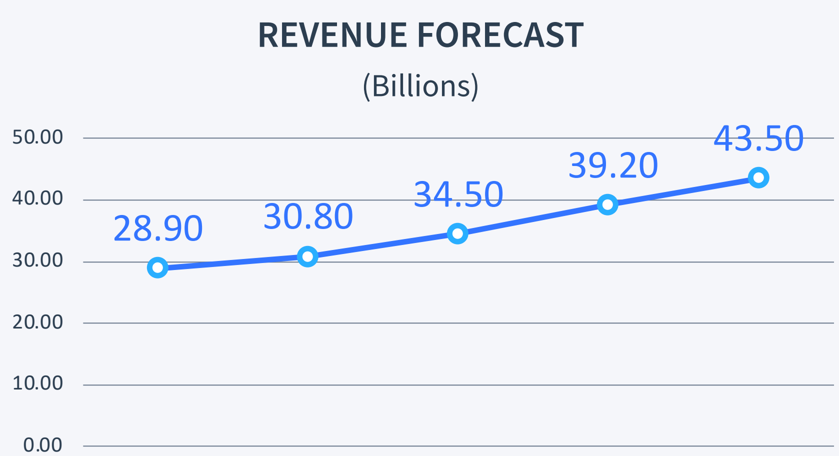
But this isn’t always the case, given SMBs who don’t have a website. In fact, websites are both advantaged by the above traction, while having ample head-room. According to Localogy estimates, 20 percent of SMBs don’t have a website, and the sector revenue is still growing by about $4 billion per year.

However, the website world is maturing in other ways. For example, it’s reaching supply-side saturation which has led to competitive “race-to-the-bottom” pricing for core offerings such as hosting. The result is that there’s little margin in these core products, forcing website builders to look elsewhere for growth.

This has led to an explosion in product expansion and M&A activity. In addition to the need to diversify revenue, there have been synergies discovered in website-adjacent product. For example, websites go hand-in-hand with several digital marketing functions such as social advertising, SEO and CRM.

In addition to synergies and economies of scale for website builders/providers, the breadth of this bundle can boost customer retention. In other words, the greater the bundle, the greater the lock-in effect and switching costs for SMBs. So reducing SMB churn is yet another driver for website builders to expand.

Bundle expansion has meanwhile raised the stakes among website builders. As these feature sets broaden, the resulting "one-stop-shop" appeal becomes a selling point to SMBs. The result is competitive pressure to continue expanding, making the aggregate bundle expansion a sort of self-propelled cycle.



Source: Localogy Modern Commerce Monitor™; 2017-2021; IBIS Worldwide, 2021.

The Land Grab: 5 Case Studies

The result of all the above converging factors is a land grab for expansive feature sets among top website builders. Everyone from Automatic to GoDaddy to SMB-focused players like Duda have been buying, building and partnering to broaden and deepen their website-centric bundles.

As noted, that includes social media marketing, SEO, and CRM. But perhaps most synergistic with the website bundle is eCommerce. Indeed, selling online quickly follows getting online. At one point, this statement only applied to a portion of SMBs, but that portion has exploded in the Covid era.

And when we say eCommerce, it's not just the traditional definition of online shopping for items to be shipped to one's home. It's anytime the "e" is inserted into local commerce. That includes SMBs who digitize their online scheduling, product purchasing, delivery or curbside pickup.

Furthermore, it's not just website builders moving into eCommerce... there's movement in the opposite direction. eCommerce leaders like Shopify are increasingly boosting their own bundle of offerings to include things like social media (e.g., TikTok integrations), and other flavors of presence & promotion.

So what's the latest in the convergence of websites, eCommerce, and all of the above areas. Let's dive into the latest market happenings that Localogy analysts are tracking. We'll do so in the following sections through the lens of five representative case studies in the above areas of website feature expansion.

Case Study 1– SEO
Newfold Acquires Yoast

Newfold Digital’s power play continues. After coming out of the gate strong with a mega-rollup of web hosting and online marketing companies, it has spent the last few months maneuvering into strategic position. The latest comes with the August acquisition of popular WordPress SEO Plugin Yoast.

Yoast powers SEO functions for more than 12 million WordPress websites. It’s known for its no-code interface to apply SEO functions like search snippets, keyword management, and overall SEO friendliness. That plays out on structural levels (links, etc.) as well as content.

“Yoast is an authority on search engine optimization,” Newfold Digital President and CEO Sharon Rowlands told Localogy. “By combining forces, we’ll be able to expand Yoast’s mission of SEO for everyone, and help more SMBs reach their online goals.”

Under One Roof

One reason for Yoast’s traction, beyond inherently democratizing SEO, is its freemium model. It has free and premium tiers, the former being notably feature-rich. It then attracts power users with more robust functions like support, advanced site redirects and deeper keyword optimization.

In addition to its popular plugin, Yoast has expanded into adjacent delivery channels such as an online academy for SEO training courses. This function, plus the core plugin, will likely be integrated in various ways that deliver monetizable SEO to Newfold's nearly seven million customers.

But the keywords here are adjacency and synergy. SEO and websites go together — just like eCommerce and social marketing dovetail with websites. Having these functions under one roof enables one-stop-shop appeal to customers, while engendering economies of scale for providers.

Moreover, adjacent website services can boost spend levels per user (ARPU) and retention. The former happens as bundled pricing and convenience incentivize greater spend. The latter happens as customers want to avoid the costs and headaches of switching providers for functions like eCommerce and SEO.

Firm Footing

Joining the above reasons for expansion, website companies over the past few years have experienced margin compression. That's because web hosting has become commoditized, leading to "race to the bottom" pricing. So margins can be boosted through bundles and upsells to adjacent products like SEO.

For these reasons, as noted in this report's introduction, smart website providers like Newfold are expanding their offerings to boost retention and higher-margin upsells. Those upsells, as noted earlier, can include website-adjacent functions like eCommerce, SEO, and social marketing.

Furthermore, all of the above synergies and strategic drivers are amplified due to Newfold's roots in the WordPress ecosystem. A cornerstone of its portfolio for example is Bluehost, which is one of the most popular WordPress site and domain hosts. Among other things, this will enable some cross pollination.

Meanwhile, it's unclear how Yoast will be specifically integrated with Newfold – both organizationally and product-wise. But we do know that all Yoast employees and leadership will join Newfold Digital in the near term. We'll keep our eye on the integration, and others surely to come from Newfold.

Case Study 2– Social
GoDaddy Goes Deeper with Instagram

Tied to Instagram's popularity as a social sharing tool, it's increasingly an opportune SMB marketing channel. As we've examined on Localogy Insider, Instagram is particularly fitting for SMBs in food, fashion or design-related verticals. It isn't as natural for professional services or "dirty jobs" like plumbers.

For aligned SMBs, GoDaddy just made it easier to manage Instagram campaigns. Today it announced a direct integration that lets SMBs post directly to Instagram from their GoDaddy dashboard. They can also do things like track analytics and schedule posts — engendering some degree of one-stop convenience.

It should be noted that this isn't GoDaddy's first toe in the Instagram pool. It previously launched the ability for customers to create e-commerce enabled posts on Facebook and Instagram. Its latest move builds on that with broader integration and direct-posting from GoDaddy's main website builder.

Transactional use case

Back to the broader opportunity for SMBs to embrace Instagram, it continues to gain utility as a marketing channel. Not only is it as popular as ever, including Gen-Z and Gen-Y audiences, but it has achieved the rare feat of conditioning a transactional use case among users. It's increasingly a place to shop.

This means that it can be utilized as both a branding/awareness play, and a lower-funnel direct-response medium. The former has always been the case, given Instagram's highly-visual orientation that's conducive to awareness marketing. But the transactional angle is newer, given recent integrations.

This has played out as Instagram posts increasingly have baked-in transactional functionality. For example, It has made moves over the past year to make it easier for SMBs to sell their wares through posts. This finds fertile soil, given that the use case and "culture" of Instagram embraces shopping.

Again, this won't apply to all SMB verticals. But for those aligned categories, Instagram is an underutilized tool. That includes standard posts that are "shoppable" as well as more animated formats such as Stories. In either case, direct integration with GoDaddy could stimulate more SMB posting activity.

Deeper Relationship

As for GoDaddy's angle, this is another feature to attract and retain customers – the name of the game for website-builders these days. A central theme noted in this reports introduction is that website builders are in an arms race to grow recurring revenue and revenue per user (ARPU) through feature expansion.

Also driving this trend is the "race to the bottom" pricing of previously-core revenue streams like hosting, which has become commoditized. Adjacent features – think email marketing, e-commerce and social – helps website builders boost margins while also deepening SMB relationships with more functions.

The latter tends to boost customer retention which is a big priority for any SMB SaaS play. That happens as website builders gain deeper tentacles into SMB operations. When done right, SMBs are more locked in as they're faced with greater switching for all those adjacent functions like e-commerce and CRM.

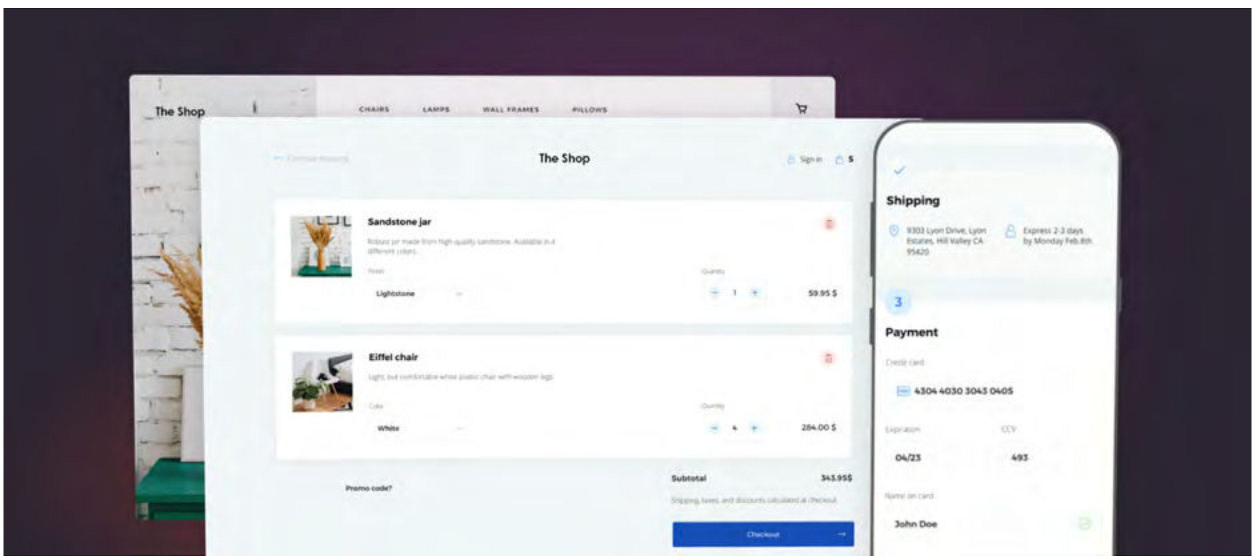
Instagram and deeper social integrations now join that mix for GoDaddy. This follows social integrations from players such as Squarespace. We'll keep watching as others follow suit in the social arena, as well as the broader expansion of website builder suites. This trend shows no signs of slowing down.

Case Study 3– eCommerce
Duda Acquires Snipcart

Back in June, we reported on Duda's $50 million Series D round. The company intended to put the money to use in all the usual ways, hiring more developers to continue building out its platform, and bulking up its sales and marketing teams.

Duda CEO Itai Sadan also added this comment. "We definitely want to double down on eCommerce."

Duda followed through on that promise with the September acquisition of Snipcart, a headless commerce company founded in 2013 and based in Quebec. Snipcart's promise is to "add a shopping cart to any website in minutes." Deal terms were't disclosed.



Build vs. Buy

So what gaps does Snipart fill for Duda? According to the deal announcement:

"Duda will continue to offer its existing eCommerce solution, alongside Snipcart. The existing e-commerce solution has a strong and loyal following, used by many of Duda's customers to add website buying experiences and will stay in place for customers that prefer to keep using it."

Sadan added to the above by telling Localogy that eCommerce in general has become critical for Duda – especially in the Covid era.

"We've seen a very significant increase in our own sales of eCommerce sites," he told us. "And we saw 265 percent growth in the number of eCommerce stores on the Duda platform last year [...] We've been seeing the demand. we're benefiting from it and we wanted a stronger solution in this space."

Sadan adds that Duda faced a classic "build vs. buy" decision. It needed a more advanced eCommerce component, so it had to either create it or find a company that has already done so and put some of that that VC money to work. Given the pace of change in websites and eCommerce, the decision was easy.

"I think it probably would take at least two years to come up with something very initial, and it wouldn't cover a fraction of the features Snipcart has today," he said. "And the market is here now. So we're seizing the opportunity. We're also bringing in a team that's been doing eCommerce for [several] years."

Doubling Down

So that covers why Duda went shopping... why did it place its chips on Snipcart?

It comes down to differentiators. For example, Sadan points to Snipcart's "flexible and modular" eCommerce approach that will work well with Duda's customer base. Specifically, it works with SaaS partners like TripAdvisor, Folio, and ServiceTitan. Each manages a large inventory of websites.

This means that Snipcart allows Duda to make products on individual sites instantly "shoppable." Remember that Snipcart's promise is to "add a shopping cart to any website in minutes." What these partners don't want is to manage inventory of Shopify or BigCommerce stores for their customers.

"That's exactly the flexibility that we're now enabling for these SaaS platforms," Sadan said.

The bottom line is that raising its eCommerce game was mission critical for Duda. And doing so quickly steered its decision to buy versus build. This same calculus will impact decisions throughout the website world, including some of the other case studies in this very report.

"It's about building out an area that is the fastest-growing part of our business, eCommerce," Sadan said. "And doubling down on an area that we're very bullish on."

Case Study 4– CRM
Automattic Acquires Jetpack

Expansion activity in the website world continues to pick up, as seen throughout this report. We've seen website builders from GoDaddy to Wix expand functionality to create more attractive bundles. That includes things that stem naturally from websites — everything from eCommerce to SEO and social.

For similar reasons, we've seen expansion in the opposite direction, such as Constant Contact's move into websites. The driver in all of the above is to grow average revenue per user and work towards all-important recurring revenue by embedding a service deeper into SMBs' daily operations, as noted earlier.

One of the exemplars on this list is Automattic. As the largest domain host and software provider in the WordPress universe, it continues to expand its offerings. In recent history, that's included its launch of subscription monetization tools; and acquisitions such as Tumblr (social media) and ZBS (CRM).

SMB-Friendly

Automattic's latest move is Jetpack CRM. This means that the Jetpack social marketing and performance plugin has added customer relationship management to its mix. It now gives website owners tools to organize their customers and sales leads, and integrate them into various website functions.

As is industry-standard for CRM software, this includes the ability to track and append meeting notes, phone calls, and emails to a given customer record. Users can also search and view customer history, as well as sort data in ways that help inform sales or customer relationship strategies.

Jetpack CRM will exist as a modular suite of extensions that enable customer databases to be integrated into various functions. Those include WooCommerce (also owned by Automattic), Stripe, PayPal, and other extensions that range from eCommerce to e-mail marketing and sales automation.

The plugin costs an SMB-friendly $199 for the full bundle, while individual extensions can be bought and added for a customized suite of CRM functionality. Lastly, it's worth noting that Jetpack CRM flows from the aforementioned ZBS acquisition, as its people and IP form the foundation for this newest offer.

Vertically Integrated

One of the drivers for this deal, as noted, is that expanded features can boost revenue per user and lifetime value. It's all about having more tentacles that reach into business operations, thus anchoring a given vendor in SMB marketing support. That can in turn boost the all-important recurring revenue (ARR).

Jetpack CRM aligns with this concept in some ways, including deeper customer relationships that a vertically-integrated approach can create. That depth of relationship results from the fact that a CRM system can be a mission-critical tool that's deeply woven into a given business's operations.

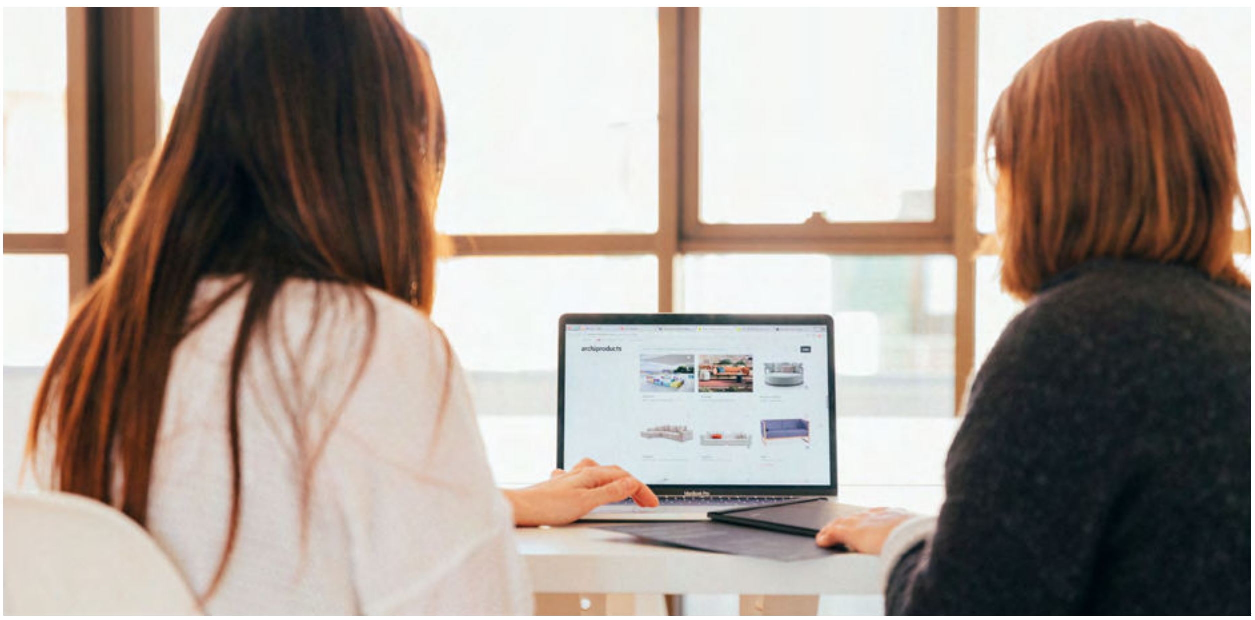
This deal also fits our prediction that we'll continue to see lots of M&A activity in the SMB website sector (see previous case study). As the website sector in general matures, there's less growth so competition intensifies for market share. The result is several moves to broaden and beef up service bundles.

This has ratcheted up as website builders like GoDaddy, Automattic and others are rapidly expanding to offer marketing and promotion, in addition to the core "presence" functionality of websites. That will continue into 2022, with feature expansion that includes email marketing, SEO and CRM.

Case Study 5– No Code Roundup Fisherman, Wix & Bluehost

The Case studies so far in this report focus on website feature expansion. But to return to basics, there's still importance in core website functionality. Even there, we're seeing innovation and disruption. For example, there's room to make website creation more frictionless. Enter the no-code movement.

So the final case study in this report is actually a series of mini-case studies that demonstrate no-code approaches. In each case, it's all about appealing to time-starved and tech-illiterate SMBs who want something robust and meaningful yet simple to create. These are the tenets of the no-code movement.



Fisherman

The website world has a sliding scale of simplicity versus complexity. Most website hosts/builders today try to strike a balance of SMB-friendly levels of simplicity, yet functional evolutions they can grow into. On the simplicity end of the spectrum is Fisherman, which recently raised $1 million for its "No Effort Web."

It claims that its website builder requires less than 3 minutes to set up. To do this, it relies heavily on automation, such as pulling in data from other sources and synthesizing it into a professional-grade website. That can include public sources and info from data partners.

“It’s a unique time when a number of data sources aggregate information about SMBs,” said Kallarackal, who was on the founding team at Campus Insights before selling it to Harvard University. “We leverage these as part of our process of automatically building something that SMBs can own for themselves.”

The way this works is a given SMB enters their business name into Fisherman’s site builder. It then processes the above signals and sources into a website mockup. SMBs can also select on-brand colors and styles that are incorporated throughout the site design. That way, it’s automated but not canned.

Fisherman has focused on restaurants to start, given that proprietors tend to align with the time-starved persona that the product targets. It has also formed data partnerships including ChowNow. These feed into its website-building process, and serve as a source of business leads.

As for revenue model, Fisherman takes its own medicine with respect to reducing friction. That translates to a free trial, followed by packages that range from $30-$50 per month. Not only is the trial approach increasingly popular among SMBs, but Fisherman sees a 95 percent conversion rate.

Wix

Wix has taken a rather large step in its ongoing evolution as a marketing and digital presence platform: native apps. Its new Branded App by Wix lets SMBs build mobile apps with all the ease that Wix has become known for in the website world. This includes drag & drop functionality for iOS or Android apps.

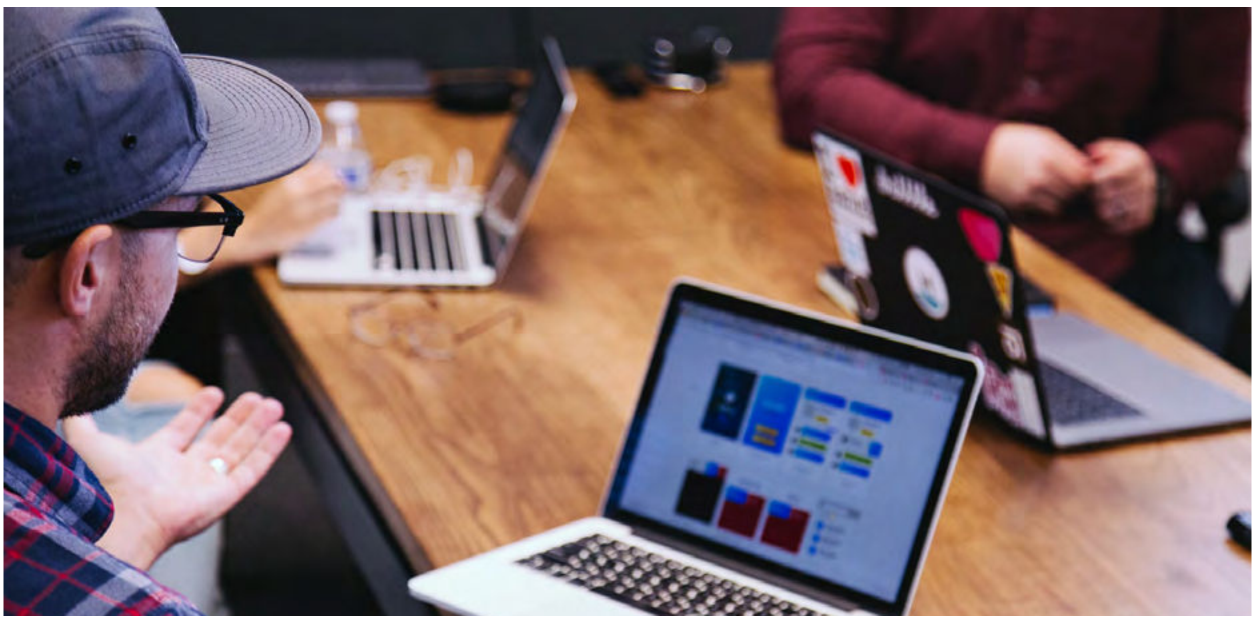
As for features, businesses can customize app layouts and content, including page design and functional areas like scheduling and ordering. They can also add comms tools like chat, blogs and notifications. Wix will automatically update apps for compatibility with the latest versions of iOS and Android.

The new product costs $200 per month plus app store fees ($99 for the App Store and $25 for Google Play). This could be worthwhile for a segment of SMBs who need an app, considering that it can be much more expensive – in money and time – to manage the process of building an app from scratch.

That includes internal resources or hiring a developer, which is expensive and uncomfortable territory for some businesses. Wix is rather banking on ease-of-use and one-stop-shop appeal. In that way, this move makes business sense for Wix in that apps are adjacent to its core product.

For example, Wix customers that already have a website can accelerate app creation by importing content (think: restaurant menus). This reduces friction in the otherwise-intimidating app creation process and should give Wix a competitive edge in selling the new product — especially to existing customers.

To wrap some numbers around that addressable market, Wix has 200 million users, 5 million of which are paid users. Its most popular plan is $27 per month for a website with basic e-commerce features. The new app builder will be available to all 200 million existing customers, as well as reaching non-Wix users.



Bluehost

Newfold-owned Bluehost recently launched a tool for SMBs to create WordPress sites in minutes. Known as Bluehost Website Builder, it features a “smart-design” editor for that automates much of the site-building heavy lifting such as images and themes. It claims to reduce site building time by 25 percent.

Bluehost accomplishes this through an onboarding process in which SMBs enter basic info. It then processes those inputs into a pro-grade website. Beyond this simple wizard-like setup process, it's meant to grow with SMBs as they get savvier, including options for more advanced customization.

As those familiar with WordPress know, customization usually happens in the wp-admin dashboard. Bluehost Website Builder interfaces with this standard tool as an option for SMBs who want an easy site-construction option. It also adds customization tools to WordPress' Gutenberg editor on a per-page basis.

In other words, Bluehost Website Builder acts sort of like a WordPress plugin in that it adds functionality and interfaces with WordPress basic architecture and wp-admin functions. Other WordPress-native features and integrations include custom CSS, a library of free stock images, and 300+ templates.

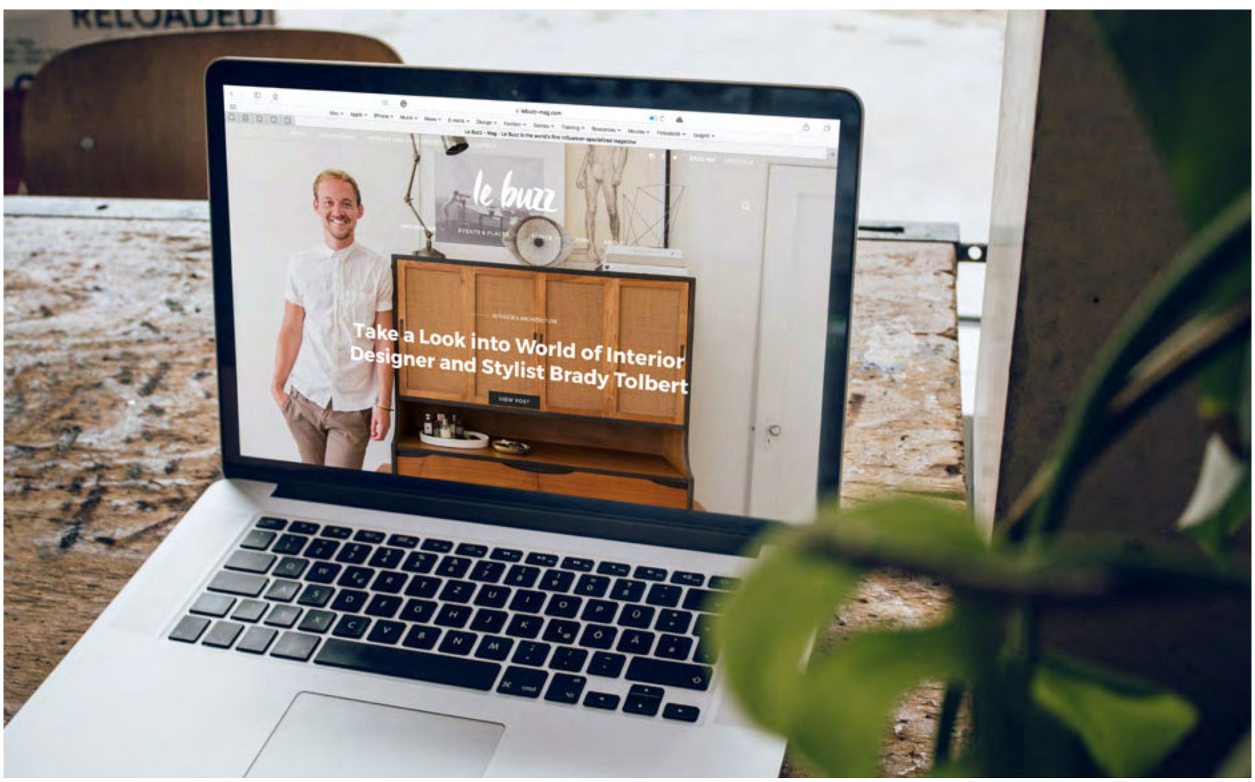
"Bluehost's new Website Builder simplifies the website building process by combining the power of a smart-design builder with WordPress, one of the most popular website-building tools available," Newfold Digital CEO & President Sharon Rowlands told Localogy. "Small business owners can use features like drag and drop editing, custom fonts, and an image library to get their business online faster."

Final Thoughts:
The Future is Shoppable

Several themes were raised in this report. The most common and underlying theme is the continued expansion of website builders to add adjacent and synergistic functions. This trend is logical on product levels (vertical integration) and business levels (ARPU and economies of scale), as noted earlier.

But within those functional expansions, we'll reiterate one area to close out this report: eCommerce. Among all the target areas of expansion we examined, eCommerce is perhaps the most opportune and urgent. This need accelerated by broader Covid-driven eCommerce inflections.

Panning back, we continue to see a trend towards shoppability. And we believe this will help define 2022. Specifically, we're talking about the rise of buy buttons and transactional calls-to-action in everything from Instagram Stories to YouTube videos to real world items you point your phone at (visual search).



To be fair, this isn't a new phenomenon given years of social media giants adding buy buttons to their feeds. This is a natural pairing as people like to share tastes and brand affinity, thus offering products a viral kick. But we're seeing the trend accelerate all around us – again, partly Covid-driven.

Tying this trend back to the theme of this report, we believe that website builders will face more urgency to raise their game with shopping functionality. And this urgency could translate to M&A activity. As Duda's Itai Sadan asserts, buying rather than building can vastly accelerate time to market.

Video Companion: Localogy M&A Roundtable

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