



Think Technology: Closed Loop Customer Targeting

Closed Loop Customer Targeting: Interview With CEO Of Aggregate Knowledge

Reason for Report:

Industry Update

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THINK SUMMARY:

We had the opportunity to interview Paul Martino, the CEO of Aggregate Knowledge, a leading provider of a recommendation engine/discovery service and network to large enterprises including Sony, CBS, *LA Times*, *Washington Post*, *Phill.com*, O-Reilly, and *Business Week*. In a nutshell, the company leverages a sophisticated super computing architecture to deliver highly targeted products and content to specific online customers based on what is being purchased and viewed by others on the Web in real time. Favorable secular trends—rising importance of the online channel, increasing ROI accountability of marketing executives and the online channel, increasing need to deliver one-on-one customer experiences, and notable marketing resource constraints, are all driving a need for Aggregate Knowledge-type solutions. According to Mr. Martino, these types of solutions are still getting the green light even in a recessionary time, which likely reflects ROI and the credibility of the offering.

KEY POINTS:

Aggregate Knowledge is a leading provider of a recommendation engine/discovery service and network to large enterprises including Sony, CBS, *LA Times*, *Washington Post*, *Phill.com*, O-Reilly, and *Business Week*. The company has 35 customers, and works with major retailers, major media and publisher companies, and major advertisers.

In a nutshell, the company leverages a sophisticated super computing architecture to deliver highly targeted products and content to specific online customers based on what is being purchased and viewed by others on the Web in real time. The engine analyzes contextual (semantics, customer demographics, traffic source, landing page, etc.) and behavioral clues (clicks, friends, groups joined, sites abandoned, time spent, purchase history, content consumed, etc.) in order to make relevant recommendations, which ultimately could improve conversion rates, increase time spent on site, and enhance overall customer experiences.

Favorable secular trends—rising importance of the online channel, increasing ROI accountability of marketing execs, increasing need to deliver one-on-one customer experiences, are all driving a need for Aggregate Knowledge-type solutions. According to Mr. Martino, these types of solutions are still getting the green light even in a recessionary time, which likely reflects ROI and the credibility of the offering.

According to Mr. Martino, ROI has been compelling. In one case, a client saw 45% improvement in conversion rates. In another study, a user who clicked on an Aggregate Knowledge article would stay for six more page views on average than a user who didn't click on one of our news articles. According to Mr. Martino, these types of solutions are still getting green-lighted in a recessionary time, which likely reflects ROI and the credibility of the offering.

We believe that the Recommendation engine and network could represent key components of an overall closed loop customer targeting system, potentially powering content across various online channels and feeding into and working with content, analytics and other targeting services.

Please see analyst certification (Reg. AC) and other important disclosures on pages 5-6 of this report.

ThinkEquity (TE): Help us understand your business, the problem that you solve, and why customers should care.

Paul Martino, CEO, Aggregate Knowledge (PM): Aggregate Knowledge is roughly a four-year-old company, and our whole goal has been really to focus on what we call discovery. Discovery is that experience a user gets when finding something that he didn't know existed, or finding something that he had at some time viewed but possibly forgotten. Discoveries are based on what he has viewed, bought, or abandoned on retail sites, who his friends are, what groups he has joined, what sites he came from, and other personalized information. By having an opportunity to present the user with an exciting and fulfilling discovery, an organization can increase sales, time on site, total cart value, and things of that kind.

TE: Can you talk about who your target customers are, and also can you share some of the key customers?

PM: We work mostly with large enterprises—Internet retail top hundred, top 500 Alexa-type companies. We work with major retailers, we work with major media and publisher companies, and with major advertisers. We have about 35 customers including companies like Sony, CBS, *LA Times*, *Washington Post*, *Phill.com*, O-Reilly, and *Business Week*. And we're now starting to do some of our first advertising campaigns with companies in retail as well, so you'll start seeing us do advertising campaigns for some of the retail customers who are already listed on our site.

TE: Can you share what kind of ROI your customers can typically see with your solutions?

PM: In one case study, 20% of all products purchased on the site went through one of our recommendation or discovery metaphors. We had a site where our e-mail product increased conversion rates on emails by 45%. In another study, each time a person clicked on one of our news articles, they stayed on for six more page views on average than a user who didn't click on one of our news articles. A recent test on one of our recent personalized creative ad solutions boosted a retargeting campaign CTR to over 700%. These are the kinds of results we've been able to consistently deliver for our customers.

TE: How long does it take to deploy this solution, and how long to realize ROI?

PM: The product is reasonably easy to deploy. The product is cut and paste JavaScript, but given release times and cycles of large enterprise customers, it sometimes can take a month or two to get the product deployed, even though it might only be an hour or two out of somebody's day. Once the product's deployed, we're able to show those ROI numbers usually within the first month.

TE: So how big is the market as you see it? And how sophisticated is the customer, in your view? Is it getting any easier to sell your solutions now versus, say, about a year back?

PM: Let me start with the second half first. The solution is both easier and harder to sell versus four years ago. In one regard, it's easier to sell because people know that they need discovery-type services; they know they need better site navigation metaphors; they know they need that one-to-one personal connection with their consumers; they know they need to keep users on their site longer and more engaged. So they're very excited about doing this. At the same time, now that they've already deployed multiple solutions and have 15 tags already on their site, the number of tags on the site ends up being a barrier to deployment. We would be the 16th set of tags. In terms of market size, we view that the advertising aspect to recommendations is a much-larger market than the on-site opportunity. I think there might be as much as an extra zero on that market in terms of size, and you'll see us offering a lot more of our services, not just to people who own their own Web sites, but to advertisers who want to get their products and services found across the Web.

TE: Please help us understand the technology, secret sauce and source of differentiation.

PM: At the end of the day, the DNA of the company and the core design of the system are all fundamentally related. I am a high-performance super computing geek, as are many of the people inside of the company. So the DNA of the core engineering team is really about high-performance computing. If you were to look across businesses, they have collected huge amount of customer data, but the problem is that most of data sits untouched, unloved in siloed databases that no one's looked at in years. We take this real-time data and make it actionable. Aggregate Knowledge is a product that dynamically and in real time understands the users' behaviors, understands what they're buying, and on a one-to-one basis can modify the kinds of promotions and offers in front of them in real time; and that requires some serious scale. We deal with tens of billions of data points every month. We see hundreds of millions of users on a monthly basis, and our ability to compute that fast and in real time is really what the secret sauce is. We work just as well doing breaking news on the

Washington Post as we do mining purchase history on Sony Style, and those are two very hard and very different problems.

TE: Are there any new service offerings and feature/functionality that you're working on that we should be paying attention to?

PM: I think the most exciting thing we're working on right now is what we call our Pique Discovery ads. It's about piquing the users' interest with the discovery of items they have possibly browsed, in addition to similar items they might be interested in, and giving the same discovery experience of products and services on other sites as well. So, for example, if you're reading articles about your favorite artist, why aren't tickets from (TicketsNow), a partner of ours, showing up on those pages? And why aren't they showing up in a personalized creative that's engaging and compelling to that specific user, where the user looks at it and goes, "Hey, that's pretty cool. That's the artist I'm reading about." And so we're encouraging companies to tear down that wall between in-house and across the Web. In our Pique Discovery network, we have retailers, publishers, advertisers, ad networks, and media exchanges. So we've got access to inventory across tens of thousands of publisher sites, and we literally have millions of SKUs that we can potentially display across them. And that, again, gets back to the core value proposition of the company. You know that's a serious computing problem that requires real high performance and real-time calculations. We're extending that inventory and the data that we are collecting and applying it to retargeting campaigns to boost their performance from our personalized creative solution.

TE: Obviously there's concern with macro headwinds. Are you seeing any impact of the current state of the economy on your customers' willingness to spend?

PM: Since our discovery and personalized creative campaigns are so oriented around ROI, these end up being the kinds of projects that could get greenlighted, even in a recessionary time. Thus far, we've not won or lost any deal as a result of economic uncertainty. Also, I believe that we could see continued growth in spite of the recession because there's a shift of the dollars from offline to online that's overcoming the overall macroeconomic situation. We've seen that happen before with other companies, and in prior recessions, the nonperformance-based marketing ends up being the first thing cut, and performance-based marketing, which is certainly the kind of space that we're in, ends up getting the green light.

TE: Who is your competition now, and who do you think could be your competition potentially?

PM: Since we are in two distinct markets, with a value proposition that crosses them, we end up with a lot of companies that have competitive offerings in various areas but are not directly competitive. In the on-site recommendation business, we compete with the likes of ChoiceStream. In the discovery and personalized ad campaign business, we compete with traditional behavioral targeting companies like Revenue Science. We really shine and differentiate ourselves when we get a customer who's interested in doing more than one thing. If all you want to do is a campaign or all you want to do is put a recommendation engine on your Web site in one box, this will be a commodity. It's only when value propositions are combined across the channels, such as e-mail optimization, such as our dynamic and personalized ad campaigns that you'll no longer be in that strict commodity part of the business. So you'll see us continue to do deals that are what we call multi-channel deals. In term of potential competition, everyone from large incumbent players, who have massive data sets could be potential competitor. For example, Omniture has clearly made moves to go more and more into this space. It is definitely the kind of company that we would be counting more as a direct competitor as opposed to a somewhat indirect competitor right now.

TE: And in terms of your delivery model, this is all SaaS, or you deliver on-premise as well?

PM: The product is completely SaaS based. We've really stayed away from the temptation to do deployments inside of an enterprise. The main reason is because on-premise does not allow us the flexibility. I'll give you an example. CBS is one of our customers and one of our first deployments we did with CBS was with CBS Mobile. If we had to put a box inside the enterprise, it would've taken months instead of a week or two to get that up and running.

TE: And in terms of a sales model, are you all direct sales?

PM: We do both direct sales and channel-based sales. On the recommendation business, we work with third parties and channel relationships. And of course, on the advertising side, we see having relationships with the agencies as extremely important.

TE: What is your pricing model?

PM: A lot of our early deals were completely performance-based where we would do periodic A/B tests to determine the additional lift we were driving. Here's the dilemma though. Say it's Christmas time, and now you're in a A/B test through the big time of the year, where one of your segments is getting 8% less dollars as the result of the A/B test just so Aggregate Knowledge can figure out how much to get paid. We did some attribution-based models, where they pay us a percent of all sales that were found through our discovery service. But we have had situations where the monthly invoice would be \$30, \$40, or \$50,000 different from one month to another month; and that's not what a customer wants to see. So we found that it was much easier to do a pro forma ROI at the end of the first test and go to a fixed-month lease. And in that regard, it ends up being a much easier sales process because there isn't the ongoing accounting.

TE: Historically, what has been your customer retention rate?

PM: Over the past four years across 40-ish major customers, we've lost about three or four. And in most of those cases, we lost the customer because the product or solution was largely brought in-house. There was enough justification that this needed to be an in-house product. We really haven't been in situations where we got kicked out and a competitor got thrown in.

TE: When you look out over the next couple of years, what do you think represents the biggest potential challenge?

PM: I think some of the challenges will be around the kind of offerings that are available and the way that the ecosystem emerges. There are a lot of companies that do one-to-one marketing, recommendation, and site optimization. And at some point, the marketer will want to go either to a one-stop shop or to a one-stop partnership to optimize their delivery capability across their channels. And that, to me, is where the challenge is going to be. Do you want to be part of one of the largest partnerships? Is there an opportunity to be that one-stop shop? We don't know exactly how that world is going to unfold, but I don't think that five years from now a company is going to have 15 different vendors with 18 different tags on their site.

TE: So five years from now, do you see yourself as a standalone company or a part of a bigger platform?

PM: Certainly, I would much rather not be part of a big platform and Aggregate Knowledge has no desire to be acquired or to be part of some other company. That said, if there was a partnership of three or four companies providing services across the gambit on a common cookie with a common unified proposition with one-stop shopping, we would be very excited about that kind of situation.

TE: Can you give us some sense of Aggregate Knowledge's size and growth rate?

PM: The company is about four years old. We've done three fundraisings over the past couple of years, a seed round, a \$5 million round, and a \$20 million round. That money is largely still in the bank. We believe that the market opportunity is very large for the broad category of discovery, even if some aspects of on-site recommendations are largely becoming commoditized. We continue to grow at a pretty good clip. We're at about 40 people in terms of headcount, and those are the kinds of things I'm happy to talk about.

TE: Thanks for your time and perspectives. Happy Holidays.

COMPANIES MENTIONED IN THIS REPORT:

Company	Exchange	Symbol	Price	Rating	Price Target
Omniture, Inc.	NASDAQ	OMTR	\$11.00	Buy	\$24.00

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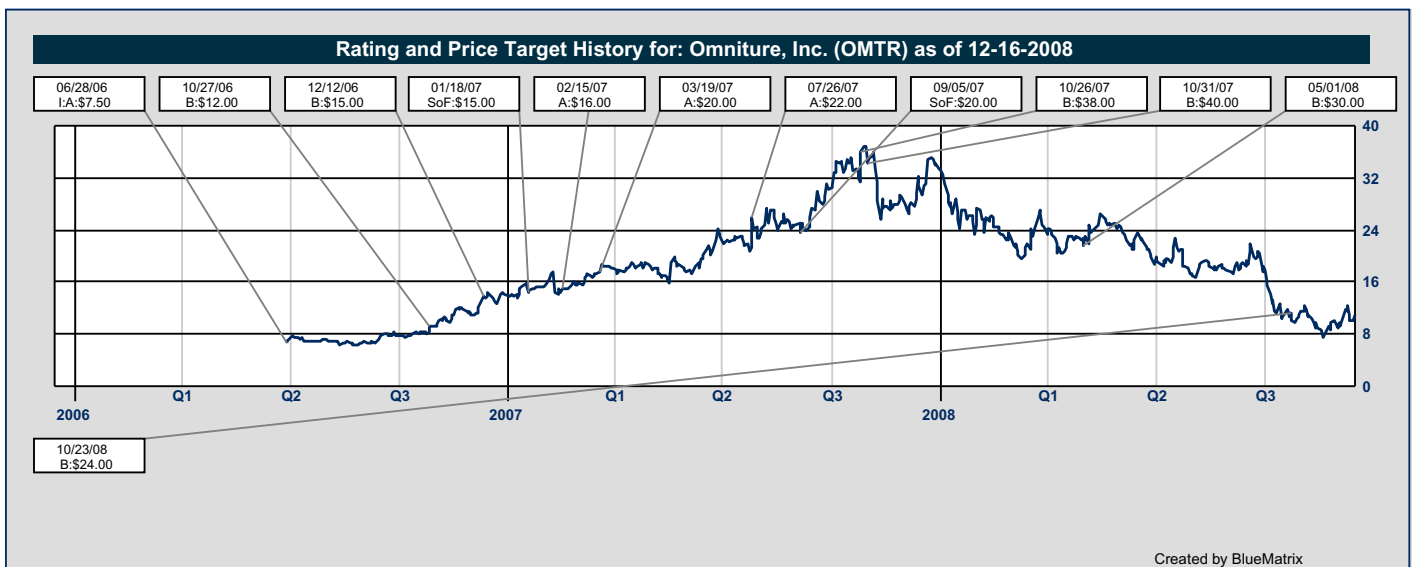
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