

# Jeeves

## Hitches a Ride

Like other troubled companies struggling to reinvent themselves, search engine Ask Jeeves now imagines itself a technology provider to corporate America. Inside one dot-com's desperate effort to survive.

BY MELANIE HAIKEN

In late 1999 executives at DaimlerChrysler were frustrated by reports from their Web team. The automaker's network of mini-sites (Jeep.com, Dodge.com) was so poorly organized that customers complained they couldn't find even the most basic information. Call centers were flooding with questions, driving up the company's staffing costs and alienating potential buyers.

Desperate for help, DaimlerChrysler sought an unlikely savior: Ask Jeeves, the high-riding search engine with the goofy butler. At the time, Jeeves was feeling its own sort of desperation. Realizing that advertising revenue alone was not going to keep the dot-com healthy, executives at Jeeves were trying to cook up a side business licensing the company's search technology to corporate America. When Jeeves first approached DaimlerChrysler, the automaker was dubious. "We wondered, 'Do we really want to take a chance with this funny little company with the quirky little logo?'" recalls Lynn Jerry, senior manager of interactive communication at DaimlerChrysler.

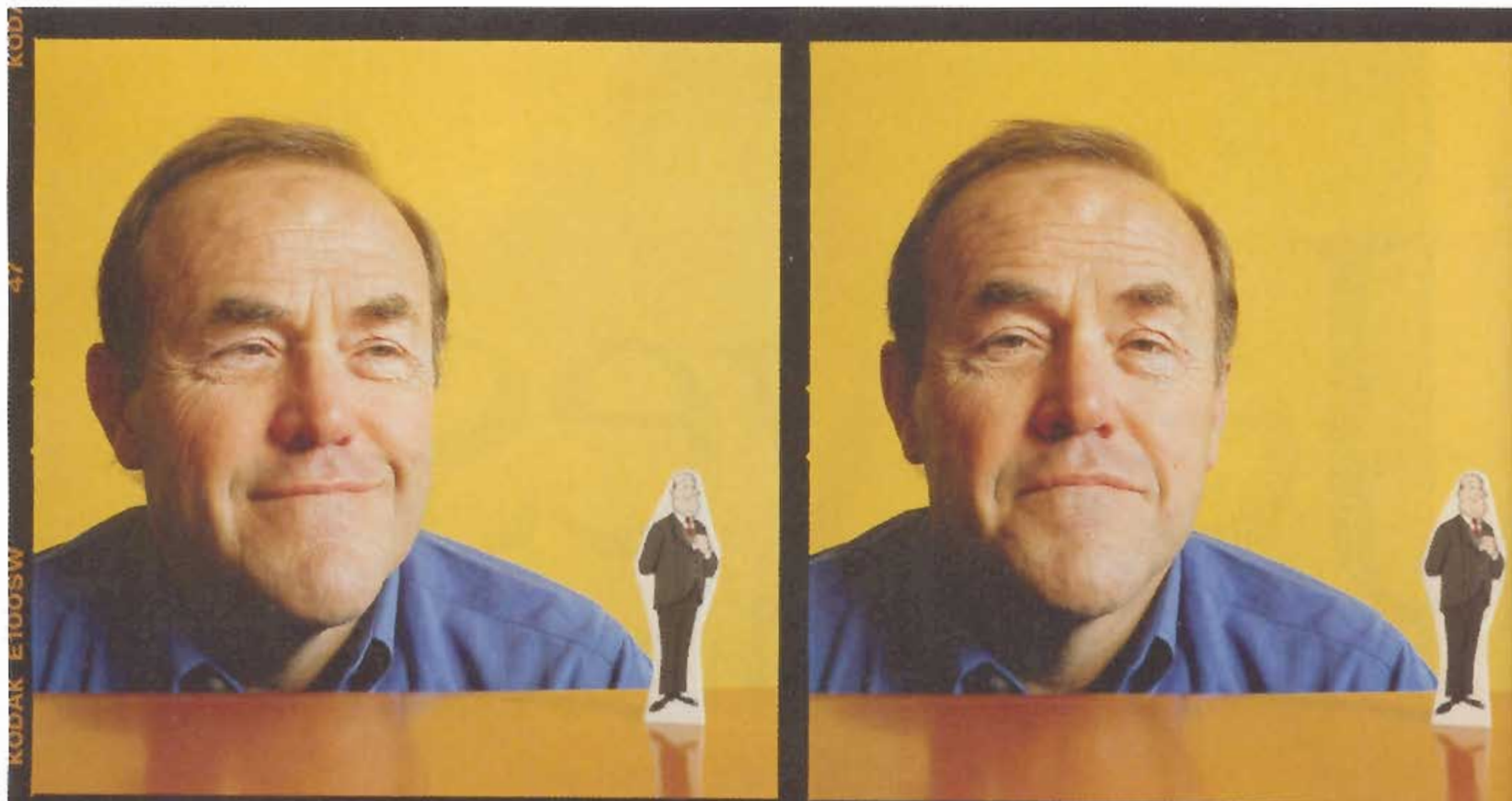
The company decided to invest hundreds of thousands of dollars in a Jeeves search package that helps customers find what they're looking for online. "With more customers getting their information from the Web sites, our call volume is down and we're better able to manage costs and reduce

administrative overhead," says Bill Hall, DaimlerChrysler's director of customer relations.

Not long ago it seemed every Net firm was going through some sort of "reinvention" – typically a last-ditch effort to save a sinking consumer site by selling back-end technology to more established companies. Today many of those dot-coms have either died or been consolidated into larger business-to-business operations. A handful are still afloat, among them AltaVista.com, OpenTable.com and Yodlee.com. [See table, page 65.] They've stayed viable by providing technology and services to businesses looking to improve their marketing, customer retention and customer relationship management, or CRM – a trendy area that Jupiter Research estimates will grow from \$2.1 billion today to \$80.9 billion by 2005.

Ask Jeeves was among the first dot-coms to begin chasing corporate clients before b-to-b became a fad back in the sunny days of 1999. Late last year the firm underwent a radical restructuring to sharpen its focus on its technology business. Jeeves hired a new CEO, developed new services that tell businesses what their online customers are looking for, laid off a third of its staff and reorganized the rest.

In the past two years, Jeeves has inked deals for its search



**A few months ago, Jeeves laid off a third of its staff, created a b-to-b division and brought in board member Battle as CEO.**

services with more than 75 companies, including Barclays, Dell, Ford, Microsoft, Nike, Office Depot and Radio Shack. The b-to-b side of the house brought in \$10 million in the first quarter of this year and now accounts for more than half the company's revenue. "I got full return on my investment in one year," says Ed Campbell, a senior official at Interact Commerce Corp., maker of SalesLogix software, which spent more than \$1 million on a Jeeves search package.

But happy clients won't ensure the survival of Ask Jeeves. The company has been burning money at a rapid clip: Last year Jeeves' revenue grew to \$97 million, but losses ballooned to \$188 million. And for a few days in April its stock dipped below the dreaded \$1 mark.

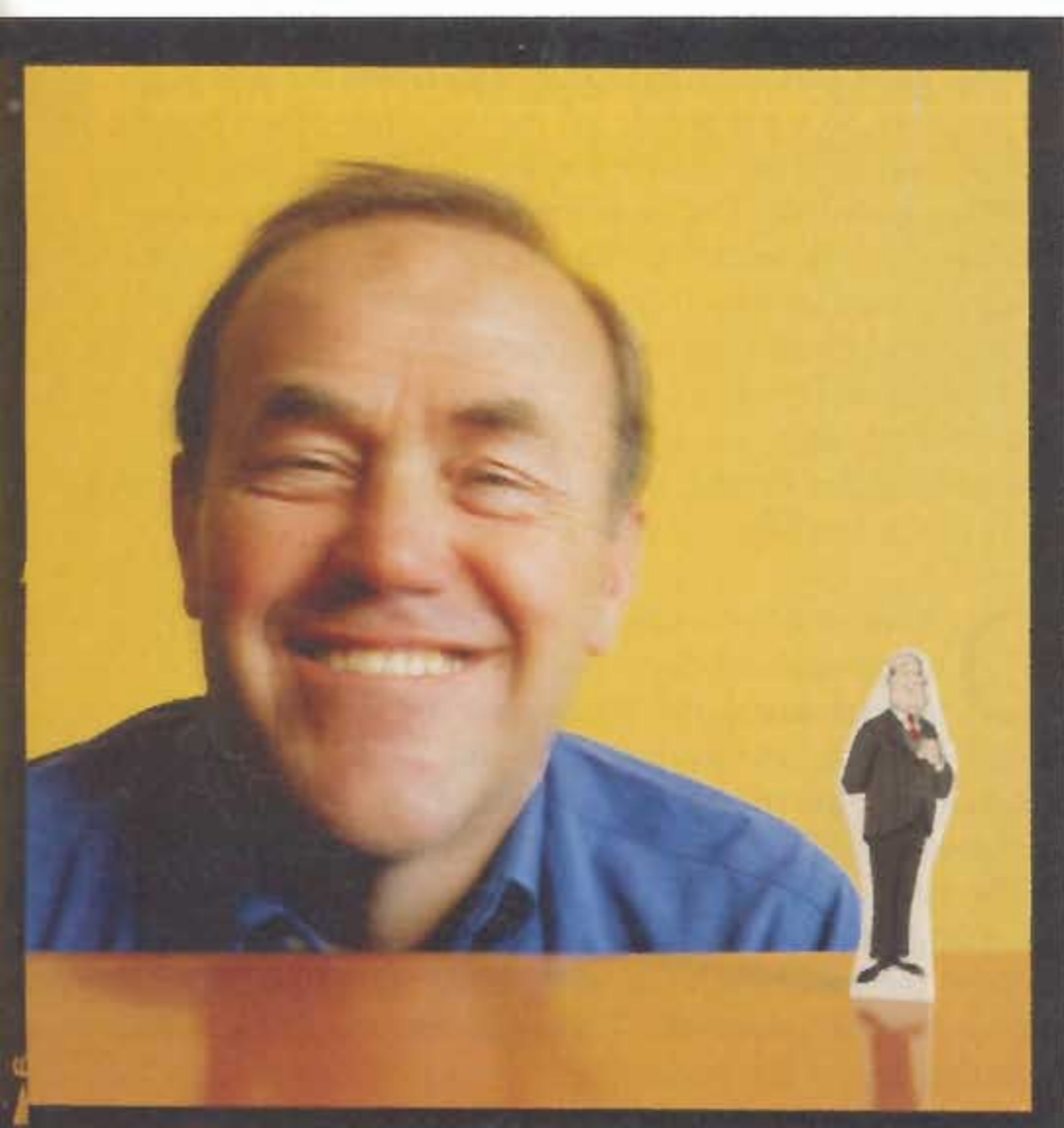
First-quarter results reported on April 25, however, suggest Jeeves is at least moving in the right direction. CEO George "Skip" Battle said revenues reached \$19 million, up from \$18 million the same quarter a year ago; net losses were down to \$39 million, from \$47 million. With \$87 million in the bank, he predicted pro-forma profitability (which excludes stock-based compensation, amortization of good will from acquisitions and one-time items such as restructuring charges) by the fourth quarter of this year. But as advertising revenue continues to decline, survival will depend on signing up more corporate clients – and on more cost-cutting,

which Battle claims will save the company \$50 million this year. "I'm more optimistic now even than when I came here as interim CEO in December," he says.

Maybe so, but the market doesn't agree. Jeeves' stock has traded at or below \$5 for the last five months.

In 1998, as it became clear Yahoo and AOL were winning the portal wars and Ask Jeeves was going to be an also-ran, Jeeves executives began questioning their ad-based business model. Worrying that the bigger brands would capture the lion's share of advertising dollars, they debated whether to add b-to-b services to their offerings. They never resolved the issue or developed a plan. Instead, board member Dan Miller and then-CEO Rob Wrubel "just went out and got some customers," notes Battle, a board member at the time. "There were customers before there was a business plan."

What execs realized was that the company's natural-language search technology – which allows surfers to ask straightforward questions rather than use keywords – was ideally suited to business customers, many of whom were Net newbies. If you ask Jeep.com, "Does the Jeep Cherokee come in purple?" the site comes back with "What colors are available for the Jeep Cherokee?" and then lists the current range, from silverstone to patriot blue.



hoping to improve customer relationships and cut call-center costs. "The particular product we're selling, brokerage services, depends on speed and efficiency," says Dave Whitmore, senior VP of customer experience at Datek Online, a trading service that's one of Ask Jeeves' most enthusiastic clients. "If a potential customer comes to the site for the first time and fishes around looking for answers, all the while getting more frustrated, then that undermines the message my marketing guys are sending out every day, that we do this well."

As the deals rushed in, Ask Jeeves management made a series of critical errors. Eager to launch sites quickly, Jeeves went on a hiring binge. In what became a waste of resources, the company set up a separate customized service, composed of a team of editors who built a specialized database of questions and answers for each corporate client. "You might have one team of editors generating questions for Ford and another generating questions for Chrysler, [but] a lot of those questions were pretty much the same," says Battle. Meanwhile, the losses mounted. Ask Jeeves reported a net loss of \$52.9 million on revenues of just \$22 million for 1999.

The tech market crash provided the do-or-die incentive for the company to mend its ways. With its stock price diving from its November 1999 high of \$186 to \$3 in December 2000, Ask Jeeves' long overdue b-to-b plan began to emerge. That's when CEO Wrubel stepped aside in favor of Battle, an industry veteran who was formerly chief strategy officer for Andersen Consulting. (Wrubel, now VP of marketing, has been informally dubbed "chief evangelizer.") At the same time, more than 250 employees lost their jobs in the restructuring.

In January Jeeves split into two divisions: the Web properties group, which handles Ask.com and other consumer-oriented search sites; and the business solutions group, which serves corporate clients. Each unit occupies a separate floor of a brick-walled warehouse in Emeryville, Calif., just north

Throughout 1999, as big business hurried to catch up with the Internet revolution, Ask Jeeves found clients willing to pay up to \$1 million a year for customized service. When the company went public July 1 of that year, most of the buzz was about the search engine. But big brands like Compaq and Dell had become Jeeves clients that summer and helped push the IPO to stratospheric heights, with a first-day close of \$65. Corporations began flocking to Jeeves, in most cases

## Reinvention Roulette

These struggling consumer dot-coms moved into business-to-business services. Will they make it?

COMPANY	THE REINVENTION	THE PROGNOSIS
<b>AltaVista</b> Palo Alto, Calif. Founded 1995	Troubled ad-driven portal started selling search and e-commerce software to Amazon.com, Borders, Staples and other big names.	AltaVista's fate is tied to its beleaguered owner, incubator CMGI, which lost \$2.56 billion in the second quarter, on top of \$637 million the previous quarter.
<b>Beyond.com</b> Santa Clara, Calif. Founded 1998	Struggling hardware and software vendor now builds and maintains online stores for Microsoft, McAfee and others. Manages software needs for the Internal Revenue Service and the Defense Department.	With its stock languishing under \$1 since October, Beyond could be delisted from the Nasdaq. Q1 revenues are down to \$20 million from \$29 million for the same quarter last year. But it lost less money last year (\$17 million) than the year before (\$45 million).
<b>OpenTable.com</b> San Francisco Founded 1998	As a reservation site handling 1,200 restaurants, it sought new revenues by selling concierge software to Las Vegas casinos such as MGM, as well as large hotel chains including Starwood and Hyatt.	With \$43 million in venture funding late last year from Benchmark Capital and others, OpenTable has a shot at profitability in 2002. Acquisitions of ProHost and RSViP give the combined company 250 customers in the casino and chain restaurant markets.
<b>Yodlee.com</b> Redwood Shores, Calif. Founded 1999	Financial aggregation site failed to draw enough customers and began providing technology to major banks and financial institutions like Chase, Citibank and Wells Fargo.	In a vote of confidence, Yodlee received \$52 million in third-round financing in February. Investors include VCs Accel Partners and Sequoia Capital, as well as companies ranging from Intel to AOL Time Warner.

SOURCE: COMPANIES LISTED, THE STANDARD

of Oakland. Editors reorganized into teams to generate databases of questions central to each industry. New clients can buy an industry-specific packet of content that can then be customized based to their needs.

Jeeves also lost some of its youthful dot-com spirit: Original staffers – many of whom boasted tattoos, blue hair and graduate degrees in English and history – were replaced by managers with experience at places like PeopleSoft and Microsoft. “In the early days we were selling to the Webmaster,” says Battle. “Then we realized we needed people who could sell to people who understood buying enterprise software.”

**H**aving the right staff and structure doesn't mean much if your products don't sell. That's Battle's current challenge. A dig-into-the-details kind of leader, he works off whiteboards hung in every office and conference room, covering them with scribbles and charts for products, strategies and sales tactics. After signing a slew of corporate clients in late 1999, Jeeves has added only 25 companies since. “Right now our product is too expensive to compete against a Plymouth,” says Battle, “but doesn't have enough functions and features to compete against a Mercedes.”

His answer: Answers 5.0, a new search product Ask Jeeves unveiled in mid-February. In a darkened conference room on

Take Nike's site. Customers were asking for a rugged, high-support mountain running shoe, but there was no such product available. So some people left the site, while others bought a cross-training shoe because that was the closest alternative. “If Nike's knowledge had been limited to customers' purchase decisions, no one would ever know the huge appetite for this mountain shoe was out there,” notes Easterlin. “Now they're talking about developing such a product.”

Jeeves reports the response to Answers 5.0 has been strong and it has acquired two new customers: Nestlé's Friskies division and Ralston-Purina. Beyond that, execs won't reveal how many customers have signed up.

**O**ptimism still runs high at the Emeryville offices, where walls are decorated with banners of staffers' favorite questions – “Where are my socks?” and “What are some fun pickup lines?” – on Ask.com. But those aren't the real questions on the minds of Jeeves executives and investors. The query that matters most is whether Jeeves will be able to expand its corporate business and survive.

Certainly it can't count on robust ad revenue. Even though traffic to the portal has hit an all-time high, and Media Metrix rated Jeeves' Web properties – Ask.com, Ask Jeeves Kids and subsidiary Direct Hit, a search firm – as the 17th most-popular

Web destination in March, revenues from the Web properties group sunk from \$12.5 million in the last quarter of 2000 to \$9 million the first quarter of this year.

So Jeeves' future will depend on revenue growth from corporate clients. Battle hopes an automated version of the company's search engine, expected this fall, will supply a big boost. The new product, a nonhosted search technology, can sit behind a company's firewall, neatly addressing the privacy concerns that have made banks and financial institutions reluctant to turn their content management over to a third party.

Despite the economic slump, the corporate market offers some promise. In a recent Forrester poll of more than 700 senior business executives, 59 percent said they are maintaining or accelerating

their Internet efforts. In a memo to investors, Merrill Lynch strategist Steve Milunovich wrote that “companies are not slowing their use of Internet technologies because of the economy. Webification is a strategic priority and a cost-saver.”

Can reinvention save Jeeves? “I do see demand in the marketplace [and] a good product,” says IDC analyst Susan Feldman. “I think [Ask Jeeves] has a reasonable chance.” If it fails, Jeeves can only blame itself for not shifting course faster. The epitaph would be clear: The butler did it. ■

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## The Search Is On for Investors

Traders have nearly given up on Ask Jeeves, which now predicts profitability by the end of the year.



SOURCE: ASK JEEVES, BLOOMBERG

its business solutions floor, two dozen employees watch Dan Easterlin go through a demo of Answers 5.0. “What we can tell corporate customers is, ‘We can make you smarter,’” says Easterlin, the company's director of product management.

Answers 5.0 has beefed-up “insight” capabilities that show clients exactly what questions customers typed into the search box. This allows companies to learn a great deal more about a customer's needs than can be gleaned from a log of keyword searches, which simply show the word searched and the results returned. “If people are asking about things that you don't have, then a typical clickstream tells you nothing,” says Claudio Pinkus, president of Jeeves Business Solutions.