

Capital Mergers And Acquisitions, LLC (CMA Group)

The Wisdom Of Crowds and The Wisdom of Web-Based Marketplaces And Field Services Management Platforms

Summary:

Here at Capital Mergers and Acquisitions, we are proponents of the central thesis of James Surowiecki's book, "The Wisdom of Crowds", which in short, states that the aggregation of information in groups results in decisions and outcomes that are often better than could have been made by any single member of the group. As we examine the business services landscape, we believe a parallel can be drawn between the "Wisdom of Crowds" and web-based marketplace and field services management platforms. The value-proposition of online marketplace platforms is similar to the central thesis of the "Wisdom of Crowds", in that many of the collective outcomes that result from the marketplace are more valuable than a single data point.

A few examples of this include pricing and product development. In terms of pricing, when a potential buyer submits a project to the marketplace, they effectively come back with a market price that is more reflective than if they had just gone to one seller, wondering whether pricing is too high or too low. Second, the collective feedback of the marketplace to the buyer about the proposed project effectively refines and clarifies what it is they actually need done. Which, quite frankly, is a better outcome than if they had gone to one seller directly.

An online marketplace model allows aggregation of skill sets, that collectively give the end customer the specialized service they want, and quickly. Moreover, most online marketplace models have feedback surveys, which again allow agents, freelancers, contractors, and service professionals to be rated by the "collective whole", which ultimately results in a greater value (or "wisdom") to the marketplace end customer because they know they are getting the service they want performed by someone who is 1) qualified to do the job properly and 2) who they can trust will do a good job (typically reflective through a customer rating system). This idea is reflective of Surowiecki's comments about the "type of crowd wisdom" when he speaks about "Cognition" and states that market judgment can be much faster, more reliable, and less subject to political forces than the deliberations of experts or expert committees.

Surowiecki goes on to speak about another "type of crowd wisdom", "Cooperation". He essentially says that groups of people can form networks of trust without a central system controlling their behavior or directly enforcing their compliance. "Cooperation" is one of the most reflective attributes of "crowd wisdom" involved in an online marketplace model, in our view. With most agents, contractors, freelancers and service professionals that are part of an online marketplace model having positive feedback and good ratings, the "poor performers" are weeded out, and there essentially is a network of trust among buyers. On the flip side, with most marketplace models, when work is completed and approved, freelancers, service professionals, agents, and contractors are typically paid for their time/work. As such, there is a bi-lateral "network of trust" among buyers and sellers.

We believe the aforementioned similarities between the "Wisdom of Crowds" and what we like to call the "Wisdom of Online Marketplaces And Platforms" are key driving forces behind the transformation of many nascent online marketplaces and platforms into exponential growth entities. Success stories include Elance, oDesk, ClickSoftware, ServicePower, InstallerNet, ServiceLive, among others.

*Sector: Web-Based
Platforms, Software,
and Marketplaces for
Services*

With the growing trends of enterprises outsourcing some if not all of their Information Technology (I.T.) services, retailers and OEM's looking to offset declining margins on products by offering additional technical and installation services and consumers looking for easy and convenient "service solutions" with products they purchase either at retail or online, companies that are focused on e-Procurement of technical and installation services, whether it be Consumer Electronics (CE), I.T. or Home Improvement/Repair, are poised to substantially benefit. While still a highly fragmented market, among those well positioned in the marketplace today include the aforementioned, as well as OnForce, Zip Installation Express, ServiceMagic, NEW Corp., Install It Today, Servigistics, Angie's List, Rollouts, SupportSoft, Field Solutions, Guru.com, Mechanical Turk, CrowdFlower, and CloudCrowd.

Key Points:

- **The Benefits of "Service As A Product".** Over the course of the next few years, we believe we will see a rapid adoption of enterprises and retailers selling "service as a product" driven by the numerous benefits a properly architected e-Procurement Services platform brings. As retailers look to add service offerings to their mix, the greatest issues are worrying about hiring the right professional services staff and how to optimally utilize its fixed labor pool. Alternatively, with an on-demand platform and online marketplace, retailers can rollout a significant services operation, potentially generating tens of millions of dollars per line, such as CE installation services or home improvement technical services, in days. Most importantly however, is these companies bring an end-to-end business process automation e-Procurement platform to their customers. Key benefits of these platforms include: 1) reduced time to market, 2) reduced fixed labor costs, 3) reduced labor administration costs, 4) a reduction in under-utilization of capacity 5) reduced labor liability exposure, 6) easy to use scheduling and deployment platform, and 7) many offer the platform as a software-as-a-service (SAAS) solution. Furthermore, Retailers can add additional verticals effortlessly, driving mass scale. Because on-demand platforms can be strategically and tactically approached like a product, Retailers immediately benefit as they are already familiar with product merchandising.
- **Web-Based Marketplaces For On-Demand Services Have a Proven Track Record Of Success.** The demand for businesses and consumers looking for specialized services at the best possible price (again another a benefit of the "Wisdom of Crowds") has transformed the online marketplace for on-demand labor from a grass roots effort a few years ago to a multi-billion dollar growth market today. We expect as more service-oriented offerings shift online, that this market will grow exponentially in the future. One of the most notable success stories is Elance, an online marketplace which matches freelance design, technical, writing and other professionals with companies that need their services in a timely manner. The company's revenues more than doubled last year from \$47 million in 2007 to approximately \$100 million in 2008, projected to have grown to ~\$200 million by 2009 (Source: Deal Radar). Another success story includes Zip Installation Express, which provides an online marketplace for installation services to consumers, retailers and businesses and government, and has already inked customers including Target, Amazon, BJ's and Office Depot. We believe over the course of the next few years, more success stories will be written.
- **Customer Reach, Flexible Interface, and On-Demand Cost Model Makes Online Marketplaces Attractive Strategic Partners.** In the retail and corporate environment, time to market is essential. That is why for local, regional, or national service rollouts or projects, on-demand marketplaces can translate an idea on paper, into a reality in a matter of days or weeks, but more importantly scale quickly. The "on-demand" nature of online labor models allocate the exact amount of resources to the job, optimizing both a customer's cost structure and employee utilization levels, ultimately leading to a much more profitable services offering or project. Especially in today's current economic environment, a highly flexible cost structure is something we believe retailers and enterprises would find extremely attractive in any strategic partner.
- **Targeting Exponentially Growing and Large Markets.** Among the several online marketplaces that provide tremendous growth opportunities, both I.T. staffing services and consumer electronics (CE) installations stand out, with the CE Installation market expected to grow at a CAGR of 40+% to \$8.4B (Forrester) over the next three years, while Gartner projects the global IT Services market, currently an \$819 billion opportunity, will grow to over \$1.2 trillion by 2010. We believe a shift in consumers spending more time and disposable income on home entertainment, as well as the "convergence" of the living room and the Web should drive growth in the CE installation segment. In addition, Home Improvement Services represents the largest market for online marketplace platforms, projected to grow to over \$36 billion by 2012 (representing approximately 10% of the overall Home Improvement Market of \$360 Billion).
- **Robust Valuations for Online Marketplace Businesses.** Over the past five years, the range of multiples paid (transaction value to last twelve months (LTM) revenues) for online marketplace businesses, either via Mergers and Acquisitions or private investments, has been 6-15x (source: donedeals.com), with a mean of 13x and a median of approximately 10x. The most recent multiple paid was approximately 13x revenues for a transaction led by Capital Mergers And Acquisitions, LLC. Despite valuation contractions in the market, the scalable and on-demand nature of online marketplaces should continue to drive healthy valuations for these businesses both for financing as well as M&A opportunities, especially given the highly fragmented nature of the market today.

- **Capitalization Issues and Liquidity Implications.** As many of the aforementioned marketplace models evolve and scale to reach mass market appeal, it is important for growth companies in this sector to understand where they fit in strategically in the overall ecosystem. Web-based marketplace models were pioneered by the likes of Ebay and Amazon, and as both of their businesses have grown to include a slew of new and used electronic and I.T. products, the need for an in-house services arm will become strategically important as product margins erode. As time passes, in our view, the shift of consumers buying electronics online will eclipse that of in-store, making events like Black Friday (in terms of electronics purchases) more of an online phenomenon. Owning an easy to use, end-to-end services and software platform that gives consumers a simple way to buy and schedule service, makes the value-proposition of those companies highly competitive with the 800 pound Gorilla in the room, Best Buy (and Geek Squad). This is especially important, as network capacity improves, enabling a higher percentage of these products and services being purchased from any IP-based browsing device, whether PC, tablet, or smart phones.

An additional area of strategic importance is the extended warranty services sector. We have begun to see initial strategic moves by larger warranty service players to add field service management solutions to their portfolios. Of note, NEW Corp. acquired U.S. Installs, a field service management platform with customer presence in the retail and OEM channels (focused on technology and consumer electronics). We don't expect other large extended warranty players to stand still, but rather continue to consolidate the field services space, as retailers, OEM's, and others increasingly look for services platforms that can address all of their needs.

Finally, a third segment that strategically makes sense for consolidation of online marketplace providers is the Human Capital Management (HCM) sector. Mainly known for SaaS applications that help with recruitment, retention and workforce management, we believe that these providers have field service management and online marketplaces on their radars and long-term strategic business plans. More specifically, they provide solutions for staffing services. As customers come to them for recruitment and workforce management solutions, offering a platform to manage remote or field services solutions gives these providers stronger hooks into their customers, materially increasing the potential switching costs to another provider. Leaders in this space include publicly-held Taleo, Kenexa, and SuccessFactors.

Companies Mentioned In This Report

About CMA Group

CMA Group is an investment banking firm with a principal focus on mergers, acquisitions and private equity. Through the combination of our partners and management team we have access to over \$1 billion in equity funding which when combined with leverage gives us a significant amount of funding with which to complete transactions in a timely fashion. More information on CMA Group can be obtained at www.capitalmergers.com.

About Amazon Mechanical Turk

Mechanical Turk is a wholly-owned subsidiary of Amazon.com that provides an on-demand workforce for businesses and individuals that need to outsource "Human Intelligence Tasks". The posting company dictates the amount of time and compensation allotted for each project then pays upon satisfactory completion. This model allows companies to have a low-cost, effective, elastic workforce at their disposal. More information on Mechanical Turk can be obtained at www.mturk.com.

About Angie's List

Angie's List is a privately-held online professional review website that allows consumers to search for doctors, contractors, advisors, etc., read reviews from past consumers, and eventually select the most appropriate professional for a given task. The company has provided to over 1,000,000 consumers since its inception in 1995. More information on Angie's List can be obtained at www.angieslist.com.

About ClickSoftware Technologies

ClickSoftware is a publicly-held, web-based business optimization software-solution provider. The company offers software that enables businesses to schedule, monitor, and manage their service operations, thereby increasing workforce productivity, improving service quality, and reducing costs. ClickSoftware's Service Optimization software suite includes applications for workload forecasting, workforce planning, service scheduling, problem resolution, business analytics, and wireless workforce management. The company also offers services such as consulting, implementation, and customer support. More information on ClickSoftware can be obtained at www.clicksoftware.com.

About CloudCrowd

CloudCrowd is a privately-held, turnkey online outsourcing platform that distributes projects to an aggregated pool of underutilized workforce members. Much like cloud computing, this platform enables a large project to be divided into smaller projects by separate groups of unused talent, creating a higher-powered, scalable operation. More information on CloudCrowd can be obtained at www.cloudcrowd.com.

About CrowdFlower

CrowdFlower is a privately-held online platform providing an on-demand, elastic workforce for businesses in search of quality, low-cost labor. Through a network of 500,000+, companies are able to access a flexible, inexpensive pool of quality-assured workers, confidentially. More information on CrowdFlower can be obtained at www.crowdflower.com.

About Elance

Elance is a privately-held global online marketplace that matches businesses and consumers with over 85,000 rated and registered freelance professionals who provide a range of project-based work and services in 8 main categories including sales and marketing, finance and management, and legal, among others, with a skew toward technology services. Elance's platform enables a quick and easy way to hire the right talent, monitor, review and approve their remote task, and pay and leave feedback when the proper work has been completed. More information on Elance can be obtained at www.elance.com.

About Field Solutions

Field Solutions is a privately-held provider of independent field service technicians to the electronics industry. The company offers automated technician sourcing and work order management tools, field service project management team, quality assurance and analytical processes, and a network of 22,000+ independent field technicians. Field Solutions clients are leading electronics manufacturers, resellers and service providers. More information on Field Solutions can be obtained at www.fieldsolutions.com.

About Guru.com

Guru.com is a privately-held global online marketplace that matches businesses and consumers with over 100,000 rated and registered freelance professionals who provide a range of project-based work and services in 160 broad categories including technology services, marketing services, sales and lead-generation, administrative support, finance and accounting services, and legal, among others. Select customers include Hewlett Packard, Johnson & Johnson, Motorola, Pfizer Inc., University of Michigan, United States Navy, among others. More information on guru.com can be obtained at www.guru.com.

About Install It Today

Install It Today is a privately-held, scalable, turnkey e-Procurement business services platform that enables small businesses, national retailers, contractors, and resellers to offer I.T. staffing and installation services to their customers and matches businesses and customers with over 16,000 industry certified, rated, and customer-oriented technicians nationally. More information on Install It Today can be obtained at www.installittoday.com.

About InstallerNet

InstallerNet is a privately-held end-to-end e-procurement technical and installation services platform that integrates its patent-pending InstallCards for various installation services with its installation process technology platform which manages the installation process from sale, to schedule, to customer feedback survey. InstallCards, leveraging InstallerNet's network of 10,000 installation professionals, enables consumer electronics (CE) manufacturers in a variety of CE verticals to offer a turnkey platform for installation service to online and brick-and-mortar retailers. The company also provides its turnkey installation e-procurement platform as well as project management services to a wide variety of vehicle fleets, ranging from public safety to Construction vehicles. Select customers include Trimble Navigation, First Student, RadioShack, Crutchfield, Target, Office Depot, among others. More information on InstallerNet can be obtained at www.installernet.com.

About NEW Corp.

NEW is a privately-held, end-to-end e-Procurement platform focusing on the consumer electronics space. It provides a full suite of services from matching consumers to one of its 25,000+ service professional, maintaining and extending warranty services, to disposing of the consumer's goods. Additionally, NEW's sister company, Asurion, provides insurance services to wireless carriers and retailers, covering lost and damaged mobile phones. More information on NEW Corp can be obtained at www.newcorp.com.

About oDesk

oDesk is a privately-held global online marketplace that matches businesses and consumers with over 250,000 rated, certified and registered freelance professionals who provide a range of project-based work and services in 74 broad categories from customer service to sales and marketing to writing and translation, but with a freelance base of providers skewed towards technology services. One key differentiator of oDesk's platform is its unique project management toolset which allows buyers (enterprises or consumers) to manage their on-demand workforce and see remote work as it happens through collaboration and communication toolsets, including time and work analysis, desktop screen sharing, instant messaging and more. More information on oDesk can be obtained at www.odesk.com.

About OnForce

OnForce is a privately-held, web-based marketplace that has matched over 1 million service professionals to household consumers and businesses in need of consumer electronic and information technology solutions. OnForce operates with a network of 13,000+ service professionals throughout the U.S. and Canada. More information on OnForce can be obtained at www.onforce.com.

About Rollouts Inc.

Rollouts is a privately-held, innovative and rapidly growing full-service IT consulting firm. Rollouts provides I.T solutions ranging from project monitoring and management to digital signage to network and system solutions to a nationwide base of clients with a rapidly deployable, scalable workforce. More information on Rollouts Inc. can be obtained at www.rollouts.com.

About ServiceLive

ServiceLive is a wholly-owned subsidiary of Sears Holding Corp. It is an e-Procurement service platform that matches pre-screened 3rd party service providers to both residential and commercial consumers through its online system. This platform allows firms to effortlessly generate new leads and scale operations while consumers select their own service professional based upon price, rating, and location. More information on ServiceLive can be obtained at www.servicelive.com.

About ServiceMagic

ServiceMagic is a privately-held, international online marketplace that primarily services home improvement needs by allowing household consumers to search for and select a certified, rated service professional based upon their needs. In addition, ServiceMagic leverages its network of 3,000+ service professionals across various functions to provide search

and find capabilities with ease to both household consumers and businesses. More information on ServiceMagic can be obtained at www.servicemagic.com.

About ServicePower Technologies

ServicePower is a publicly-held, global technology company that makes scheduling software for companies with a large field-service workforce. The software includes functions for online appointment booking, job scheduling and rescheduling, problem reporting, and dispatching. The company also offers implementation, support, and maintenance services through an extensive network of service providers. Customers include Avaya, British Sky Broadcasting, General Electric, Siemens, and Worcester Heat. Established in 2000, ServicePower has operations in Australia, the UK, and the US. More information on ServicePower can be obtained at www.servicepower.com.

About Servigistics

Servigistics is a privately-held, service solutions and business intelligence platform that guides clients through Service Lifecycle Management. The company largely focuses on the technology and manufacturing industries, providing service management products and services, including web-based software that helps companies optimize parts inventory levels for their customer service operations, price parts, and manage field organizations. More information on Servigistics can be obtained at www.servigistics.com.

About SupportSoft

SupportSoft is a publicly-held, global technology services company whose web-based services platform, either via support.com or white-labeling/co-branding, offers consumers, retailers, and digital service providers a turnkey offering for consumer electronic and PC remote “help desk” services including new device setup, new PC services, Break Fix repair (for a number of electronic products), as well as on-site installation services. More information on SupportSoft can be obtained at www.supportsoft.com.

About Zip Installation Express

Zip is a privately-held online e-Procurement platform and e-Procurement platform extension that allows national retailers to offer technical services to their customers and matches businesses and consumers with rated technicians nationally. The company’s marketplace focus is on T.V. installations, Home Theater, Computer Services and Site Surveys. Select customers include BJ’s Wholesale, Target, Amazon.com, Here Everything’s Better™ (HEB), TigerDirect.com, COMPUSA.com, Olevia, Warrantech, hhgregg, Office Depot, SkyWire Communications, U.S. Navy, Sylvania, U.S. Army, and Capitol Supply. Barry Diller's portfolio company, ServiceMagic, is a strategic investor and shareholder in Zip. More information on Zip can be obtained at www.zipinstallation.com.