



**Testimony of David Fischer**  
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**House Small Business Committee**  
**“The Role of Small Business in Stimulating the Economy”**  
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Chairwoman Velázquez, Ranking Member Chabot, Members of the Committee.

Thank you for inviting me to discuss the role of small businesses in stimulating the economy and, more specifically, Google’s role in supporting the success of our nation’s entrepreneurs. My name is David Fischer, and I’m the Vice President of Global Online Sales and Operations at Google where I manage our online advertising business.

It’s a great pleasure to be here to testify about American small businesses, which constitute one of the most important and dynamic facets of our economy, and are essential partners to Google.

As I’ll explain today, Google is committed to helping small businesses prosper on the Internet. Indeed, much of Google’s success is predicated on the success of our small business customers and partners, and we place tremendous value on our relationship with these entrepreneurs. For many of them, their success is fundamentally linked to the continuing growth of the Internet.

Today I want to share how these businesses are using the Internet to find customers more efficiently, and about an entirely new and innovative part of the small business community that is generating revenue through advertising – often in partnership with Google.

We believe that advertising can – and should – provide relevant information to users. In fact, we think that ads should be just as useful to searchers as the search results themselves. This is the driving philosophy behind our core advertising business, which accounts for nearly all of Google’s revenue.

Today we have hundreds of thousand of advertisers using our advertising platform to reach customers and hundreds of thousands of website publishers generating revenue by placing our ads on their pages. A significant majority of these partners are small businesses, the success of which depends on Internet advertising to attract customers and to generate revenue. It is in part through advertising platforms like Google’s that even the smallest businesses can compete – and succeed – in the global marketplace.

I would like to cover three main points in my testimony this morning:

First, I’ll explain how online advertising enables small businesses to connect efficiently and cost-effectively with new customers, often in their own communities.

Second, I'll explore how advertising partnerships provide new sources of revenue for small websites, sustaining a vibrant online market of niche content and commercial activity.

And last, I'll offer some comments on future trends in the Internet economy and opportunities that these trends present for small businesses.

### **Connecting small business to new customers**

Small businesses are increasingly going online to better connect with both existing and prospective customers. This makes sense, given the amount of browsing and shopping that consumers do online. According to the National Retail Federation, over 92 percent of adults regularly or occasionally research products online before buying them in a store.

Online advertising enables small businesses to affordably and efficiently find their customers, whether it's a local plumber reaching a new customer down the block, or a niche antique dealer connecting with a collector overseas. Small businesses are using Google's AdWords advertising program as a sort of matchmaking service for new customers they might otherwise not reach.

Here's how it works: Through a simple online interface, businesses create short text ads for their products and services and choose keywords associated with their products or services. Advertisers then place bids indicating how much they are willing to pay if a user clicks on their ads. When a user searches on a keyword relevant to an advertiser's product or service, the advertiser's text ad appears above or to the right of the search results, which are generated by our proprietary algorithm. For example, when typing the word "flowers" into the search box, relevant search results will appear, and these search results will be accompanied by advertisements on the right side of the page from local and national florists.

Why do small businesses choose to advertise this way? We have found that small businesses use our advertising system to compete effectively with much larger organizations, and they do so affordably and efficiently. This is because an advertiser can set up an account with Google for just five dollars and then decide the maximum amount of money it wishes to spend on advertising. In fact, the advertiser can even change its daily budget on the fly, so it's never locked into a certain spending amount. Also, advertisers typically pay us only when someone actually clicks on their ads, and they often use free tools offered by Google that help them track the return on investment of every dollar they spend with us.

When you compare AdWords advertising to a highway billboard for example, there's no doubt that search advertising allows small businesses to more efficiently find customers who are directly interested in what they are selling and to manage their advertising budgets more effectively.

Here's one example of a successful small business that advertises through Google:

Bulb America, a Brooklyn, New York-based company, got started in 1998 with two employees selling both lighting fixtures for use in theaters, nightclubs, and production studios, and energy saving bulbs for the home. Bulb America has grown to over 25 employees with \$6.5 million in total sales in 2007. This growth has been driven largely by the company's website. Bulb America created its online store in 2003 and began using Google's advertising tools in May of 2004 to reach

customers in and outside of New York, and increase traffic to the Bulb America Web site. Today, the company attributes about 65 percent of its sales to Google advertising.

Madam Chair, Bulb America is just one of thousands of businesses in your district, and across the U.S., that are finding new sources of revenue through our advertising program.

I'll take a moment to give you a second example, the story of one of our AdWords customers based in Cincinnati, Ohio:

Swapalease.com is a 26-person operation owned by Richard and Ron Joseph that offers an online marketplace for transferring car leases. When the brothers started the business in 2000, they tried more traditional automotive marketing channels like billboards and print advertising, but the expense of those media and the difficulty of measuring their effectiveness made the Josephs wary to use the same approach in other markets. Swapalease.com signed up for AdWords in 2002. The company discovered it could target customers throughout the U.S. and Canada affordably and with significantly more granularity by using keywords focused on makes and models of cars.

Today, Swapalease allocates roughly 50 percent of its marketing budget to Google search advertising. According to Scot Hall, executive vice president of operations for Swapalease, "Anyone with an Internet connection can find our website. It's like having a billboard in every major city – exactly what we couldn't accomplish offline. Over the past three years, we've experienced year-on-year growth of at least 25 percent. Our AdWords activities have been critical in the development of our business."

These stories underscore the transformative power of the Internet as a medium for empowering small business advertisers.

AdWords is also helping small businesses connect with local customers, whether their business operates primarily online or off. Finding information about local services is a major reason people go online. In fact, a recent survey conducted by WebVisible and Nielsen reports that 74 percent of respondents stated that they would turn to a search engine to find information on local products and services. In response, we've developed innovative customization tools that enable advertisers to find these customers by targeting their campaigns to specific geographic locations, certain languages, or even searches conducted at certain times of the day. We also help local businesses easily create a website so that when someone searches for them, they can be found on Google.com and on Google Maps.

One of our Harlem, New York-based advertisers, Grandma's Secrets, has used our advertising tools to gain customers in the region where it delivers baked goods. A minority-owned business, Grandma's Secrets was started in 2001 when Regina Fagan built a website to capitalize on the love for baking she developed as a young child. By targeting her Google advertisements to the New York area, Regina has been able to turn a monthly Google advertising budget of \$25 into \$4,000 a month in revenue. This revenue helped Regina purchase her first home and fulfill a lifelong dream by taking her daughter to Paris.

I cannot begin to tell you the amount of personal and professional satisfaction that I and my colleagues at Google get from success stories like Regina's. They have taught me that small businesses, given a worldwide advertising platform, flexibility in how and where they advertise, and

the ability to target advertising to the right customers can succeed on the Internet through advertising in ways we've never seen before.

### **Finding new revenue opportunities for web publishers**

The web isn't just helping small businesses find customers more efficiently. It's also helping directly fund a whole new breed of online entrepreneurs.

Here's how Google's helping to make that happen: In 2003, we extended the reach of our advertising program through a new service called AdSense. Moving beyond just selling ads alongside Google search results, we started paying owners of websites to let us place ads on their pages, providing rich revenue opportunities for all parties.

Our AdSense technology analyzes the content of a partner's web page to determine which advertisements are most relevant to the content on the page. It then delivers those relevant ads to the site. Every time a user clicks on one of those ads, Google shares a majority of the revenue we generate from the advertiser with the website operator.

Our business model enables entrepreneurs, educators, bloggers, and many others to generate revenue by sharing their expertise and opinions with the world. In many cases, these individuals are able to dedicate themselves full-time to their publications because of the support they receive from our advertising programs; they survive, and often thrive, on AdSense alone. Like our AdWords advertising product, AdSense is a self-managed program, allowing even the smallest of web publishers to participate in this powerful new revenue model.

In 2007, we paid out \$4.5 billion to our partners, hundreds of thousands of which are small businesses and entrepreneurs. What does this mean for American small businesses? Let's look at a couple of particular regions as examples. In the 12th district of New York alone, we paid out more than \$51.2 million to more than 6,000 AdSense partners in 2007. In the first district of Ohio, we shared almost \$1.6 million with approximately 2,000 partners last year.

Askthebuilder.com is just one example of an AdSense small business success story. It's a one-person website based in Cincinnati, Ohio, where newspaper columnist Tim Carter delivers practical tips, in-depth how-to's, and product information for handymen and handywomen across the country. In April 2004, Carter added AdSense to his website and immediately experienced a jump in revenue of 400 percent. Realizing that this relatively small change in advertising strategy had a big impact on revenues, Carter set out to fine-tune his AdSense program to maximize his cash flow. Today, Tim's Askthebuilder.com AdSense revenue averages \$1,400 a day and is growing.

Tim Carter's business is just one of thousands of dynamic online businesses that are leveraging online advertising to create new economic opportunities and flexibility. From a retired "Gray Googler" in Florida who runs an online business that allows her to earn more than her social security and pension payments combined, to the couple in an Atlanta suburb who turned their hobby website with cooking recipes into a revenue-generating business, we continue to see a tremendous number of small business success stories built on AdSense. We're very pleased to help support this proliferation of online commercial activity, robust and diverse speech, and entrepreneurial spirit.

## Future Trends and Opportunities for Small Businesses

I'd like to conclude with a few thoughts about the future trends we see emerging in the Internet marketplace and the opportunities these developments present for small businesses.

### *The "Long Tail"*

I've spent much of my time talking today about small advertisers and web publishers. As I've suggested, the vast majority of our advertising customers and partners hosting our ads are not Fortune 500 companies, but small firms creating niche products for specific audiences.

This has to do with a term coined by *Wired* Magazine's Chris Anderson – the "long tail." That's a reference to a downward-sloping demand curve for goods, where the head of the curve reflects the most widely popular goods, such as a blockbuster movie, and the tail end of the curve, which reflects less popular niche products such as an obscure art film, extends out a very long way.

There are millions of small businesses, millions of website publishers, and billions of people interacting on the long tail around products and services catering to individual tastes and personalities. And the economic potential in this long tail is driving some of the most successful and innovative businesses online today.

An important focus for Google is enabling our users' activity in this long tail, whether it's providing an answer to the most obscure search query or providing a platform like YouTube for sharing family videos. In the case of our advertising tools, we're lowering the barriers to entry for small firms to market their products or to generate revenue for their websites, and then matching them up with users who are interested in what they have to say or sell.

And we're developing a host of other innovative technologies that enable small businesses to thrive. While it is not the focus of my remarks today, I should mention our recent launch of a new set of collaboration tools called Google Apps that provides businesses with free tools such as email and spreadsheets.

We believe that the continued growth of small businesses – as well as economic activity in general – is dependent on fostering activity among the millions of individual users and companies who make up the vibrant online business community that exists today. And we also believe that the proliferation of small businesses in the long tail is critical to the continuing success of the Internet and the web as platforms for speech, commerce, and democratic participation. As the Committee continues its work as a champion of small business, I would encourage you to consider how new laws, regulations, and public policy initiatives impact these important trends.

### *Openness*

I'd like to make a final point about the importance to small businesses of preserving the Internet as an open platform. Today, any aspiring entrepreneur with a few dollars and a good idea can launch a new business and find new customers and revenue online. Just a decade ago, our founders were graduate students in computer science at Stanford University when they launched their small business, a new approach to searching the Internet. They started building technology in a dorm room – the company's first data center – to analyze the links that connect web pages.

A free and competitive online economy that's friendly to innovation enabled the success of Google's search engine. An open network did not require the new entrants to seek permission from gatekeepers, and open standards allowed for robust interoperability between applications and ideas.

Preserving this openness online is critical to ensuring the success of a new generation of small businesses. As policymakers interested in promoting and fostering small business, I urge you to consider the openness of the Internet as a guiding principle in your legislative work, and as a critical component to ensuring the continuing success of America's small businesses.

### **Conclusion**

Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee, thank you for the opportunity to testify today. As we celebrate Small Business Week in Washington and the contributions of these firms to the U.S. economy, I appreciate the occasion to share Google's efforts to help drive the continued success of America's small businesses and to create new revenue opportunities and growth for small business on the Internet.

We look forward to continuing our partnerships with these businesses, and to answering any questions you might have about our efforts. Thank you.

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